STRATEGIC HOTELS & RESORTS, INC
Form SC 13G
February 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No. )*

STRATEGIC HOTELS & RESORTS, INC.
(Name of Issuer)

Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share
Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share
Series C Cumulative Redeemable Preferred Stock, par value $0.01 per share
(Title of Class of Securities)

Series A: 86272T304
Series B: 86272T403
Series C: 86272T502
(CUSIP Number)

December 31, 2010
(Date of Event which Requires Filing
of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Continued on following pages
Page 1 of 11 Pages
Exhibit Index: Page 10

1. Names of Reporting Persons

MARINER INVESTMENT GROUP, LLC

2. Check the Appropriate Box If a Member of a Group (See Instructions)

a. [ ]
b. [X]

3. SEC Use Only

4. Citizenship or Place of Organization

DELAWARE

| | | |
|---|---|---|
| Number of Shares Beneficially Owned By Each Reporting Person With | 5. | Sole Voting Power<br>0 |
| | 6. | Shared Voting Power<br>1,152,066 |
| | 7. | Sole Dispositive Power<br>0 |
| | 8. | Shared Dispositive Power<br>1,152,066 |

9. Aggregate Amount Beneficially Owned by Each Reporting Person

1,152,066

10. Check Box If the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

[ ]

11. Percent of Class Represented By Amount in Row (9)

7.76%

12. Type of Reporting Person (See Instructions)

IA

1. Names of Reporting Persons

CASPIAN CAPITAL LP

2. Check the Appropriate Box If a Member of a Group (See Instructions)

a. [ ]
b. [X]

3. SEC Use Only

4. Citizenship or Place of Organization

DELAWARE

| | | |
|---|---|---|
| Number of Shares Beneficially Owned By Each Reporting Person With | 5. | Sole Voting Power<br>0 |
| | 6. | Shared Voting Power<br>1,152,066 |
| | 7. | Sole Dispositive Power<br>0 |
| | 8. | Shared Dispositive Power<br>1,152,066 |

9. Aggregate Amount Beneficially Owned by Each Reporting Person

1,152,066

10. Check Box If the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

[ ]

11. Percent of Class Represented By Amount in Row (9)

7.76%

12. Type of Reporting Person (See Instructions)

IA

CUSIP NO. 86272T304, 86272T403, 86272T502



1. Names of Reporting Persons

CASPIAN CAPITAL ADVISORS, LLC

2. Check the Appropriate Box If a Member of a Group (See Instructions)

a. [ ]
b. [X]

3. SEC Use Only

4. Citizenship or Place of Organization

NEW YORK

| | | |
|---|---|---|
| Number of Shares Beneficially Owned By Each Reporting Person With | 5. | Sole Voting Power<br>0 |
| | 6. | Shared Voting Power<br>337,139 |
| | 7. | Sole Dispositive Power<br>0 |
| | 8. | Shared Dispositive Power<br>337,139 |

9. Aggregate Amount Beneficially Owned by Each Reporting Person

337,139

10. Check Box If the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

[X]

11. Percent of Class Represented By Amount in Row (9)

2.27%

12. Type of Reporting Person (See Instructions)

OO

CUSIP NO. 86272T304, 86272T403, 86272T502



1. Names of Reporting Persons

CASPIAN CREDIT ADVISORS, LLC

2. Check the Appropriate Box If a Member of a Group (See Instructions)

a. [ ]
b. [X]

3. SEC Use Only

4. Citizenship or Place of Organization

DELAWARE

| | | |
|---|---|---|
| Number of Shares Beneficially Owned By Each Reporting Person With | 5. | Sole Voting Power<br>0 |
| | 6. | Shared Voting Power<br>708,498 |
| | 7. | Sole Dispositive Power<br>0 |
| | 8. | Shared Dispositive Power<br>708,498 |

9. Aggregate Amount Beneficially Owned by Each Reporting Person

708,498

10. Check Box If the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

[X]

11. Percent of Class Represented By Amount in Row (9)

4.77%

12. Type of Reporting Person (See Instructions)

OO

Item 1(a). Name of Issuer:

Strategic Hotels & Resorts, Inc. (the "Issuer").

Item 1(b). Address of the Issuer's Principal Executive Offices:

200 West Madison Street, Suite 1700
Chicago, Illinois 60606

Item 2(a). Name of Person Filing

The Statement is filed on behalf of each of the following persons (collectively, the “Reporting Persons”):

i) Mariner Investment Group, LLC (“Mariner”);

ii) Caspian Capital LP (“Caspian Capital”);

iii) Caspian Capital Advisors, LLC (“Caspian Advisors”); and

iv) Caspian Credit Advisors, LLC (“Caspian Credit”).

This statement relates to Shares (as defined below) held for the accounts of Caspian Capital Partners, L.P., Mariner LDC, Caspian Select Credit Master Fund, Ltd., and Caspian Solitude Master Fund, L.P. (collectively, the “Accounts”). Mariner serves as the investment advisor for the Accounts. In connection with a re-organization, Mariner entered into a sub-advisory agreement and managed account agreement with Caspian Capital, an entity controlled by Adam Cohen, David Corleto, and Mark Weissman (the “Principals”), pursuant to which Caspian Capital will provide investment advisory services in respect of certain portfolios, including the Accounts. Caspian Advisors is the general partner of Caspian Capital Partners, L.P. and Caspian Credit is the general partner of an affiliate of Caspian Select Credit Master Fund, Ltd. and of Caspian Solitude Master Fund, L.P.

Item 2(b). Address of Principal Business Office or, if None, Residence:

The address of the principal business office of each of Caspian Capital, Caspian Advisors and Caspian Credit is 767 Fifth Avenue, New York, New York 10153. The address of the principal business office of Mariner is 500 Mamaroneck Avenue, Suite 101, Harrison, New York 10528.

Item 2(c). Citizenship:

i) Mariner is a Delaware limited liability company;

ii) Caspian Capital is a Delaware limited partnership;

iii) Caspian Advisors is a New York limited liability company; and

iv) Caspian Credit is a Delaware limited liability company.

Item 2(d). Title of Class of Securities:

Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share ("Series A Shares").
Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share ("Series B Shares").
Series C Cumulative Redeemable Preferred Stock, par value $0.01 per share ("Series C Shares", and together with Series A Shares and Series B Shares, the "Shares").

Item 2(e). CUSIP Number:

Series A: 86272T304
Series B: 86272T403
Series C: 86272T502

Item 3. If this statement is filed pursuant to Rule 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:

Mariner is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940.

Item 4. Ownership:

Item 4(a). Amount Beneficially Owned:

As of the date hereof, each of the Reporting Persons may be deemed to be the beneficial owner of the following number of Shares:

(i) Each of Mariner and Caspian Capital may be deemed the beneficial owner of 1,152,066 Shares. This number consists of (1) 106,429 Shares held for the account of Mariner LDC, which consists of 46,313 Series A Shares, 18,468 Series B Shares and 41,648 Series C Shares, (2) 337,139 Shares held for the account of Caspian Capital Partners, L.P., which consists of 146,106 Series A Shares, 58,529 Series B Shares and 132,504 Series C Shares, (3) 606,005 Shares held for the account of Caspian Select Credit Master Fund, Ltd., which consists of 263,018 Series A Shares, 104,874 Series B Shares and 238,113 Series C Shares, and (4) 102,493 Shares held for the account of Caspian Solitude Master Fund, L.P., which consists of 101,700 Series A Shares, 629 Series B Shares and 164 Series C Shares.

(ii) Caspian Advisors may be deemed the beneficial owner of 337,139 Shares, which consists of 146,106 Series A Shares, 58,529 Series B Shares and 132,504 Series C Shares. This number consists of 337,139 Shares held for the account of Caspian Capital Partners, L.P.

(iii) Caspian Credit may be deemed the beneficial owner of 708,498 Shares, which consists of 364,718 Series A Shares, 105,503 Series B Shares and 238,277 Series C Shares. This number consists of (1) 606,005 Shares held for the account of Caspian Select Credit Master Fund, Ltd. and (2) 102,493 Shares held for the account Caspian Solitude Master Fund, L.P.

Item 4(b). Percent of Class:

(i) The number of Shares of which each of Mariner and Caspian Capital may be deemed to be the beneficial owner constitutes approximately 7.76% of the total number of Shares outstanding (based upon information provided by the Issuer in its most recent quarterly report on Form 10-Q filed on November 4, 2010, there were 14,838,750 Shares outstanding).

(ii) The number of Shares of which Caspian Advisors may be deemed to be the beneficial owner constitutes approximately 2.27% of the total number of Shares outstanding.

(iii) The number of Shares of which Caspian Credit may be deemed to be the beneficial owner constitutes approximately 4.77% of the total number of Shares outstanding.

Item 4(c). Number of shares as to which such person has:

| | | |
|---|---|---|
| Mariner | | |
| (i) | Sole power to vote or direct the vote | 0 |
| (ii) | Shared power to vote or to direct the vote | 1,152,066 |
| (iii) | Sole power to dispose or to direct the disposition of | 0 |
| (iv) | Shared power to dispose or to direct the disposition of | 1,152,066 |
| Caspian Capital | | |
| (i) | Sole power to vote or direct the vote | 0 |
| (ii) | Shared power to vote or to direct the vote | 1,152,066 |
| (iii) | Sole power to dispose or to direct the disposition of | 0 |
| (iv) | Shared power to dispose or to direct the disposition of | 1,152,066 |
| Caspian Advisors | | |
| (i) | Sole power to vote or direct the vote | 0 |
| (ii) | Shared power to vote or to direct the vote | 337,139 |
| (iii) | Sole power to dispose or to direct the disposition of | 0 |
| (iv) | Shared power to dispose or to direct the disposition of | 337,139 |
| Caspian Credit | | |
| (i) | Sole power to vote or direct the vote | 0 |
| (ii) | Shared power to vote or to direct the vote | 708,498 |
| (iii) | Sole power to dispose or to direct the disposition of | 0 |
| (iv) | Shared power to dispose or to direct the disposition of | 708,498 |

CUSIP NO. 86272T304, 86272T403, 86272T502



Item 5. Ownership of Five Percent or Less of a Class:

This Item 5 is not applicable.

Item 6. Ownership of More than Five Percent on Behalf of Another Person:

| | | | | | |
|---|---|---|---|---|---|
| | **or Programs** | **Programs** | | | |
| January 1, 2005 | | | | | |
| September 30, 2005 | | 215,500 | $ 44.15 | 215,500 | $ 26,440,502 |
| October 1, 2005 | | | | | |
| October 31, 2005 | | | | | $ 191,440,502 |
| November 1, 2005 | | | | | |
| November 30, 2005 | | 3,225,100 | $ 54.65 | 3,225,100 | $ 15,204,432 |
| December 1, 2005 | | | | | |
| December 31, 2005 | | 266,900 | $ 48.99 | 266,900 | $ 52,128,294 |
| Total (Year) | | 3,707,500 | $ 53.63 | 3,707,500 | $ 52,128,294 |
| Total (Fourth Quarter) | | 3,492,000 | $ 54.21 | 3,492,000 | $ 52,128,294 |

(1) All shares were purchased pursuant to the publicly announced plan in open-market transactions or pursuant to the tender offer.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table summarizes our equity compensation plans approved by stockholders as of December 31, 2005. We have no equity compensation plans not approved by stockholders.

| | | |
|---|---|---|
| **(a)** | **(b)** | **(c)** |
| | | **Number of Securities** |

| | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted-average Exercise Price of Outstanding Options, Warrants and Rights | Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 678,576 | $ 10.52 | 1,040,375 |
| Equity compensation plans not approved by stockholders | none | n/a | none |
| Total | 678,576 | $ 10.52 | 1,040,375 |

**Item 6. Selected Financial Data**

The following tables include selected historical consolidated financial data for each year in the five year period ended December 31, 2005.

This selected financial data should be read along with Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited historical consolidated financial statements and the related notes included elsewhere in this report.

