

BROOKFIELD HOMES CORP

Form 10-Q

August 09, 2005

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2005**

**Commission File Number: 001 31524**

**BROOKFIELD HOMES CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**37-1446709**

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

**12865 Pointe Del Mar  
Suite 200**

**Del Mar, California**

(Address of Principal Executive Offices)

**92014**

(Zip Code)

**(858) 481-8500**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes  No

As of July 28, 2005, the registrant had outstanding 30,951,081 shares of its common stock, \$0.01 par value per share.

---

**INDEX**

**BROOKFIELD HOMES CORPORATION**

	<b>PAGE</b>
<b><u>PART I.</u></b>	
<b><u>FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Balance Sheets June 30, 2005 and December 31, 2004</u>	1
<u>Consolidated Statements of Income Three Months and Six Months Ended June 30, 2005 and 2004</u>	2
	3
Table of Contents	2

Consolidated Statements of Stockholders Equity Six Months Ended June 30, 2005 and 2004

Consolidated Statements of Cash Flows Three Months Ended and Six Months Ended June 30, 2005 and 2004

Notes to the Consolidated Financial Statements

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** 10

**Item 3. Quantitative and Qualitative Disclosures about Market Risk** 15

**Item 4. Controls and Procedures** 15

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings** 16

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** 16

**Item 3. Defaults Upon Senior Securities** 16

**Item 4. Submission of Matters to a Vote of Security Holders** 16

**Item 5. Other Information** 17

**Item 6. Exhibits** 17

**SIGNATURES** 18

**EXHIBITS**

- EX-31.1
- EX-31.2
- EX-32.1

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

		<i>(Unaudited)</i>	
	Note	June 30, 2005	December 31, 2004
<b>Assets</b>			
Housing and land inventory	2	\$ 819,024	\$ 679,930
Investments in housing and land joint ventures	3	40,344	59,810
Consolidated land inventory not owned	2	39,731	47,240
Receivables and other assets		31,074	73,986
Cash and cash equivalents	4	175,250	186,731
Deferred income taxes		34,885	33,924
		\$ 1,140,308	\$ 1,081,621
<b>Liabilities and Equity</b>			
Project specific and other financings		\$ 535,552	\$ 512,098
Accounts payable and other liabilities		246,509	256,985
Minority interest	2	63,361	66,422
Preferred stock 10,000,000 shares authorized, no shares issued			
Common stock and additional paid-in capital 65,000,000 shares authorized, 30,951,081 shares issued and outstanding with par value of \$309, excluding 1,122,700 treasury shares with a cost of \$28,859 (December 31, 2004 30,889,632 shares issued and outstanding with par value of \$309, excluding 1,184,149 treasury shares with a cost of \$23,552)		122,685	120,246
Retained earnings		172,201	125,870
		\$ 1,140,308	\$ 1,081,621

*See accompanying notes to financial statements*

Table of Contents

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

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

		<i>(Unaudited)</i>			
		Three Months Ended		Six Months Ended June	
		June 30,		30,	
Note		2005	2004	2005	2004
<b>Revenue</b>					
	Housing	\$ 237,424	\$ 212,080	\$ 380,507	\$ 351,038
	Land and other revenues	15,006	16,367	24,078	20,598
		252,430	228,447	404,585	371,636
	<b>Direct Cost of Sales</b>	2	(176,557)	(180,927)	(280,535)
		75,873	47,520	124,050	80,658
	Equity in earnings from housing and land joint ventures	3	2,279	3,142	9,591
	Selling, general and administrative expense		(19,763)	(17,200)	(40,987)
	Minority interest		(5,780)	(4,661)	(8,989)
	<b>Net Income Before Taxes</b>		52,609	28,801	83,665
	Income tax expense		(20,254)	(10,945)	(32,366)
	<b>Net Income</b>		\$ 32,355	\$ 17,856	\$ 51,299
			\$ 27,573		
<b>Earnings Per Share</b>					
	Basic	1	\$ 1.05	\$ 0.58	\$ 1.66
	Diluted	1	\$ 1.03	\$ 0.56	\$ 1.63
<b>Weighted Average Common Shares Outstanding</b>					
<i>(in thousands)</i>					
	Basic	1	30,998	30,882	30,932
	Diluted	1	31,555	31,600	31,536