The historical financial data for all periods presented prior to 2003 relates to our business as it was operated by Brookfield Properties prior to the Spin-off, and therefore some of our expenses are based upon allocations made by Brookfield Properties. For example, allocations were made with respect to personnel, space, estimates of time spent to provide services and other appropriate costs. We believe the allocations were made on a reasonable basis and that no material change to our costs would be expected had our business been operated as a stand-alone entity.

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**United States GAAP**

Our income statement data, balance sheet data and supplementary financial data prepared in accordance with U.S. GAAP and our operating data are as follows:

| | Years Ended December 31 | | | | |
|---|---|---|---|---|---|
| ***Income Statement Data*** | | | | | |
| ***($ millions, except per share amounts)*** | **2005** | **2004** | **2003** | **2002** | **2001** |
| Housing revenue | $ 1,074 | $ 1,169 | $ 818 | $ 785 | $ 729 |
| Total revenue[(1)] | 1,231 | 1,232 | 1,001 | 831 | 790 |
| Gross margin[(1)(2)] | 416 | 287 | 211 | 131 | 119 |
| Operating income[(3)] | 391 | 268 | 166 | 81 | 72 |
| Contribution from bulk land sales to net income[(4)] | 39 | 9 | 39 | | 2 |
| Net income | 219 | 146 | 88 | 43 | 40 |
| Diluted earnings per share[(5)] | 7.04 | 4.64 | 2.75 | 1.35 | 1.23 |
| Cash dividends per share[(6)] | 0.32 | 9.16 | 0.16 | 0.52 | |

| | At December 31 | | | | |
|---|---|---|---|---|---|
| ***Balance Sheet Data ($ millions)*** | **2005** | **2004** | **2003** | **2002** | **2001** |
| Housing and land inventory | $ 913 | $ 680 | $ 567 | $ 616 | $ 633 |
| Cash and cash equivalents | 198 | 187 | 219 | 36 | 1 |
| Total assets | 1,330 | 1,082 | 1,013 | 844 | 851 |
| Total debt | 691 | 512 | 426 | 424 | 499 |
| Total liabilities | 1,065 | 836 | 631 | 523 | 564 |
| Total stockholders equity | 265 | 246 | 382 | 321 | 287 |

| | Years Ended December 31 | | | | |
|---|---|---|---|---|---|
| ***Supplemental Financial Data ($ millions)*** | **2005** | **2004** | **2003** | **2002** | **2001** |
| Cash provided by/(used in): | | | | | |
| Operating activities | $ 60 | $ 164 | $ 209 | $ 102 | $ (32) |
| Investment activities | (5) | 25 | 6 | 24 | |
| Financing activities | (44) | (221) | (32) | (91) | 25 |
| Net debt to total capitalization percent [(7)] | 61% | 51% | 32% | 53% | 62% |

| | Years Ended December 31 | | | | |
|---|---|---|---|---|---|
| ***Operating Data (Unaudited)*** | **2005** | **2004** | **2003** | **2002** | **2001** |
| Home closings (units) | 1,582 | 1,798 | 1,528 | 1,554 | 1,645 |
| Lots sold (units) | 1,242 | 400 | 4,940 | 284 | 1,336 |
| Net new orders (units) [(8)] | 1,421 | 1,765 | 1,710 | 1,580 | 1,531 |
| Backlog (units at end of period) [(9)] | 455 | 616 | 649 | 467 | 441 |
| Average selling price | $ 679,000 | $ 650,000 | $ 535,000 | $ 505,000 | $ 443,000 |
| Lots controlled | 29,512 | 27,966 | 21,606 | 22,128 | 16,947 |

(1) To conform to the current year presentation, for years prior to 2004, revenue excludes equity

in earnings from housing and land joint ventures and gross margin excludes equity in earnings from housing and land joint ventures and includes interest expense.

(2) Gross margin represents the contribution from our housing and land projects, after all costs for development and construction, including related overhead, and before all selling, general and administrative expense, interest expense and minority interest.

(3) Operating income represents net income before minority interest and income taxes.

(4) Contribution from bulk land sales to net income represents income from sales of owned parcels of

undeveloped land.

(5) Earnings per share prior to September 30, 2002 have been calculated based on the weighted average number of Brookfield Properties common shares outstanding during each respective period, adjusted on the basis of one of our common shares for every five common shares of Brookfield Properties. For the periods after October 1, 2002, earnings per share have been calculated based on the weighted average number of shares of Brookfield Homes outstanding.

(6) The 2004 cash dividend includes a special dividend of $9 per share.

(7) Net debt to total capitalization percent is defined as total project specific financings plus subordinated debt less cash

(net debt) multiplied by 100 and divided by net debt plus stockholders equity plus minority interest (total capitalization).

(8) Net new orders for any period represents the aggregate of all homes ordered by customers, net of cancellations, excluding joint ventures.

(9) Backlog represents the number of new homes subject to pending sales contracts, excluding joint ventures.

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**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read along with Selected Financial Data and our consolidated financial statements and the related notes included elsewhere in this report. This discussion includes forward-looking statements that reflect our current views with respect to future events and financial performance and that involve risks and uncertainties. Our actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including risks discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements and Item 1A Risk Factors included elsewhere in this report.

**Overview**

We design, construct and market single-family and multi-family homes primarily to move-up and luxury homebuyers and develop land for sale to other homebuilders. Our operations are currently focused primarily in five regional markets: San Francisco Bay Area; Southland / Los Angeles; San Diego / Riverside; Sacramento; and the Washington D.C. Area.

We operate in the following geographic regions which are presented as our reportable segments: Northern California (San Francisco Bay Area and Sacramento), Southland / Los Angeles, San Diego / Riverside and Washington D.C. Area. Our other operations that do not meet the quantitative thresholds for separate disclosure are included in Corporate and Other .

Our goal is to maximize the total return on our common stockholders equity over the long term. We plan to achieve this by actively managing our assets and creating value on the lots we own or control.

The 29,512 lots that we control, 12,333 of which we own directly or through joint ventures, provide a strong foundation for our future homebuilding business and visibility on our future cash flow and earnings. The lots we own directly or through joint ventures represent approximately a seven year lot supply, based on our 2006 planned home closings of 1,625.

Homebuilding is our primary source of revenue and has represented over 90% of our total revenue since 2001. Our operations are positioned to close annually between 1,600 and 2,000 homes. Operating in markets with higher price points and catering to move-up and luxury buyers, our average sales price in 2006 of $679,000 was well in excess of the national average sales price. We also sell serviced and unserviced lots to other homebuilders generally on an opportunistic basis where we can redeploy capital to an asset providing higher returns or reduce risk, in a market. In 2005, we sold 1,242 lots, the majority of which were bulk sales of raw or undeveloped land in San Diego and the Washington D.C. Area.

In addition to our housing and land inventory and investments in housing and land joint ventures, which together comprised 75% of our total assets as of December 31, 2005, we had $198 million in cash and cash equivalents and $143 million in other assets. Other assets consist of homebuyer receivables of $41 million, deferred income taxes of $49 million, and mortgages and other receivables of $53 million. Homebuyer receivables consist primarily of proceeds due from homebuyers on the closing of homes.

Since 2001, our revenues and net income have grown at compounded annual growth rates of 12% and 53%, respectively. Over the same period, we generated over $500 million in operating cash flow that was used mainly to return cash to stockholders. At the same time, we believe we have positioned our business for future growth through the selective optioning or acquisition of a significant number of large projects and the level of lots controlled. Our recent growth is primarily the result of strong economic fundamentals in the markets in which we operate and our success in acquiring strategic parcels of land.

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## Results of Operations

| *Selected Financial Information ($ millions)* | Years Ended December 31 2005 | 2004 | 2003 |
|---|---|---|---|
| Revenue: | | | |
| Housing | $ 1,074 | $ 1,169 | $ 818 |
| Land and other revenues | 157 | 63 | 183 |
| Total revenues(1) | 1,231 | 1,232 | 1,001 |
| Direct cost of sales(1) | (815) | (945) | (790) |
| Gross margin(1) | 416 | 287 | 211 |
| Equity in earnings from housing and land joint ventures | 65 | 61 | 22 |
| Selling, general and administrative expense | (90) | (80) | (67) |
| Operating income | 391 | 268 | 166 |
| Minority interest | (36) | (28) | (19) |
| Net income before taxes | 355 | 240 | 147 |
| Income tax expense | (136) | (94) | (59) |
| Net income | $ 219 | $ 146 | $ 88 |

| *Segment Information* | Years Ended December 31 2005 | 2004 | 2003 |
|---|---|---|---|
| Housing revenue ($ millions) | | | |
| Northern California | $ 199 | $ 328 | $ 193 |
| Southland / Los Angeles | 193 | 337 | 215 |
| San Diego / Riverside | 378 | 231 | 137 |
| Washington D.C. Area | 303 | 219 | 230 |
| Corporate and Other | 1 | 54 | 43 |
| Total | $ 1,074 | $ 1,169 | $ 818 |
| Land and other revenues ($ millions) | | | |
| Northern California | $ | $ | $ |
| Southland / Los Angeles | 4 | 3 | 2 |
| San Diego / Riverside | 67 | 9 | 157 |
| Washington D.C. Area | 75 | 45 | 22 |
| Corporate and Other | 11 | 6 | 2 |
| Total | $ 157 | $ 63 | $ 183 |
| Gross margin ($ millions) | | | |
| Northern California | $ 58 | $ 49 | $ 22 |
| Southland / Los Angeles | 45 | 65 | 39 |

| | | | |
|---|---|---|---|
| San Diego / Riverside | 182 | 84 | 101 |
| Washington D.C. Area | 121 | 73 | 36 |
| Corporate and Other | 10 | 16 | 13 |
| Total | $ 416 | $ 287 | $ 211 |
| Home closings (units): | | | |
| Northern California | 192 | 407 | 275 |
| Southland / Los Angeles | 221 | 338 | 207 |
| San Diego / Riverside | 611 | 507 | 452 |
| Washington D.C. Area | 556 | 447 | 505 |
| Corporate and Other | 2 | 99 | 89 |
| Total | 1,582 | 1,798 | 1,528 |
| Average selling price: | | | |
| Northern California | $ 1,036,000 | $ 804,000 | $ 700,000 |
| Southland / Los Angeles | 874,000 | 996,000 | 1,036,000 |
| San Diego / Riverside | 618,000 | 456,000 | 303,000 |
| Washington D.C. Area | 545,000 | 491,000 | 456,000 |
| Corporate and Other | 586,000 | 548,000 | 488,000 |
| Average | $ 679,000 | $ 650,000 | $ 535,000 |

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| | | | |
|---|---|---|---|
| Net new orders (units): [2] | | | |
| Northern California | 150 | 348 | 342 |
| Southland / Los Angeles | 242 | 287 | 234 |
| San Diego / Riverside | 412 | 674 | 447 |
| Washington D.C. Area | 557 | 405 | 563 |
| Corporate and Other | 60 | 51 | 124 |
| Total | 1,421 | 1,765 | 1,710 |
| Backlog (units at end of year): [3] | | | |
| Northern California | 12 | 54 | 113 |
| Southland / Los Angeles | 105 | 84 | 135 |
| San Diego / Riverside | 82 | 281 | 114 |
| Washington D.C. Area | 196 | 195 | 237 |
| Corporate and Other | 60 | 2 | 50 |
| Total | 455 | 616 | 649 |
| Lots controlled: | | | |
| Lots owned: | | | |
| Northern California | 1,392 | 1,723 | 2,238 |
| Southland / Los Angeles | 1,110 | 254 | 303 |
| San Diego / Riverside | 5,949 | 6,680 | 6,282 |
| Washington D.C. Area | 3,713 | 4,134 | 2,081 |
| Corporate and Other | 169 | 256 | 101 |
| | 12,333 | 13,047 | 11,005 |
| Lots under option | 17,179 | 14,919 | 10,601 |
| Total | 29,512 | 27,966 | 21,606 |

(1) To conform to the current year s presentation, for 2003, revenue excludes equity in earnings from housing and land joint ventures and gross margin excludes equity in earnings from housing and land joint

ventures and includes interest expense.

(2) Net new orders for any period represent the aggregate of all homes ordered by customers, net of cancellations, excluding joint ventures.

(3) Backlog represents the number of new homes subject to pending sales contracts excluding joint ventures.

**Year Ended December 31, 2005 Compared With Year Ended December 31, 2004**

*Net Income*

Net income for the year ended December 31, 2005 was $219 million, an increase of $73 million over the year ended December 31, 2004. Our increase in net income in 2005 was primarily attributable to a higher percentage of our home closings in San Diego and the Washington D.C. Area where our housing margins are higher.

*Results of Operations*

Company-wide: Housing revenues were $1,074 million in 2005, a decrease of $95 million compared to 2004. The decrease in housing revenue was a result of fewer home closings, partially offset by a 4% increase in our average selling price to $679,000. The increase in our selling price is a result of house price appreciation and product mix. The gross margin on housing revenues in 2005 was $324 million or 30.2% compared with $258 million or 22.1% in 2004. The increase in gross margin is due to a higher percentage of home closings in San Diego and the Washington D.C. Area where our housing margins are the highest as we are building on land that we entitled and developed.

Northern California: Housing revenues were $199 million in 2005, a decrease of $129 million compared to 2004. The decrease in housing revenues was a result of fewer home closings, partially offset by a 29% increase in our average selling price. The increase in our average selling price is primarily a result of house price appreciation. The gross margin on housing revenue in 2005 was $58 million or 29.2% compared with $49 million or 14.7% in 2004.

Southland / Los Angeles: Housing revenues were $193 million, a decrease of $144 million compared to 2004. The decrease in housing revenue was a result of fewer home closings. The gross margin on housing revenue in 2005 was $41 million or 21.2% compared with $62 million or 18.6% in 2004.

San Diego / Riverside: Housing revenues were $378 million, an increase of $147 million compared to 2004. The increase in housing revenue is a result of an increase in home closings and a 35% increase in our average selling price. The increase in our average selling price is a result of house price appreciation and product mix. The gross margin on housing revenues in 2005 was $142 million or 37.6% compared with $78 million or 33.8% in 2004.

Washington D.C. Area: Housing revenues were $303 million, an increase of $84 million compared to 2004. The increase in housing revenue is a result of an increase in home closings and an 11% increase in our average selling price. The gross margin on housing revenue in 2005 was $84 million or 27.6% compared with $53 million or 23.9%.

Company-wide: Land and other revenues totaled $157 million in 2005 compared with $63 million in 2004. The increase in land and other revenues was primarily due to the sale of 1,242 lots in 2005 compared to 400 lots in 2004. Our land revenues may vary significantly from period to period due to the timing and the nature of land sales as they generally occur on an opportunistic basis.

The gross margin on land and other revenues was $92 million in 2005 compared with $28 million in 2004. The increase is a result of 1,242 lots sold in 2005 compared to 400 lots in 2004.

Southland / Los Angeles: Land and other revenues were $4 million, an increase of $1 million over 2004.

San Diego / Riverside: Land and other revenues were $67 million, an increase of $58 million over 2004. The increase is a result of 750 lots sold compared to 58 lots sold in 2004. The gross margin on land and other revenues was $40 million in 2005 compared to $6 million in 2004.

Washington D.C. Area: Land and other revenues were $75 million compared with $45 million in 2004. The increase in land and other revenues was primarily due to the sale of 451 lots compared to 342 lots sold in 2004. The gross margin on land and other revenues was $37 million compared with $20 million in 2004.

Equity in earnings from housing and land joint ventures was $65 million, an increase of $4 million over 2004. The increase was primarily attributable to housing and lot sales from our joint ventures. Profits on the lots acquired by us have been eliminated from income.

*Other Expenses*

Selling, general and administrative expense was $90 million in 2005 compared with $80 million in 2004. Selling, general and administrative expense as a percentage of housing revenue was 8.3% in 2005 and 6.8% in 2004. Excluding stock compensation expense of $23 million in 2005 and $22 million in 2004, selling, general and administrative expense as a percentage of housing revenue was 6.2% in 2005 and 4.9% in 2004.

*Sales Activity*

Net new home orders for the year ended December 31, 2005 totaled 1,421 units, a decrease of 344 units compared to 2004. The decrease in net new home orders resulted from fewer homes available for sale in our California operations and a fourth quarter slow down in sales in the San Diego and Washington D.C. Area markets.

**Year Ended December 31, 2004 Compared With Year Ended December 31, 2003**

*Net Income*

Net income for the year ended December 31, 2004 was $146 million, an increase of $58 million over the year ended December 31, 2003. Our increase in net income in 2004 was primarily attributable to house price appreciation as a result of continued strong market conditions in all our markets. In addition, we increased our number of homes closed by 18% and the contribution to net income from our joint ventures increased by $24 million, partially offset by lower net income from fewer bulk lot sales of $30 million.

*Results of Operations*

Company-wide: Housing revenues were $1,169 million in 2004, an increase of $351 million or 43% over 2003. The increase in housing revenue was primarily a result of strong market conditions, particularly in our California markets where our homes closed increased by 328 units or 32% and our average selling price increased to $703,000, an increase of 22%.

The gross margin on housing revenues in 2004 was $258 million or 22.1% compared with $144 million or 17.6% in 2003. The increase in gross margin is primarily attributable to house price appreciation in all our markets and an increase of 18% in the number of homes closed.

Northern California: Housing revenues were $328 million, an increase of $135 million or 70% over 2003. The increase in housing revenue was due to an increase in closings of 132 units and an increase in our average selling price of 14.8% to $804,000. The gross margin on housing revenues in 2004 was $49 million or 14.7% compared with $25 million or 13.1% in 2003.

Southland / Los Angeles: Housing revenues were $337 million, an increase of $122 million or 57% over 2003. The increase in housing revenue was primarily due to an increase in closings of 131 units. The gross margin on housing revenues in 2004 was $62 million or 18.6% compared with $36 million or 16.9% in 2003.

San Diego / Riverside: Housing revenues were $231 million, an increase of $94 million or 69% over 2003. The increase in housing revenue was due to an increase in closings of 55 units and an increase in our average selling price of 50% to $456,000. The gross margin on housing revenues in 2004 was $78 million or 33.8% compared with $39 million or 28.1% in 2003.

Washington D.C. Area: Housing revenues were $219 million, a decrease of $9 million over 2003. The decrease in housing revenue was due to a decrease in closings of 58 units, partially offset by an increase in our average selling price of 8% to $491,000. The gross margin on housing revenues in 2004 was $53 million or 23.9% compared with $31 million or 13.3% in 2003.

Company-wide: Land and other revenues totaled $63 million in 2004 compared with $183 million in 2003. The gross margin on land and other revenues in 2004 was $28 million or 45.2% compared with $66 million or 36.1% in 2003. The contribution from land sales may vary significantly from period to period due to the timing and nature of land sales as they generally occur on an opportunistic basis.

Southland / Los Angeles: Land and other revenues were $3 million, an increase of $1 million over 2003.

San Diego / Riverside: Land and other revenues were $9 million, a decrease of $148 million over 2003. The decrease is a result of 58 lots sold compared to 4,700 lots sold in 2003. The gross margin on land and other revenues was $6 million in 2004 compared to $62 million in 2003.

Washington D.C. Area: Land and other revenues were $45 million, an increase of $23 million over 2003. The increase is a result of 342 lots sold compared to 240 lots sold in 2003. The gross margin on land and other revenues was $20 million in 2004 compared to $5 million in 2003.

Equity in earnings from housing and land joint ventures increased to $61 million, an increase of $39 million over 2003. The increase was primarily attributable to our Windemere joint venture in the San Francisco Bay Area where single family lot sales increased 69%.

*Other Expenses*

Selling, general and administrative expense was $80 million in 2004 compared with $67 million in 2003. The increase in 2004 was primarily a result of an increase in stock compensation expense of $14 million over 2003. Excluding stock compensation expense, selling, general and administrative expense as a percentage of housing revenue was 4.9% in 2004 compared to 7.2% in 2003. The improvement in this percentage is a result of our ongoing focus to control corporate overhead costs. In addition, sales absorptions assisted us in controlling sales and marketing costs.

*Sales Activity*

Net new orders were 1,765 units in 2004, an increase of 55 units over 2003. The increase was primarily a result of continued strong market conditions in all our markets and a number of successful new project openings in San Diego offset by a delay in new project openings in the Washington D.C. Area. Our backlog of sales at December 31, 2004 was 616 units compared to 649 units last year. The decrease in backlog is primarily a result of fewer homes available for sale within communities nearing build-out in the San Francisco Bay Area and Southland / Los Angeles.

**Liquidity and Capital Resources**

*Financial Position*

Our total assets as of December 31, 2005 were $1,330 million, compared to $1,082 million as of December 31, 2004, an increase of $248 million. The increase in 2005 was a result of increases in housing and land inventory of $233 million, receivables and other assets of $20 million, cash and cash equivalents of $12 million, deferred income taxes of $15 million, partially offset by decreases of $25 million in consolidated land inventory not owned and $7 million in investments in housing and land joint ventures. The increase in housing and land assets is primarily a result of the acquisition of over 1,600 lots previously held under option for $150 million and ongoing construction and development of homes in backlog.

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Our total debt as of December 31, 2005 was $691 million, an increase of $179 million over December 31, 2004. Total debt as of December 31, 2005 consisted primarily of project specific financings of $601 million, which represent construction and development loans that are repaid from home and lot sales proceeds. As new homes are constructed, further loan facilities are arranged on a rolling basis. Our major project specific lenders are Bank of America, Housing Capital Corporation, Union Bank of California and Wells Fargo. Other debt includes deferred compensation of $55 million on which interest is paid at the prime rate, loans outstanding relating to mortgages we originated totaling $35 million, which are repaid when the underlying mortgages are sold to permanent lenders, and project specific financings of $15 million related to our other operations. As of December 31, 2005, the average interest rate on our debt was 7.4%, with maturities as follows:

| | | | Maturities | | |
|---|---|---|---|---|---|
| ***($ millions)*** | **2006** | **2007** | **2008** | **Post 2008** | **Total** |
| Northern California | $ 66 | $ 38 | $ | $ | $ 104 |
| Southland / Los Angeles | 67 | 26 | | | 93 |
| San Diego / Riverside. | 136 | 96 | | | 232 |
| Washington D.C. Area | 70 | 65 | 22 | | 157 |
| Other | 40 | 40 | 18 | 7 | 105 |
| Total | $ 379 | $ 265 | $ 40 | $ 7 | $ 691 |

*Cash Flow*

Our principal uses of working capital include purchases of land, land development and home construction. Cash flows for each of our communities depend upon the applicable stage of the development cycle and can differ substantially from reported earnings. Early stages of development require significant cash outlays for land acquisitions, site approvals and entitlements, construction of model homes, roads, certain utilities and other amenities and general landscaping. Because these costs are capitalized, income reported for financial statement purposes during such early stages may significantly exceed cash flow. Later, cash flow can significantly exceed earnings reported for financial statement purposes, as cost of sales includes charges for substantial amounts of previously expended costs. A summary of our lots owned and their stage of development at December 31, 2005 compared with the same period last year follows:

| | **2005** | **2004** |
|---|---|---|
| Housing units and model homes | 968 | 498 |
| Lots ready for house construction | 1,114 | 1,183 |
| Graded lots and lots commenced grading | 1,590 | 1,391 |
| Undeveloped land | 8,661 | 9,975 |
| | 12,333 | 13,047 |

Cash provided by our operating activities totaled $60 million for the year ended December 31, 2005, compared with $164 million in 2004. The decrease in cash generated was primarily the result of the acquisition of lots previously held under option partially offset by increased net income.

Cash used in our investing activities in joint ventures for the year ended December 31, 2005 was $5 million, compared with cash provided of $25 million in 2004. The increase in cash used was primarily a result of contributions of capital in our joint ventures in San Diego.