*See accompanying notes to financial statements*

**Table of Contents**

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

	<b>Note</b>	<i>(Unaudited)</i> <b>Six Months Ended June 30,</b>	
		<b>2005</b>	<b>2004</b>
<b>Common Stock and Additional Paid-in Capital</b>			
Opening balance		\$ 120,246	\$ 299,043
Repurchase of common shares		(5,550)	
Exercise of stock options		7,989	2,255
Special dividend	5		(179,110)
Ending balance		122,685	122,188
<b>Retained Earnings</b>			
Opening balance		125,870	83,215
Net income		51,299	27,573
Dividends		(4,968)	(2,471)
Special dividend	5		(98,819)
Ending balance		172,201	9,498
Total stockholders equity		\$ 294,886	\$ 131,686

*See accompanying notes to financial statements*

**Table of Contents**

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

	(Unaudited)			
	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2005	2004	2005	2004
<b>Cash Flows From Operating Activities</b>				
Net income	\$ 32,355	\$ 17,856	\$ 51,299	\$ 27,573
Adjustments to reconcile net income to net cash used in operating activities:				
Distribution of joint venture earnings in excess of equity income	209		238	
Minority interest	5,780	4,661	8,989	6,807
Deferred income taxes	(369)	(5,872)	(961)	(2,469)
Changes in operating assets and liabilities:				
Decrease/(increase) in receivables and other assets	(1,275)	(45)	42,912	16,088
Increase in housing and land inventory	(35,552)	(46,301)	(144,890)	(113,542)
Increase in accounts payable and other	50,229	6,903	10,064	14,914
Net cash (used in)/provided by operating activities	51,377	(22,798)	(32,349)	(50,629)
<b>Cash Flows From Investing Activities</b>				
Net recovery from/(investment in) housing and land joint ventures	9,094	(1,436)	19,228	1,608
Net cash provided by/(used in) investing activities	9,094	(1,436)	19,228	1,608
<b>Cash Flows From Financing Activities</b>				
Net borrowings under revolving project specific and other financings	5,654	27,492	23,454	57,755
Net distributions to minority interest	(6,223)	(119)	(11,540)	(3,142)
Repurchase of common shares	(4,594)		(5,550)	
Exercise of stock options	244	85	244	85
Dividends paid in cash	(4,968)	(143,106)	(4,968)	(143,106)
Net cash provided by/(used in) financing activities	(9,887)	(115,648)	1,640	(88,408)
(Decrease)/increase in cash and cash equivalents	50,584	(139,882)	(11,481)	(137,429)
Cash and cash equivalents at beginning of period	124,666	221,059	186,731	218,606
Cash and cash equivalents at end of period	\$ 175,250	\$ 81,177	\$ 175,250	\$ 81,177

**Supplemental Cash Flow Information**

Edgar Filing: BROOKFIELD HOMES CORP - Form 10-Q

Interest paid	\$ 10,841	\$ 7,032	\$ 16,612	\$ 11,452
Income taxes paid	\$ 4,584	\$ 22,000	\$ 43,995	\$ 29,010
Non-cash decrease in consolidated land inventory not owned	\$ (6,703)	\$ (11,298)	\$ (13,305)	\$ (4,913)
Dividends paid through issuance of subordinated debt	\$	\$ 137,294	\$	\$ 137,294

*See accompanying notes to financial statements*

4

---



**Table of Contents**

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

**Note 1. Significant Accounting Policies***(a) Basis of Presentation*

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Since they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements, they should be read in conjunction with the Company's consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2004. In the opinion of management, all adjustments necessary for fair presentation of the accompanying consolidated financial statements have been made.

The Company historically has experienced, and expects to continue to experience, variability in quarterly results. The consolidated statements of income for the three months and six months ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

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

*(b) Earnings Per Share*

Earnings per share is computed in accordance with the Statement of Financial Accounting Standards ( SFAS ) 128. Basic earnings per share is calculated by dividing net income by the average number of common shares outstanding for the period. 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.