Cash used in our financing activities for the year ended December 31, 2005 was $44 million, compared with $221 million in 2004. Our use of cash in 2005 related primarily to share repurchases of $199 million offset by increased borrowings.

*Deferred Tax*

Our Company was formed in the course of a reorganization in 2002 by Brookfield Properties of its United States homebuilding operations and was withdrawn from the Brookfield Properties consolidated tax group. The tax provisions that apply in connection with the reorganization, including the departure of a member from a consolidated group, are detailed and complex and are therefore subject to uncertainty. Our accounts payable and other liabilities include $25 million related to the uncertainties in tax attributes which were recorded when we left the Brookfield Properties consolidated tax group with $115 million of net operating losses. For example, if the Brookfield Properties consolidated group of companies was reassessed for taxation years prior to 2003, this would have a direct impact on the net operating losses available to the Company on the Spin-off. There is also a $22 million liability included in accounts payable and other liabilities and a $0.3 million valuation allowance in

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deferred taxes that relates to the tax cost of properties in excess of the fair value of properties at the time of reorganization of the Company which may not be realized. The exact amount of these tax liabilities will be determined at the earlier of a review of the Spin-off transaction by taxation authorities or 2008. A further liability of $4 million has been recorded in respect of tax positions taken. We believe we have been prudent and reasonable to provide for any reduction in our net operating losses or loss of tax basis in properties.

**Contractual Obligations and Other Commitments**

We generally fund the development of our communities through the use of project specific financings. As of December 31, 2005, we had available project specific debt lines of $244 million that were available to complete land development and construction activities. As of December 31, 2005, we also had available cash and cash equivalents of $198 million.

A total of $644 million of our project specific and other financings mature prior to the end of 2007. Our high level of debt maturities in 2006 and 2007 are a result of our expected project completions over this period. Although the level of our maturing debt is high, we expect to generate cash flow from our assets in 2006 and 2007 to repay these obligations. Our net debt to total capitalization ratio as of December 31, 2005, which is defined as total interest-bearing debt less cash divided by total interest-bearing debt less cash plus stockholders equity and minority interest, was 61%, an increase from 51% as of December 31, 2004. For a description of the specific risks facing us if, for any reason, we are unable to meet these obligations, refer to the section of this Form 10-K/A entitled Item 1A Risk Factors Our Debt and Leverage Could Adversely Affect Our Financial Condition.

In connection with our project specific financings, Brookfield Homes Holdings Inc., a wholly-owed subsidiary, is required to maintain a tangible net worth of at least $250 million. In addition, our project specific financings require Brookfield Homes Holdings Inc. to maintain a net debt to capitalization ratio of no greater than 65% and a debt to tangible net worth ratio of no greater than 1.75 to 1. A summary of our contractual obligations as of December 31, 2005 follows:

| | | Payment Due by Period | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Project specific and other financings[(a)] | 691 | 379 | 312 | | |
| Operating lease obligations[(b)] | 11 | 4 | 7 | | |
| Purchase obligations[(c)] | 743 | 242 | 174 | 327 | |
| Total [(d)] | 1,445 | 625 | 493 | 327 | |

(a) Amounts are included on the Consolidated Balance Sheet. See Note 4 of the Notes to the Consolidated Financial Statements included in this Form 10-K/A for additional information regarding project specific and other financings and related matters.

(b) Amounts relate to multiple non-cancelable operating leases involving office space, design centers and model homes.

(c) Amounts are included in the Notes to the Consolidated Financial Statements. See Note 2 for additional information regarding purchase obligations and related matters.

(d) Amounts do not include interest due to the floating nature of our debt.

**Off-Balance Sheet Arrangements**

In the ordinary course of business, we use lot option contracts and joint ventures to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time, until options expire and/or we are ready to develop the land to construct homes or sell the land. This reduces our financial risk associated with land holdings. As of December 31, 2005, we had $61 million of primarily non-refundable option deposits and advanced costs. The total exercise price of these options was $743 million. Pursuant to FIN 46R, as defined elsewhere in this Form 10-K/A, we have consolidated $22 million of these option contracts. Please see Note 2 to our consolidated financial statements included elsewhere in this Form 10-K/A for additional information on our lot options.

We also control 3,890 lots through joint ventures. As of December 31, 2005, our investment in housing and land joint ventures was $53 million. We have provided varying levels of guarantees of debt in our joint ventures. As of December 31, 2005, we had recourse guarantees of $2 million and limited maintenance guarantees of $92 million with respect to debt in our joint ventures.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of December 31, 2005, we had $21 million in letters of credit outstanding and $266 million in performance bonds for these purposes. We do not believe that any of these letters of credit or bonds are likely to be drawn upon.

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**Stock Repurchase Program**

In February 2003, our Board of Directors approved a share repurchase program which allowed us to repurchase up to $40 million of our outstanding common shares. In February 2005 and December 2005, our Board of Directors approved and publicly announced increases of $19 million and $50 million, respectively, in the share repurchase program. During the year ended December 31, 2005, we had repurchased 707,500 of our shares under the program at an average cost of $47.84 per share. In October 2005, our Board of Directors authorized a tender offer to purchase up to 3,000,000 shares at a fixed price of $55.00 per share. The offer commenced on October 14 and expired on November 15, 2005. We purchased 3,000,000 of our common stock for $165 million, including expenses in connection with the tender offer. During the year ended December 31, 2004, we repurchased 76,400 of our shares at an average cost of $25.42 per share. During the year ended December 31, 2003, we repurchased 1,192,749 of our shares at an average cost of $18.19 per share. At December 31, 2005, the remaining amount approved for repurchases is $52 million.

**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based upon the consolidated financial statements of our Company, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

Our most critical accounting policies are those that we believe are the most important in portraying our financial condition and results of operations, and require the most subjectivity and estimates by our management. A summary of our significant accounting policies, including the critical accounting policies discussed below, is provided in the notes to the consolidated financial statements of our Company included elsewhere in this Form 10-K/A.

*Capitalized Costs*

Our housing and land inventory on our consolidated balance sheet includes the costs of acquiring land, development and construction costs, interest, property taxes and overhead directly related to the development of the land and housing. Direct costs are capitalized to individual homes and lots and other costs are allocated to each lot in proportion to our anticipated revenue.

Estimates of costs to complete homes and lots sold are recorded at the time of closing. These estimates are prepared on an individual home and lot basis and take into account the specific cost components of each individual home and lot. The estimation process to allocate costs to homes and lots is dependent on project budgets that are based on various assumptions, including construction schedules and future costs to be incurred. These estimates are reviewed for accuracy based on actual payments made after closing and adjustments are made if necessary. If the estimates of costs are significantly different from our actual results, our housing and land inventory may be over- or under-stated on our balance sheet, and accordingly gross margins in a particular period may be over- or under-stated.

*Carrying Values*

Housing and land assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at this amount, we estimate the cash flow for the life of each project. These projections take into account the specific business plans for each project, and our estimate of the most probable set of economic conditions anticipated to prevail in the market area. If these assets are considered to be impaired, they are then written down to the fair value less estimated selling costs. The ultimate fair values for our housing and land inventory are dependent upon future market and economic conditions. If our estimate of the future cash flows is significantly different from our actual cash flows, we may prematurely impair the value of the asset, we may underestimate the value of the calculated impairment or we may fail to record an impairment. In these cases, our housing and land inventory would be represented on our balance sheet at other than its cost or fair value, which could have an effect on our gross margin in future periods as we develop and sell the assets.

*Revenue Recognition*

Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is evident. Land sales are recognized when title passes to the purchaser upon closing, all material conditions of the sales contract have been met and a significant cash down payment or appropriate security is received, and collectability is evident.

**Recent Accounting Pronouncements**

In May 2005, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) 154, Accounting Changes and Error Corrections, which replaces Accounting Principles Board ( APB ) Opinion 20, Accounting Changes and SFAS 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 requires retrospective application of changes in accounting principles to prior periods financial statements unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. This Statement is effective in fiscal years beginning after December 15, 2005.

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 is effective for the first quarter of the first fiscal year that begins after June 15, 2005 (the Company s first fiscal quarter beginning January 1, 2006). We have evaluated the impact of the adoption of SFAS 123(R) and have determined that it will not have a material impact on our consolidated financial statements.

In December 2004, the FASB issued Staff Position 109-1, Application of FASB Statement 109, *Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (FSP 109-1). The American Jobs Creation Act, which was signed into law in October 2004, provides a tax deduction on qualified domestic production activities. When fully phased-in, the deduction will be up to 9% of the lesser of qualified production activities income or taxable income. Based on the guidance provided by FSP 109-1, this deduction should be accounted for as a special deduction under SFAS 109 and will reduce tax expense in the period or periods that the amounts are deductible on the tax return. The tax benefit resulting from the new deduction was effective for fiscal 2005. The impact of this law on our consolidated financial statements was a reduction in our current income tax expense of $0.4 million.

**Seasonality and Quarterly Information**

We have historically experienced variability in results of operations from quarter to quarter due to the seasonal nature of the homebuilding business and the timing of new community openings and the closing out of projects. We typically experience the highest rate of orders for new homes in the first six months of the calendar year. New home deliveries trail new home orders by several months, therefore we normally have a greater percentage of new home deliveries in the second half of our fiscal year. As a result, our revenues from deliveries of homes are generally higher in the second half of the year.

The following table presents a summary of our operating results for each of the last eight quarters:

| | **December 31** | | **September 30** | | **June 30** | | **March 31** | |
|---|---|---|---|---|---|---|---|---|
| ***($ millions, except home closings and per share amounts)*** | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| Total revenue | $ 559 | $ 547 | $ 267 | $ 313 | $ 253 | $ 229 | $ 152 | $ 143 |
| Gross margin | 211 | 138 | 81 | 68 | 76 | 48 | 48 | 33 |
| Contribution from bulk land sales to net income | 34 | 9 | 2 | | | | 3 | |
| Net income | 130 | 89 | 38 | 29 | 32 | 18 | 19 | 10 |
| Diluted earnings per share[(1)] | 4.36 | 2.83 | 1.20 | 0.94 | 1.03 | 0.56 | 0.60 | 0.31 |
| Home closings (units) | 640 | 726 | 365 | 496 | 355 | 332 | 222 | 244 |
| Total assets | 1,330 | 1,082 | 1,262 | 1,021 | 1,140 | 969 | 1,069 | 1,067 |
| Total debt | 691 | 512 | 591 | 616 | 536 | 621 | 530 | 457 |

(1) Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

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**Non-Arms Length Transactions**

We are party to a license agreement with Brookfield Properties (US) Inc., an indirect wholly-owned subsidiary of Brookfield Properties, for the right to use the names Brookfield and Brookfield Homes. In addition, we have entered into an agreement with a subsidiary of Brookfield Asset Management Inc., our largest stockholder under which we can deposit cash on a demand basis to earn LIBOR plus 50 basis points. At December 31, 2005, the amount on deposit was nil. For details of these arrangements and other non-arms length transactions refer to Certain Relationships and Related Transactions, which is incorporated by reference into Item 13 of this report from our definitive 2006 proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2006.

**Forward-Looking Statements**

This annual report on Form 10-K/A contains forward-looking statements within the meaning of the United States federal securities laws. The words may, believe, will, anticipate, expect, planned, estimate, project, fu
expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. The forward-looking statements in this annual report on Form 10-K/A include, among others, statements with respect to:

- planned home closings, deliveries and land and lot sales (and the timing thereof);
- sources of and strategies for future growth;
- lot supply;
- visibility of cash flow and earnings;
- financing sources;
- expectations of future cash flow;
- valuation allowance;
- the effect of interest rate changes;
- strategic goals;
- the effect on our business of existing lawsuits;
- the adequacy of our land supply;
- whether or not our letters of credit or performance bonds will be drawn upon;
- acquisition strategies;
- capital expenditures; and
- the time at which construction and sales begin on a project.

Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from the anticipated future results expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forward in the forward-looking statements include, but are not limited to:

- changes in general economic, real estate and other conditions;

mortgage rate changes;

availability of suitable undeveloped land at acceptable prices;

adverse legislation or regulation;

ability to obtain necessary permits and approvals for the development of our land;

availability of labor or materials or increases in their costs;

ability to develop and market our master-planned communities successfully;

confidence levels of consumers;

ability to raise capital on favorable terms;

adverse weather conditions and natural disasters;

relations with the residents of our communities;

risks associated with increased insurance costs or unavailability of adequate coverage;

ability to obtain surety bonds;

competitive conditions in the homebuilding industry, including product and pricing pressures; and

additional risks and uncertainties, many of which are beyond our control, referred to in this Form 10-K/A and our other SEC filings.

Except as required by law, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted.

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## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

### Exchange Rates

We conduct business in U.S. dollars only, so we are not exposed to currency risks.

### Interest Rates

We are exposed to financial risks that arise from the fluctuations in interest rates. Our interest bearing assets and liabilities are mainly at floating rates, so we would be negatively affected, on balance, if interest rates increase. In addition, we have an interest rate swap contract which effectively fixes $60 million of our variable rate debt at 5.89% and an interest rate swap contract which effectively fixes $50 million of our variable interest rate debt at 6.54%. Based on our debt levels as of December 31, 2005, a 1% change up or down in interest rates would have either a negative or positive effect of approximately $4 million on our cash flows.

Our interest rate swaps are not designated as hedges under SFAS 133. We are exposed to market share risk associated with changes in the fair values of the swaps, and such changes must be reflected in our income statements. As of December 31, 2005, the fair value of the interest rate swaps was $2 million.

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**Item 8. Financial Statements and Supplementary Data**

## INDEX TO FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

**To the Board of Directors and Stockholders of Brookfield Homes Corporation**

We have audited the accompanying consolidated balance sheets of Brookfield Homes Corporation and subsidiaries (the Company ) as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Homes Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12, the accompanying consolidated financial statements have been restated to revise the Company s segment disclosures.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 1, 2006 (December 15, 2006 with respect to management s discussion of the restatement of the financial statements in the fourth paragraph of Management s Report on Internal Control over Financial Reporting (as revised)) expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Independent Registered Chartered Accountants
Toronto, Ontario, Canada
February 1, 2006
(December 15, 2006 as to the effects of Note 12)

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**BROOKFIELD HOMES CORPORATION**
**CONSOLIDATED BALANCE SHEETS**
*(all dollar amounts are in thousands of U.S. dollars)*

| | Note | As at December 31 2005 | 2004 |
|---|---|---|---|
| **Assets** | | | |
| Housing and land inventory | 2 | $ 912,617 | $ 679,930 |
| Investments in housing and land joint ventures | 3 | 53,260 | 59,810 |
| Consolidated land inventory not owned | 2 | 22,100 | 47,240 |
| Receivables and other assets | | 94,081 | 73,986 |
| Cash and cash equivalents | 11 | 198,411 | 186,731 |
| Deferred income taxes | 6 | 49,417 | 33,924 |
| | | $ 1,329,886 | $ 1,081,621 |
| **Liabilities and Equity** | | | |
| Project specific and other financings | 4 | $ 691,410 | $ 512,098 |
| Accounts payable and other liabilities | 5 | 320,787 | 256,985 |
| Minority interest | 8 | 53,040 | 66,422 |
| Preferred stock 10,000,000 shares authorized, no shares issued | 9 | | |
| Common stock 65,000,000 authorized, 32,073,781 shares issued and 27,378,181 outstanding (December 31, 2004 32,073,781 shares issued and 30,889,632 outstanding) | 9 | 321 | 321 |
| Additional paid-in capital | 9 | 146,249 | 142,016 |
| Treasury stock, at cost 4,695,600 shares (December 31, 2004 1,184,149 shares) | 9 | (217,182) | (22,091) |
| Retained earnings | 9 | 335,261 | 125,870 |
| | | $ 1,329,886 | $ 1,081,621 |

*See accompanying notes to consolidated financial statements*

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**BROOKFIELD HOMES CORPORATION**
**CONSOLIDATED STATEMENTS OF INCOME**
*(all dollar amounts are in thousands of U.S. dollars, except per share amounts)*

| | Note | Years Ended December 31 2005 | 2004 | 2003 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Housing | | $ 1,074,155 | $ 1,169,073 | $ 817,774 |
| Land and other revenues | | 156,897 | 62,677 | 183,421 |
| | | 1,231,052 | 1,231,750 | 1,001,195 |
| **Direct Cost of Sales** | 2 | (815,423) | (945,387) | (790,877) |
| | | 415,629 | 286,363 | 210,318 |
| Equity in earnings from housing and land joint ventures | 3 | 65,084 | 61,394 | 22,055 |
| Selling, general and administrative expense | | (89,693) | (79,904) | (66,612) |
| Minority interest | | (36,498) | (28,140) | (18,684) |
| **Net Income Before Taxes** | | 354,522 | 239,713 | 147,077 |
| Income tax expense | 6 | (135,782) | (93,297) | (58,830) |
| **Net Income** | | $ 218,740 | $ 146,416 | $ 88,247 |
| **Earnings Per Share** | | | | |
| Basic | 10 | $ 7.17 | $ 4.74 | $ 2.78 |
| Diluted | 10 | $ 7.04 | $ 4.64 | $ 2.75 |
| **Weighted Average Common Shares Outstanding** *(in thousands)* | | | | |
| Basic | 10 | 30,497 | 30,903 | 31,751 |
| Diluted | 10 | 31,071 | 31,547 | 32,048 |

*See accompanying notes to consolidated financial statements*

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

| | Note | Years Ended December 31 2005 | 2004 | 2003 |
|---|---|---|---|---|
| **Common Stock** | | $ 321 | $ 321 | $ 321 |
| **Additional Paid-in Capital** | | | | |
| Opening balance | 1 | 142,016 | 320,417 | 320,417 |
| Stock option exercises | 9 | 4,233 | 709 | |
| Special dividend | 9 | | (179,110) | |
| Ending balance | | 146,249 | 142,016 | 320,417 |
| **Treasury Stock** | | | | |
| Opening balance | 1 | (22,091) | (21,695) | |
| Share repurchases | 9 | (198,847) | (1,942) | (21,695) |
| Stock option exercises | 9 | 3,756 | 1,546 | |
| Ending balance | | (217,182) | (22,091) | (21,695) |
| **Retained Earnings** | | | | |
| Opening balance | | 125,870 | 83,215 | |
| Net income | | 218,740 | 146,416 | 88,247 |
| Dividends | 9 | (9,349) | (4,942) | (5,032) |
| Special dividends | 9 | | (98,819) | |
| Ending balance | | 335,261 | 125,870 | 83,215 |
| Total stockholders equity | | $ 264,649 | $ 246,116 | $ 382,258 |

*See accompanying notes to consolidated financial statements*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| **Cash Flows From Operating Activities** | | | |
| Net income | $ 218,740 | $ 146,416 | $ 88,247 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Distributed/(undistributed) income from housing and land joint ventures | 11,319 | (6,755) | (3,179) |
| Minority interest | 36,498 | 28,140 | 18,684 |
| Deferred income taxes | (10,955) | 17,867 | 29,967 |
| Other changes in operating assets and liabilities: | | | |
| (Increase)/decrease in receivables and other assets | (20,095) | 6,360 | (5,812) |
| (Increase)/decrease in housing and land inventory | (232,057) | (115,374) | 47,389 |
| Increase in accounts payable and other | 56,771 | 87,516 | 33,158 |
| Net cash provided by operating activities | 60,221 | 164,170 | 208,454 |
| **Cash Flows From Investing Activities** | | | |
| Investment in housing and land joint ventures | (35,980) | (46,064) | (28,417) |
| Recovery from housing and land joint ventures | 31,211 | 71,207 | 34,357 |
| Net cash (used in)/provided by investing activities | (4,769) | 25,143 | 5,940 |
| **Cash Flows From Financing Activities** | | | |
| Net borrowings under revolving project specific and other financings. | 179,312 | 85,787 | 100,819 |
| Repayment of subordinated debt | | (137,294) | (98,300) |
| Distributions to minority interest | (24,858) | (24,510) | (8,421) |
| Contributions from minority interest | 9,726 | 2,263 | 938 |
| Exercise of stock options | 244 | 85 | |
| Repurchase of common shares | (198,847) | (1,942) | (21,695) |
| Dividends paid in cash | (9,349) | (145,577) | (5,032) |
| Net cash used in financing activities | (43,772) | (221,188) | (31,691) |
| Increase/(decrease) in cash and cash equivalents | 11,680 | (31,875) | 182,703 |
| Cash and cash equivalents at beginning of year | 186,731 | 218,606 | 35,903 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents at end of year | $ 198,411 | $ 186,731 | $ 218,606 |

**Supplemental Cash Flow Information**

| | | | |
|---|---|---|---|
| Interest paid | $ 37,567 | $ 31,788 | $ 19,117 |
| Income taxes paid | 146,000 | 71,128 | 20,000 |
| Non-cash (decrease)/increase in consolidated land inventory not owned | (24,510) | 18,952 | 23,808 |
| Dividends paid through issuance of subordinated debt | | 137,294 | |

*See accompanying notes to consolidated financial statements*

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

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ( U.S. GAAP ) and include the consolidated accounts of Brookfield Homes and its subsidiaries and investments in unconsolidated joint ventures and variable interests in which the Company is the primary beneficiary.

(b) *Housing and Land Inventory*

*(i) Revenue recognition:* Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is evident. Land sales are recognized when title passes to the purchaser upon closing, all material conditions of the sales contract have been met and a significant cash down payment or appropriate security is received and collectability is evident.

*(ii) Carrying values:* Housing and land assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at this amount, the Company estimates the cash flow for the life of each project. These projections take into account the specific business plans for each project and management s best estimate of the most probable set of economic conditions anticipated to prevail in the market area. If these assets are considered to be impaired, they are then written down to the fair value less estimated selling costs. The ultimate fair values for the Company s housing and land inventory are dependent upon future market and economic conditions.

*(iii) Capitalized costs:* Capitalized costs include the costs of acquiring land, development and construction costs, interest, property taxes and overhead related to the development of land and housing. Direct costs are capitalized to individual homes and lots and other costs are allocated to each lot in proportion to our anticipated revenue.

(c) *Joint Ventures*

Joint ventures, where the Company exercises significant influence and has less than a controlling interest, are accounted for using the equity method.

(d) *Use of Estimates*

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires estimates and assumptions that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

(e) *Cash and Cash Equivalents*

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, demand deposits, and all highly liquid short-term investments with original maturity less than 90 days.

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

(f) *Income Taxes*

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards ( SFAS ) 109, Accounting for Income Taxes. Under SFAS 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured by using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse.

(g) *Stock-Based Compensation*

The Company accounts for stock option grants and deferred share unit grants in accordance with Accounting Principles Board ( APB ) Opinion 25, Accounting for Stock Issued to Employees. All stock options granted have exercise prices equal to the market value of the stock on the date of the grant. Participants in the management share option plan can elect to purchase shares at the exercise price or receive cash equal to the difference between the exercise price and the current market price.

Accordingly, the Company records the intrinsic value of these options and deferred share units as a liability using variable plan accounting as disclosed in accounts payable. The pro forma disclosures required by SFAS 123, Accounting for Stock-Based Compensation, and SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure, are not included in the financial statements as the basis of accounting and disclosure for the options under SFAS 123, SFAS 148 and APB 25 would yield the same compensation expense as that already recognized in the financial statements presented.

(h) *Other Comprehensive Income*

The Company adheres to U.S. GAAP reporting requirements with respect to the presentation and disclosure of other comprehensive income, however, it has been determined by management that no material differences exist between net income and comprehensive income for each of the periods presented.

(i) *Earnings Per Share*

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

(j) *Advertising Costs*

The Company expenses advertising costs as incurred. For the years ended December 31, 2005, 2004 and 2003, the Company incurred advertising costs of $8.8 million, $5.1 million, and $6.1 million, respectively.