Basic and diluted earnings per share for the three and six months ended June 30, 2005 and 2004 were calculated as follows (in thousands except per share amounts):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Numerator:</b>				
Net income	\$ 32,355	\$ 17,856	\$ 51,299	\$ 27,573
<b>Denominator:</b>				
Basic average shares outstanding	30,998	30,882	30,932	30,881
Net effect of stock options assumed to be exercised	557	718	604	630
Diluted average shares outstanding	31,555	31,600	31,536	31,511

Edgar Filing: BROOKFIELD HOMES CORP - Form 10-Q

Basic earnings per share	\$ 1.05	\$ 0.58	\$ 1.66	\$ 0.89
Diluted earnings per share	\$ 1.03	\$ 0.56	\$ 1.63	\$ 0.87

**Table of Contents**

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

*(c) Recent Accounting Pronouncements*

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 123(R), *Share-Based Payment*. SFAS No. 123(R) establishes accounting standards for transactions in which a company exchanges its equity instruments for goods or services. In particular, this Statement would require 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 fiscal quarter beginning January 1, 2006). The Company is currently reviewing the effect of this Statement on its consolidated financial statements.

*(d) Variable Interest Entities*

In December 2003, the FASB issued revised Interpretation 46 ( FIN 46R ), Consolidation of Variable Interest Entities ( VIEs ), an Interpretation of Accounting Research Bulletin 51, Consolidated Financial Statements, and replaces the previous version of FASB Interpretation 46 issued in January 2003 ( FIN 46 ). This interpretation applied immediately to variable interest entities created after January 31, 2003. A company that holds a variable interest in a VIE it acquired before February 1, 2003 shall apply the provision of this interpretation no later than the first fiscal year or interim period ending after March 15, 2004 unless those entities are considered to be special purpose entities in which the application is to be no later than the end of the first reporting period that ends after December 15, 2003. This interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. The Company applied the provision of this new pronouncement effective January 1, 2003 but did not restate any previously issued financial statements as it did not result in a material impact to the financial statements. 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 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.

*(e) Reclassification*

Certain prior period amounts in the consolidated financial statements have been reclassified to conform with the June 30, 2005 presentation. In particular, reclassifications have been made to equity in earnings from housing and land joint ventures (now shown as a component of operating income separately from revenue) and to interest expense (now included as a component of Direct Cost of Sales).

**Note 2. Housing and Land Inventory**

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

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Housing inventory	\$ 441,309	\$ 244,041
Model homes	27,821	19,179
Land and land under development	349,894	416,710

\$ 819,024      \$    679,930

**Table of Contents**

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

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

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the three months ended June 30, 2005 and 2004 and for the six months ended June 30, 2005 and 2004, interest incurred and capitalized by the Company was \$10.8 million, \$7.0 million, \$16.6 million and \$11.5 million, respectively. Capitalized interest expensed for the same periods was \$5.8 million, \$6.1 million, \$8.9 million, and \$10.0 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 \$165.8 million and \$267.4 million of costs related to housing revenue for the three and six months ended June 30, 2005 (June 30, 2004 \$169.6 million and \$277.8 million) and \$10.7 million and \$13.1 million of costs related to land sales and other revenues (June 30, 2004 \$11.3 million and \$13.1 million).

In the ordinary course of business, the Company has entered into a number of option contracts to acquire lots in the future in accordance with specific terms and conditions of such agreements. Under these option contracts, 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 on options for 344 lots with aggregate exercise prices of \$39.7 million (December 31, 2004 375 lots with an 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 \$29.5 million (December 31, 2004 \$42.8 million) for the assumed third party investment in the VIE. Where the land sellers are not required to provide the Company with financial information related to the VIE, certain assumptions by the Company were required in its assessment as to whether or not it is the primary beneficiary.

Housing and land inventory includes non-refundable deposits and other costs totaling \$55.1 million (December 31, 2004 \$36.0 million) in connection with options that are not required to be consolidated under the provisions of FIN 46R. The total exercise price of these options is \$753.7 million (December 31, 2004 \$627.7 million) including the non-refundable deposits identified above. The number of lots for which the Company has obtained an option to purchase, excluding those already consolidated, and their respective dates of expiry and their exercise price are as follows:

<b>Year of Expiry</b>	<b>Number of Lots</b>	<b>Total Exercise Price</b>
2005	930	\$ 84.4
2006	4,954	226.9
2007	3,556	164.7
Thereafter	8,012	277.7
	17,452	\$ 753.7

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

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

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>Assets</b>		
Housing and land inventory	\$ 335,345	\$ 345,939
Other assets	28,985	54,510

	\$ 364,330	\$ 400,449
<b>Liabilities and Equity</b>		
Accounts payable and other liabilities	\$ 12,504	\$ 46,313
Project specific financings	280,952	277,568
Investment and advances		
Brookfield Homes	40,344	59,810
Others	30,530	16,758
	\$ 364,330	\$ 400,449

**Table of Contents**

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

	Three Months Ended June		Six Months Ended June	
	30, 2005	2004	30, 2005	2004
<b>Revenue and Expenses</b>				
Revenue	\$ 27,747	\$ 41,414	\$ 72,096	\$ 61,092
Expenses	(22,044)	(27,771)	(50,847)	(45,576)
Net income	\$ 5,703	\$ 13,643	\$ 21,249	\$ 15,516
Company's share of net income	\$ 2,279	\$ 3,142	\$ 9,591	\$ 3,993

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

Joint ventures in which the Company has a non-controlling interest are accounted for using the equity method. In addition, the Company has performed an evaluation of its existing joint venture relationships by applying the provisions of FIN 46R. The Company has determined that for those entities in which this interpretation applies, one of these joint ventures was considered to be a VIE requiring consolidation pursuant to the requirement of FIN 46R. The Company and/or its joint venture partners have provided varying levels of guarantees of debt in its joint ventures. At June 30, 2005, the Company had recourse guarantees of \$5.4 million and limited maintenance guarantees of \$86.8 million with respect to debt in its joint ventures.

**Note 4. Commitments, Contingent Liabilities and Other**

(a) The Company had demand deposits included in cash and cash equivalents of \$140.0 million at June 30, 2005 (December 31, 2004 \$125.0 million) with a financial subsidiary of the Company's largest stockholder, Brascan Corporation.

(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) 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 six months ended June 30, 2005:

	<b>2005</b>
Balance, January 1, 2005	\$ 18,202
Payments made during the period	(1,896)
Warranties issued during the period	2,591
Balance, June 30, 2005	\$ 18,897

(d) 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 June 30, 2005, the fair market value of the contract was \$0.3 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 June 30, 2005, the fair market value of the contract was \$(1.2) million. Both interest rate swaps are recorded at fair market value because hedge accounting has not been applied.



**Table of Contents**

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

**Note 5. 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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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 elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2004.

**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 markets: San Francisco Bay Area; Southland / Los Angeles; San Diego / Riverside; Sacramento; and the Washington D.C. Area. Our goal is to maximize the total return on our common stockholders' equity.

The 30,318 lots that we control, 12,517 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 2005 planned home closings.

Homebuilding is our primary source of revenue and has represented approximately 90% of our total revenue since 2000. We believe our operations are positioned to close between 1,700 and 2,000 homes per year. Operating in markets with higher price points and catering to move-up and luxury buyers, our average sales price for the six months ended June 30, 2005 of \$659,000 was well in excess of the national average sales price of approximately \$273,000. 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. Over the next twelve months, we have targeted to sell up to 2,000 lots.

Our housing and land inventory and investments in housing and land joint ventures together comprised 79% of our total assets as of June 30, 2005. In addition, as of June 30, 2005, we had \$175 million in cash and cash equivalents and \$66 million in other assets. Other assets consist of homebuyer receivables of \$14 million, deferred taxes of \$35 million, and mortgages and other receivables of \$17 million. Homebuyer receivables consist primarily of proceeds due from homebuyers on the closing of homes.

Since 2000, our revenues and net income have grown at compounded annual growth rates of 17% and 50%, respectively. Over this period, we generated over \$500 million in operating cash flow that was used mainly to return cash to shareholders. 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 our overall level of lots controlled. Our recent growth is primarily the result of strong economic fundamentals in the markets in which we operate, our success in acquiring strategic parcels of land and our success in controlling costs at all levels of our operation.

**Critical Accounting Policies and Estimates**

There have been no significant changes to our critical accounting policies and estimates during the three and six months ended June 30, 2005 compared to those disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the year ended December 31, 2004.