(k) *Warranty Costs*

Estimated future warranty costs are accrued and charged to cost of sales at the time the revenue associated with the sale of each home is recognized. Factors that affect the Company s warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim.

(l) *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 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

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

determined they are 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.

(m) *Derivatives*

The Company records derivatives at fair market value because hedge accounting is not applied.

(n) *Recent Accounting Pronouncements*

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections, which replaces APB Opinion 20, Accounting Changes" and SFAS 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 requires retrospective application of changes in accounting principle to prior periods financial statements unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. This Statement is effective in fiscal years beginning after December 15, 2005.

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 is effective for the first quarter of the first fiscal year that begins after June 15, 2005 (the Company s first fiscal quarter beginning January 1, 2006). The Company has evaluated the impact of the adoption of SFAS 123(R) and has determined that it will not have a material impact on its consolidated financial statements.

In December 2004, the FASB issued Staff Position 109-1, Application of FASB Statement 109, *Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (FSP 109-1). The American Jobs Creation Act, which was signed into law in October 2004, provides a tax deduction on qualified domestic production activities. When fully phased-in, the deduction will be up to 9% of the lesser of qualified production activities income or taxable income. Based on the guidance provided by FSP 109-1, this deduction should be accounted for as a special deduction under SFAS 109 and will reduce tax expense in the period or periods that the amounts are deductible on the tax return. The tax benefit resulting from the new deduction was effective for fiscal 2005. The impact of this law on the Company s consolidated financial statements was a reduction of the current income tax expense of $0.4 million.

(o) *Reclassification*

Certain prior year amounts in the consolidated financial statements have been reclassified to conform with the 2005 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.

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

**Note 2. Housing and Land Inventory**

Housing and land inventory includes homes completed and under construction and 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:

| | December 31 | |
|---|---|---|
| | **2005** | **2004** |
| Housing inventory | $ 441,912 | $ 345,266 |
| Model homes | 20,837 | 19,179 |
| Land and land under development | 449,868 | 315,485 |
| | $ 912,617 | $ 679,930 |

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the years ended December 31, 2005, 2004 and 2003, interest incurred and capitalized by the Company was $37.6 million, $31.8 million and $19.1 million, respectively. Capitalized interest expensed as direct cost of sales for the same periods was $23.8 million, $29.1 million and $33.4 million, respectively.

Capitalized costs are expensed as costs of sales on a specific identification basis or on a relative value in proportion to anticipated revenue. Included in direct costs of sales is $750.1 million of costs related to housing revenue (2004 $911.1 million) and $65.3 million of costs related to land sales and other revenues (2004 $34.3 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 577 lots with an aggregate exercise price of $22.1 million (2004 375 lots with an aggregate exercise price of $47.2 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 $18.3 million (2004 $42.8 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 entitlement costs totaling $58.3 million (2004 $36.0 million) in connection with options that are not required to be consolidated under the provision of FIN 46R. The total exercise price of these options is $720.6 million (2004 $627.7 million) including the non-refundable deposits identified above. The number of lots which the Company has obtained an option to purchase, excluding those already consolidated, and their respective dates of expiry and their exercise price follows:

| **Year of Expiry** | **Number of Lots** | **Total Exercise Price** |
|---|---|---|
| 2006 | 4,790 | $ 233,363 |
| 2007 | 3,723 | 139,521 |
| 2008 | 341 | 33,983 |
| Thereafter | 7,748 | 313,696 |
| | 16,602 | $ 720,563 |

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

**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 follows:

| | December 31 | |
|---|---|---|
| | **2005** | **2004** |
| **Assets** | | |
| Housing and land inventory | $ 357,833 | $ 345,939 |
| Other assets | 64,866 | 54,510 |
| | $ 422,699 | $ 400,449 |
| **Liabilities and Equity** | | |
| Accounts payable and other liabilities | $ 90,459 | $ 46,313 |
| Project specific financings | 289,851 | 277,568 |
| Investment and advances | | |
| Brookfield Homes | 53,260 | 59,810 |
| Others | (10,871) | 16,758 |
| | $ 422,699 | $ 400,449 |
| **Revenue and Expenses** | | |
| Revenue | $ 594,380 | $ 466,260 |
| Expenses | (299,898) | (265,277) |
| Net income | $ 294,482 | $ 200,983 |
| Company s share of net income | $ 65,084 | $ 61,394 |

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.

As described in Note 1(c), 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 in 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 December 31, 2005, the Company had recourse guarantees of $2.0 million (2004 $12.5 million) and limited maintenance guarantees of $91.6 million (2004 $64.4 million) with respect to debt in its joint ventures.

**Note 4. Project Specific and Other Financings**

The Company has total project specific and other financings outstanding as at December 31, 2005 of $691.4 million (2004 $512.1 million).

Project specific financings of $600.8 million (2004 $462.8 million) are revolving in nature, bear interest at floating rates with a weighted average rate of 7.4% as at December 31, 2005 (December 31, 2004 5.7%) and are secured by housing and land inventory. The weighted average rate was calculated as of the end of each period, based upon the amount of debt outstanding and the related interest rates applicable on that date.

Interest rates charged under project specific financings include LIBOR and prime rate pricing options. The maximum amount of borrowings during the years ended December 31, 2005, 2004 and 2003 were $600.8 million, $485.0 million, and $360.5 million, respectively. The average borrowings during 2005, 2004, 2003 were $528.8 million, $422.0 million, and $326.3 million, respectively.

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

Other financings of $90.6 million (2004 $49.3 million) consist of unvested deferred compensation under the Company s Long Term Participation Plan and mortgage loans. Other financings bear interest at a weighted average rate of 7.3% as at December 31, 2005 (December 31, 2004 5.3%).

Project specific and other financings mature as follows: 2006 $379.7 million; 2007 $265.1 million; 2008 $39.8 million; and 2009 $6.8 million.

**Note 5. Accounts Payable and Other Liabilities**

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

| | December 31 | |
|---|---|---|
| | **2005** | **2004** |
| Trade payables and cost to complete accruals | $ 86,137 | $ 74,388 |
| Warranty costs | 17,743 | 18,202 |
| Customer deposits | 12,307 | 9,147 |
| Stock-based compensation | 44,935 | 30,264 |
| Due to minority interest | 39,478 | 29,240 |
| Accrued and deferred compensation | 47,974 | 25,007 |
| Income tax liabilities | 65,039 | 58,808 |
| Other accrued expenses | 7,174 | 11,929 |
| | $ 320,787 | $ 256,985 |

**Note 6. Income Taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The differences that give rise to the net deferred tax asset are as follows :

| | December 31 | |
|---|---|---|
| | **2005** | **2004** |
| Compensation deductible for tax purposes when paid | $ 37,338 | $ 28,614 |
| Differences relating to properties | 12,424 | 11,149 |
| Valuation allowance | (345) | (5,839) |
| | $ 49,417 | $ 33,924 |

SFAS 109 requires the reduction of deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that a portion or all of the deferred tax asset will not be realized. At December 31, 2005, the Company had a valuation allowance of $0.3 million (2004 $5.8 million) for tax attributes that relate to the tax cost of properties in excess of the fair market value of properties at the time of reorganization of the Company which may not be realized. The Company reclassified $5.5 million (2004 $5.0 million) of valuation allowance to accounts payable and other liabilities that relate to the realization of tax attributes that were subject to a valuation allowance. If these tax attributes are ultimately disallowed, the Company will owe additional tax.

As described in Note 5, included in accounts payable and other liabilities is $65.0 million (2004 $58.8 million) for income tax liabilities. The following table summarizes these amounts.

**December 31**

| | 2005 | 2004 |
|---|---|---|
| Current taxes payable | $ 13,904 | $ 13,167 |
| Other tax liabilities | 51,135 | 45,641 |
| | $ 65,039 | $ 58,808 |

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

Included in other tax liabilities is $25.0 million (2004 $25.0 million) related to the uncertainties in tax attributes which were recorded at the time of the Spin-off discussed in Note 1(a). On the Spin-off, the Company left the Brookfield Properties consolidated tax group with $115.0 million of net operating losses. The tax provisions that apply in connection with the reorganization, including the departure of a member of a consolidated group, are detailed and complex and thereby subject to uncertainty. In addition, for example, if the Brookfield Properties consolidated group of companies was reassessed for taxation years prior to 2003, this would have a direct impact on the net operating losses available to the Company on the Spin-off. Also included is an additional income tax liability of $22.5 million (2004 $17.0 million) that relates to the tax cost of properties in excess of the fair value of properties as described above. The exact amount of these tax liabilities will be determined at the earlier of review of the Spin-off transaction by taxation authorities or 2008. A further liability of $3.6 million (2004 $3.6 million) has been recorded in respect of tax positions taken.

The Company has computed the tax provisions for the periods presented based upon accounting income realized, adjusted for expenses that are not deductible for tax purposes. The provision for income taxes for each of the three years ended December 31, 2005, 2004 and 2003 follows:

| | December 31 | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| Current | $ 146,737 | $ 75,430 | $ 28,863 |
| Deferred | (10,955) | 17,867 | 29,967 |
| | $ 135,782 | $ 93,297 | $ 58,830 |

A reconciliation of the statutory income tax rate and the effective rate follows:

| | December 31 | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| Statutory Federal rate | 35.0% | 35.0% | 35.0% |
| State income tax | 4.0% | 3.9% | 5.0% |
| Other | (0.7)% | | |
| Effective rate | 38.3% | 38.9% | 40.0% |

**Note 7. Stock-Based Compensation**

*Option Plan*

Pursuant to the Company s stock option plan, Brookfield Homes grants options to purchase shares of the Company s common stock at the market price of the shares on the day the options are granted. A maximum of two million shares are authorized for issuance under the plan. Upon exercise of a vested option and upon payment to the Company of the exercise price, participants will receive one share of the Company s common stock. The Company s compensation committee may permit participants to, rather than exercising an in-the-money option ( in-the-money means the market value of shares under the option exceeds the exercise price of the option prior to related income taxes), receive an amount equal to the difference between the market price of the shares underlying the option and the exercise price of the option. The excess amount will be payable either in cash or by the Company issuing to the participant a number of shares calculated by dividing the excess by the market price of the underlying shares. The Company has recorded the intrinsic value of these options as a liability using variable plan accounting, as required under APB 25. The liability is expensed over the vesting period and re-measured at each reporting date to reflect the current intrinsic value.

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

The following table sets out the number of common shares that employees of the Company may acquire under options granted under the Company s stock option plan:

| | December 31, 2005 | | December 31, 2004 | | December 31, 2003 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Per Share Exercise Price | Shares | Weighted Average Per Share Exercise Price | Shares | Weighted Average Per Share Exercise Price |
| Outstanding, beginning of year | 756,625 | $ 3.83 | 747,625 | $ 1.20 | 542,625 | $ 1.00 |
| Granted | 124,000 | $ 36.25 | 95,000 | $ 21.94 | 205,000 | $ 1.74 |
| Exercised | (202,049) | $ 1.26 | (86,000) | $ 1.01 | | |
| Cancelled | | | | | | |
| Outstanding, end of year | 678,576 | $ 10.52 | 756,625 | $ 3.83 | 747,625 | $ 1.20 |
| Options exercisable at year end | 138,526 | $ 3.93 | 172,050 | $ 1.17 | 108,525 | $ 1.00 |

Pursuant to the terms of the stock option plan, the option exercise price for shares granted prior to April 2004 was adjusted by the $9.00 special dividend paid in April 2004.

The following table summarizes information about stock options held by employees of the Company outstanding at December 31, 2005:

| Exercise Prices Per Share | Options Outstanding at December 31, 2005 | Weighted Average Remaining Contract Life | Options Exercisable at December 31, 2005 |
|---|---|---|---|
| $ 1.00 | 325,576 | 6.9 years | 108,526 |
| $ 1.74 | 134,000 | 7.2 years | 11,000 |
| $21.94 | 95,000 | 8.2 years | 19,000 |
| $36.25 | 124,000 | 9.2 years | |

Total compensation costs recognized in income for stock option employee compensation for the years ended December 31, 2005, 2004 and 2003 were $12.9 million, $11.9 million, and $5.1 million, respectively.

*Deferred Share Unit Plan*

The Company has adopted a Deferred Share Unit Plan ( DSUP ) under which certain of its executive officers and directors may, at their option, receive all or a portion of their annual bonus awards or retainers, respectively, in the form of deferred share units. The annual awards are convertible into units based on the closing price of the Company s shares on the New York Stock Exchange on the date of the award. The portion of the annual bonus award elected by an officer to be received in units may, at the discretion of the Company s Board of Directors, be increased by a factor of up to two times for purposes of calculating the number of units to be allocated under the plan. An executive or director who holds units will receive additional units as dividends are paid on shares of the Company s common stock, on the same basis as if the dividends were reinvested. The units vest over a five year period and participants are allowed to redeem the units only upon ending their employment with the Company through retirement, termination or death, after which time the units terminate unless redeemed no later than 12 months following such retirement, termination or death. The cash value of the units, when redeemed, will be equivalent to the market value of an equivalent number of shares of the Company s common stock where written notice of redemption is received.

The DSUP provides that no shares of the Company s common stock will be issued, authorized, reserved, purchased or sold at any time in connection with units allocated and under no circumstances are units considered shares of common stock, or entitle any participation to the exercise of any other rights arising from the ownership of shares of common stock. As of December 31, 2005, the Company had granted 567,714 units under the DSUP all of which were outstanding at December 31, 2005, and of which 287,609 units are vested and 280,104 units vest over the next

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

five years. The pro forma disclosures required under SFAS 123 are not included in the financial statements as they would yield the same compensation expense as that which is already recognized in the financial statements presented. Total compensation costs recognized in income in connection with the DSUP for the years ended December 31, 2005, 2004 and 2003 were $9.8 million, $10.2 million and $2.6 million, respectively. Compensation costs recognized in income will fluctuate based on the year end share price.

**Note 8. Minority Interest**

Minority interest represents the equity in consolidated subsidiaries that are owned by others. Total minority interest as at December 31, 2005 of $53.0 million (2004 $66.4 million) consisted of the following:

(a) Ownership interests of certain business unit presidents of the Company totaling $32.8 million (2004 $21.6 million). In the event a business unit president ( Minority Member ) of the Company is no longer employed by an affiliate of the Company, the Company has the right to purchase the Minority Member s interest and the Minority Member has the right to require the Company to purchase their interest. Should such rights be exercised, the purchase price will be based on the then bulk sales value. Included in accounts payable and other liabilities is $39.5 million (2004 $29.2 million) of amounts due to minority interest.

(b) Third party investments of consolidated variable interest entities of $18.2 million (2004 $42.8 million).

(c) Preferred shares issued by a wholly-owned subsidiary of $2.0 million (2004 $2.0 million).

**Note 9. Stockholders Equity**

(a) *Preferred Stock* The Company currently does not have shares of preferred stock outstanding.

(b) *Common Stock Repurchases* In February 2003, the Company s Board of Directors approved a stock repurchase plan authorizing the purchase of up to $40 million of the Company s outstanding common stock. In August 2003, the Company s Board of Directors also approved a Dutch Auction tender offer which expired on September 30, 2003. During 2003, the Company repurchased a total of 1,192,749 shares for an aggregate purchase price of $21.7 million or approximately $18.19 per share. During 2004, the Company repurchased a total of 76,400 shares for an aggregate purchase price of $1.9 million or approximately $25.42 per share. In February and December 2005, the Company s Board of Directors approved increases of $19 million and $50 million, respectively, in the share repurchase program. During 2005, the Company repurchased a total of 707,500 shares under this program for an aggregate purchase price of $33.8 million or approximately $47.84 per share. In October 2005, the Company s Board of Directors authorized the Company to commence a tender offer to purchase up to 3,000,000 shares of its common stock at a fixed price of $55.00 per share. The offer commenced October 14 and expired November 15, 2005. The Company purchased 3,000,000 of its common stock for $165.0 million, including expenses, in connection with the tender offer. No shares repurchased pursuant to the Company s stock repurchase plan have been cancelled and all are available for distribution.

(c) *Dividends* During the year, the Company s Board of Directors declared a semi-annual cash dividend of $0.16 per common share payable in June and December.

(d) *Special Dividend* On April 30, 2004, the Company paid a special dividend of $9.00 per common share, $277.9 million in the aggregate, consisting of $140.6 million in cash and $137.3 million in principal amount of the Company s 12% senior subordinated notes due 2020. The subordinated notes were redeemed by the Company on December 20, 2004 at par. The special dividend has been reflected as a reduction of retained earnings accumulated from the date of the Spin-off (see Note 1) to April 30, 2004, the date the special dividend was paid, with the balance reflected as a reduction of additional paid-in capital.

(e) *Exercise of Stock Options* During the year ended December 31, 2005, certain officers exercised options to purchase a total of 202,049 shares of the Company s common stock at an average price of $1.26 per share. During the year ended December 31, 2004, certain officers exercised options to purchase a total of 86,000 shares of the common stock at an average price of $1.01 per share.

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

**Note 10. Earnings Per Share**

Basic and diluted earnings per share for the years ended December 31, 2005, 2004 and 2003 were calculated as follows (in thousands except per share amounts):

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| **Numerator:** | | | |
| Net income | $ 218,740 | $ 146,416 | $ 88,247 |
| **Denominator:** | | | |
| Basic average shares outstanding | 30,497 | 30,903 | 31,751 |
| Net effect of stock options assumed to be exercised | 574 | 644 | 297 |
| Diluted average shares outstanding | 31,071 | 31,547 | 32,048 |
| Basic earnings per share | $ 7.17 | $ 4.74 | $ 2.78 |
| Diluted earnings per share | $ 7.04 | $ 4.64 | $ 2.75 |

**Note 11. Commitments, Contingent Liabilities and Other**

(a) The Company, in the normal course of its business, has issued performance bonds and letters of credit pursuant to various facilities which at December 31, 2005, amounted to $266.4 million (December 31, 2004 $305.0 million, 2003 $271.5 million) and $21.4 million (December 31, 2004 $19.6 million, 2003 $16.2 million), respectively. The majority of these commitments have been issued to municipal authorities as part of the obligations of the Company in connection with the land servicing requirements.

(b) The Company is party to various legal actions arising in the ordinary course of business. Management believes that none of these actions, either individually or in the aggregate, will have a material adverse effect on the financial condition or results of operations of the Company.

(c) The Company is exposed to financial risk that arises from the fluctuations in interest rates. The interest bearing assets and liabilities of the Company are mainly at floating rates and, accordingly, their fair values approximate cost. The Company would be negatively impacted, on balance, if interest rates were to increase.

(d) The Company had demand deposits included in cash and cash equivalents of nil at December 31, 2005 (2004 $125.0 million) with a financial subsidiary of the Company s largest stockholder, Brookfield Asset Management Inc.

(e) When selling a home, the Company s subsidiaries provide customers with a limited warranty. The Company estimates the costs that may be incurred under each limited warranty and records a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. In addition, the Company has insurance in place where its subsidiaries are subject to the respective warranty statutes in the State where the Company conducts business which range up to ten years for latent construction defects. Factors that affect the Company s warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The following table reflects the changes in the Company s warranty liability for the years ended December 31, 2005, 2004 and 2003:

| | 2005 | 2004 | 2003 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Balance, at beginning of year | $ 18,202 | $ 14,917 | $ 13,709 |
| Payments made during the year | (5,246) | (3,624) | (1,691) |
| Warranties issued during the year | 4,787 | 6,909 | 2,899 |
| Balance, at end of year | $ 17,743 | $ 18,202 | $ 14,917 |

(f) The Company leases certain facilities under non-cancelable operating leases. Rental expense incurred by the Company amounted to $2.6 million for 2005 (2004 $2.4 million). At December 31, 2005, future minimum rent payments under these operating leases were $3.9 million for 2006, $3.0 million for 2007, $2.3 million for 2008, $1.6 million for 2009 and $0.3 million thereafter.

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

(g) The Company entered into an interest rate swap contract during the third quarter of 2004 which effectively fixes $60.0 million of the Company s variable rate debt at 5.89% until the contract expires in 2009. At December 31, 2005, the fair market value of this contract was $1.7 million. During the second quarter of 2005, the Company entered into an additional interest rate swap contract which effectively fixes $50.0 million of the Company s variable rate debt at 6.54% until the contract expires in 2010. At December 31, 2005, the fair market value of this contract was $0.4 million.

**Note 12. Segment Information (as restated)**

As defined in SFAS 131, *Disclosures About Segments of an Enterprise and Related Information,* we have five operating segments. Historically, the Company has aggregated its operating segments into one reportable segment. Subsequent to the issuance of our consolidated financial statement for the year ended December 31, 2005, we have concluded that we should revise our segment disclosure for all periods presented by providing disclosure for each of our four reportable segments: Northern California, Southland / Los Angeles, San Diego / Riverside, and the Washington D.C. Area. The Company s fifth operating segment does not meet the quantitive thresholds for separate disclosure. See below for the accompanying consolidated financial statements that the Company has restated to revise its segment disclosures for all periods presented.

The Company is a residential homebuilder and land developer. The Company is organized and manages its business based on the geographical areas in which it operates. Each of the Company s segments specializes in lot entitlement and development and the construction of single-family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of other risk factors. Earnings performance is measured using segment operating income. The accounting policies of the segments are the same as those described in Note 1, Significant Accounting Policies.

| | **Years ended December 31,** | | |
|---|---|---|---|
| *Revenues* | **2005** | **2004** | **2003** |
| Northern California | $ 199,234 | $ 327,757 | $ 192,913 |
| Southland / Los Angeles | 197,148 | 339,000 | 216,368 |
| San Diego / Riverside | 444,672 | 239,914 | 293,735 |
| Washington D.C. Area | 377,751 | 264,783 | 252,650 |
| Corporate and Other | 12,247 | 60,296 | 45,529 |
| Total Revenues | $ 1,231,052 | $ 1,231,750 | $ 1,001,195 |
| *Segment Operating Income* | | | |
| Northern California | $ 88,049 | $ 84,186 | $ 19,703 |
| Southland / Los Angeles | 36,167 | 46,601 | 30,948 |
| San Diego / Riverside | 173,819 | 75,749 | 92,285 |
| Washington D.C. Area | 110,125 | 64,762 | 26,122 |
| Corporate and Other | (17,140) | (3,445) | (3,297) |
| Total Operating Income | $ 391,020 | $ 267,853 | $ 165,761 |
| Minority Interest | (36,498) | (28,140) | (18,684) |
| Net Income Before Taxes | $ 354,522 | $ 239,713 | $ 147,077 |

| *Housing and Land Assets*[1] | December 31, 2005 | 2004 |
|---|---|---|
| Northern California | $ 167,985 | $ 101,272 |
| Southland / Los Angeles | 185,309 | 101,711 |
| San Diego / Riverside | 293,804 | 312,385 |
| Washington D.C. Area | 291,380 | 247,486 |
| Corporate and Other | 49,499 | 24,126 |
| Total | $ 987,977 | $ 786,980 |

(1) Consists of housing and land inventory, investments in housing and land joint ventures and consolidated land inventory not owned.

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

The following tables set forth additional financial information relating to the Company s reportable segments:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| *Equity in Earnings from Housing and Land Joint Ventures* | | | |
| Northern California | $ 40,739 | $ 50,271 | $ 8,972 |
| Southland / Los Angeles | 6,296 | 1,056 | 10,952 |
| San Diego / Riverside | 7,409 | 4,235 | |
| Washington D.C. Area | 10,640 | 5,832 | 2,131 |
| Corporate and Other | | | |
| | $ 65,084 | $ 61,394 | $ 22,055 |

| | December 31, | |
|---|---|---|
| | **2005** | **2004** |
| *Investments in Housing and Land Joint Ventures* | | |
| Northern California | $ (14,989) | $ (24,641) |
| Southland / Los Angeles | 2,733 | 7,245 |
| San Diego / Riverside | 30,152 | 38,313 |
| Washington D.C. Area | 30,091 | 30,051 |
| Corporate and Other | 5,273 | 8,842 |
| Total | $ 53,260 | $ 59,810 |

All revenues are from external customers and are of origin in the United States. There were no customers that contributed 10% or more of the Company s total revenues during the years ended December 31, 2005, 2004 and 2003. All of the Company s assets are in the United States.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures**

As of December 31, 2005, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the United States Securities Exchange Act of 1934 (the Exchange Act )) was carried out under the supervision and with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ). Based upon that evaluation, the CEO and CFO have concluded that as of December 31, 2005, our disclosure controls and procedures are effective: (i) to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

As described in Note 12 to the Consolidated Financial Statements, we have restated our Note 12 to the Consolidated Financial Statements to disaggregate our operations into four reportable segments. Our management, including our CEO and CFO, has re-evaluated our disclosure controls and procedures as of the end of the period covered by this report to determine whether the restatement changes their prior conclusion, and have determined that it does not change their conclusion that at December 31, 2005, our disclosure controls and procedures were effective. The restatement represents a change in judgment under current practice as to the application of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information. The treatment of our homebuilding business as a single, national, reportable segment was in accordance with the practice followed by substantially all the large, geographically diverse homebuilders that file reports with the SEC. The change in the way we report segment information did not result in any change to the Company s consolidated balance sheets, consolidated statements of income, consolidated statements of stockholders equity and consolidated statements of cash flows for any of the periods presented.

It should be noted that while our management, including the CEO and CFO, believe our disclosure controls and procedures provide a reasonable level of assurance that such controls and procedures are effective, they do not expect that our disclosure controls and procedures or internal controls will prevent all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There was no change in our internal control over financial reporting during the quarter ended December 31, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management s Report on Internal Control Over Financial Reporting (as revised)**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005. We have not identified any material weakness in our internal control over financial reporting.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Deloitte & Touche, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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Our management has re-evaluated its assessment regarding the effectiveness of our internal control over financial reporting as a result of the restatement described in Note 12 to the Consolidated Financial Statements which disaggregates our operations into four reportable segments. Our management has concluded that its prior assessment that our internal control over financial reporting was effective as of December 31, 2005, is correct. The restatement represents a change in judgment under current practice as to the application of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information. This determination was based upon the fact that management believes that our internal control over financial reporting operated in a manner that provided management with a reasonable basis for their original conclusion with respect to reporting segment information.

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## REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

**To the Board of Directors and Stockholders of Brookfield Homes Corporation**

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting (as revised), that Brookfield Homes Corporation and subsidiaries (the Company ) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and our report dated February 1, 2006 (December 15, 2006 as to the effects of Note 12) expressed an unqualified opinion on those financial statements, and included an explanatory paragraph related to the restatement of such consolidated financial statements to revise the Company s segment disclosures.

Independent Registered Chartered Accountants
Toronto, Ontario, Canada
February 1, 2006 (December 15, 2006 with respect to management s discussion of the restatement of the financial statements in the fourth paragraph of Management s Report on Internal Control over Financial Reporting (as revised)).

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**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

Information about our directors and the remaining information called for by this item is incorporated by reference from our 2006 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2006 (120 days after the end of our fiscal year). The following table provides the name, age and position of each of our current executive officers and significant employees.

| Name | Age | Position Held |
|---|---|---|
| **Officers:** | | |
| Ian G. Cockwell | 58 | President and Chief Executive Officer |
| Paul G. Kerrigan | 38 | Executive Vice President, Chief Financial Officer and Treasurer |
| Shane D. Pearson | 33 | Vice President and Secretary |
| William B. Seith | 56 | Executive Vice President, Risk Management |
| **Significant Employees:** | | |
| Stephen P. Doyle | 48 | President, Brookfield Homes San Diego Holdings LLC |
| Adrian Foley | 43 | President, Brookfield Homes Southland Holdings LLC |
| Robert Hubbell | 48 | President, Brookfield Washington LLC |
| John J. Ryan | 46 | President, Brookfield Homes Bay Area Holdings LLC |
| Richard T. Whitney | 42 | President, Brookfield California Land Holdings LLC |

*Ian Cockwell* was appointed President and Chief Executive Officer in October 2002. From 1994 to December 2002, Mr. Cockwell served in various senior executive positions with Brookfield Residential Group, a division of Brookfield Properties. From 1998 to December 2002, Mr. Cockwell was Chairman and Chief Executive Officer of Brookfield Residential Group.

*Paul Kerrigan* was appointed Executive Vice President, Chief Financial Officer and Treasurer in October 2002. From 1999 to December 2002, Mr. Kerrigan served as Senior Vice President and Chief Financial Officer of Brookfield Residential Group, a division of Brookfield Properties. Mr. Kerrigan joined Brookfield Properties in 1996 and holds a Chartered Accountant designation.

*Shane Pearson* was appointed Secretary in October 2002. From 2001 to December 2002, Mr. Pearson served as Corporate Secretary of Brookfield Residential Group, a division of Brookfield Properties. Mr. Pearson joined Brookfield Properties in 2001. Prior to joining Brookfield Properties, Mr. Pearson was employed by a law firm from 1999 to 2001.

*William Seith* was appointed Executive Vice President, Risk Management in October 2002. From 1994 to December 2002, Mr. Seith served in various senior executive positions with Brookfield Residential Group.

*Stephen Doyle* was appointed President of our San Diego / Riverside business unit in 1996. Mr. Doyle has 26 years of experience in the real estate industry. Prior to joining Brookfield Properties, Mr. Doyle spent 15 years working for other California homebuilders. Mr. Doyle is a licensed attorney and registered civil engineer in California.

*Adrian Foley* was appointed President of our Southland / Los Angeles business unit in 2004. Mr. Foley has 19 years of experience in the real estate industry. Prior to joining Brookfield in 1996, Mr. Foley was employed by another California homebuilder. Mr. Foley holds a bachelors degree in Construction from the University of London.

*Robert Hubbell* was appointed President of our Washington D.C. Area business unit in 1998. Mr. Hubbell has 22 years of experience in the real estate industry and has been with Brookfield for 16 years. Mr. Hubbell holds a bachelors degree in civil engineering.

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*John Ryan* was appointed President of our San Francisco Bay Area business unit in 1995. Mr. Ryan has 22 years of real estate and development experience. After six years as a manager in public accounting, specializing in real estate, Mr. Ryan spent eight years with another public homebuilder before joining Brookfield Properties in 1995. Mr. Ryan is a licensed Certified Public Accountant and general contractor.

*Richard Whitney* was appointed President of Brookfield California Land Holdings LLC in 2002. Prior to his appointment, Mr. Whitney served as Senior Vice President, Finance of Brookfield Residential Group. Mr. Whitney joined Brookfield Properties in 1994.

**Item 11. Executive Compensation**

The information called for by this item is incorporated by reference from our 2006 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2006 (120 days after the end of our fiscal year).

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information called for by this item is incorporated by reference from our 2006 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2006 (120 days after the end of our fiscal year), except for the information required by this item with respect to equity compensation plans which is set forth under Item 5 of this annual report on Form 10-K/A and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions**

The information called for by this item is incorporated by reference from our 2006 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2006 (120 days after the end of our fiscal year).

**Item 14. Principal Accounting Fees and Services**

The information called for by this item is incorporated by reference from our 2006 definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than April 30, 2006 (120 days after the end of our fiscal year).

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a) The following documents are filed as part of this report:

(i) *Financial Statements:*

See Item 8 of this report, beginning on page 27.

(ii) *Financial Statement Schedules:*

Schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have either been incorporated in the consolidated financial statements and accompanying notes or are not applicable to us.

(iii) *Exhibits:*

Refer to the Exhibit Index to this report.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 22nd day of December, 2006.

Brookfield Homes Corporation

By: /s/ IAN G. COCKWELL
Ian G. Cockwell
*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ J. BRUCE FLATT<br>J. Bruce Flatt | Chairman of the Board | December 22, 2006 |
| /s/ IAN G. COCKWELL<br>Ian G. Cockwell | President and Chief Executive Officer and Director (Principal Executive Officer) | December 22, 2006 |
| /s/ PAUL G. KERRIGAN<br>Paul G. Kerrigan | Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | December 22, 2006 |
| /s/ JOAN H. FALLON<br>Joan H. Fallon | Director | December 22 2006 |
| /s/ ROBERT A. FERCHAT<br>Robert A. Ferchat | Director | December 22, 2006 |
| /s/ BRUCE T. LEHMAN<br>Bruce T. Lehman | Director | December 22, 2006 |
| /s/ ALAN NORRIS<br>Alan Norris | Director | December 22, 2006 |
| /s/ DAVID M. SHERMAN<br>David M. Sherman | Director | December 22, 2006 |
| /s/ ROBERT L. STELZL<br>Robert L. Stelzl | Director | December 22, 2006 |

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## EXHIBIT INDEX

| Exhibit | Description |
|---|---|
| 2.1 | Purchase Agreement between Brookfield California Holdings Inc. and Brookfield Homes Corporation, effective as of September 30, 2002  Incorporated by reference to Exhibit 2.1 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 2.2 | Purchase Agreement between Brookfield Homes (US) Inc. and Brookfield Homes Holdings Inc., effective as of September 30, 2002  Incorporated by reference to Exhibit 2.2 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 2.3 | Purchase Agreement between Brookfield Washington Inc. and Brookfield Homes Holdings Inc., effective as of September 30, 2002  Incorporated by reference to Exhibit 2.3 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 2.4 | Purchase Agreement between Brookfield Homes of California Inc. and Brookfield Homes Holdings Inc., effective as of September 30, 2002  Incorporated by reference to Exhibit 2.4 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 2.5 | Purchase Agreement between Brookfield Washington Inc., Brookfield Homes of California Inc. and Brookfield Homes Corporation, effective as of September 30, 2002  Incorporated by reference to Exhibit 2.5 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 2.6 | Purchase Agreement between Brookfield Homes of California Inc. and Intercontinental Investment & Development Bank Corporation, effective as of September 30, 2002  Incorporated by reference to Exhibit 2.6 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 3.1 | Amended and Restated Certificate of Incorporation  Incorporated by reference to Exhibit 3.1 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 3.2 | By-laws  Incorporated by reference to Exhibit 3.2 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 4.1 | Description of Common Stock (see Article FOURTH of Exhibit A to Exhibit 3.1)  Incorporated by reference to Exhibit 4.1 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 4.2 | Form of Deposit Facility  Incorporated by reference to Exhibit 4.2 of the Registrant s Annual Report on Form 10-K filed with the Commission on March 15, 2004. |
| 4.3 | Letter furnished to Securities and Exchange Commission agreeing to furnish certain debt instruments ¯ Incorporated by reference to Exhibit 4.3 of the Registrant s Annual Report on Form 10-K filed with the Commission on February 27, 2006. |

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| 10.1 | License Agreement Incorporated by reference to Exhibit 10.1 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 10.2 | Form of Stock Option Plan Incorporated by reference to Exhibit 10.5 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 10.3 | Form of Deferred Share Unit Plan Incorporated by reference to Exhibit 10.6 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 21.1 | List of Subsidiaries Incorporated by reference to Exhibit 21.1 of the Registrant s Registration Statement on Form 10 (Commission File No. 001-31524) filed with the Commission. |
| 31.1* | Rule 13a-14(a) certification by Ian G. Cockwell, President and Chief Executive Officer. |
| 31.2* | Rule 13a-14(a) certification by Paul G. Kerrigan, Executive Vice President and Chief Financial Officer. |
| 32.1* | Section 1350 certification of the Chief Executive Officer and Chief Financial Officer. |

* Filed herewith

Executive Officers management contract or compensatory plan or arrangement