**Selected Financial Information**

(\$ millions)

	Three Months Ended June		Six Months Ended June	
	30,	30,	30,	30,
	2005	2004	2005	2004
Revenue:				
Housing	\$ 238	\$ 212	\$ 381	\$ 351
Land and other revenues	15	17	24	21

Edgar Filing: BROOKFIELD HOMES CORP - Form 10-Q

Total revenues <sup>(1)</sup>	253	229	405	372
Direct cost of sales <sup>(1)</sup>	(177)	(181)	(281)	(291)
Gross margin <sup>(1)</sup>	76	48	124	81
Equity in earnings from housing and land joint ventures	2	3	9	4
Selling, general and administrative expense	(20)	(17)	(41)	(33)
Operating income	58	34	92	52
Minority interest	(6)	(5)	(9)	(7)
Net income before taxes	52	29	83	45
Income tax expense	(20)	(11)	(32)	(17)
Net income	\$ 32	\$ 18	\$ 51	\$ 28

**Table of Contents****Selected Financial Information**

(\$ millions)

	Three Months Ended June		Six Months Ended June	
	30, 2005	2004	30, 2005	2004
<b><i>Selected Operating Data</i></b>				
Home closings (units):				
San Francisco Bay Area	25	75	59	129
Southland / Los Angeles	53	115	77	173
San Diego / Riverside	182	46	265	97
Washington D.C. Area	95	96	176	177
Total	355	332	577	576
Average selling price:				
San Francisco Bay Area	\$ 794,000	\$ 695,000	\$ 823,000	\$ 715,000
Southland / Los Angeles	1,277,000	802,000	1,225,000	778,000
San Diego / Riverside	568,000	433,000	573,000	365,000
Washington D.C. Area	489,000	498,000	487,000	502,000
Average	\$ 669,000	\$ 639,000	\$ 659,000	\$ 609,000
Net new orders (units): <sup>(2)</sup>				
San Francisco Bay Area	54	140	117	271
Southland / Los Angeles	61	136	155	276
San Diego / Riverside	183	243	342	404
Washington D.C. Area	204	123	405	258
Total	502	642	1,019	1,209
Backlog (units at end of period): <sup>(3)</sup>				
San Francisco Bay Area	112	255		
Southland / Los Angeles	164	288		
San Diego / Riverside	358	421		
Washington D.C. Area	424	318		
Total	1,058	1,282		
Lots controlled:				
Lots owned:				
San Francisco Bay Area	1,341	1,749		
Southland / Los Angeles	575	482		
San Diego / Riverside	6,253	6,258		
Sacramento	310	310		
Washington D.C. Area	4,038	2,634		
Total	12,517	11,433		

Lots under option	17,801	11,671
Total	30,318	23,104

(1) To conform to the current periods presentation, for the three and six months ended June 30, 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) Net new orders for any period represent the aggregate of all homes ordered by customers, net of cancellations for consolidated projects.

(3) Backlog represents the number of new homes subject to pending sales contracts for consolidated projects.

### **Three Months and Six Months Ended June 30, 2005 Compared with Three Months and Six Months Ended June 30, 2004**

#### *Net Income*

Net income was \$32 million and \$51 million for the three and six months ended June 30, 2005, an increase of \$14 million and \$23 million over the three and six months ended June 30, 2004. The increase in net income for the

three and six months ended June 30, 2005 was primarily attributable to a higher percentage of our home closings in San Diego and the Washington D.C. Area where our margins are higher, and continued house price appreciation in all our markets.

*Results of Operations*

Housing revenues were \$238 million and \$381 million for the three and six months ended June 30, 2005, an increase of \$26 million and \$30 million over the three and six months ended June 30, 2004. The increase in housing revenue for the six months ended June 30, 2005 was due primarily to an 8% increase in our average selling price to \$659,000. The increase in our average selling price is a result of house price appreciation in all our markets and product mix. Home closings declined in the San Francisco Bay Area and Southland/Los Angeles as a result of a short term decline in active selling communities.

**Table of Contents**

The gross margin on housing revenues for the three months ended June 30, 2005 was \$72 million or 30.2% compared with \$42 million or 20.0% for the same period in 2004. The gross margin on housing revenues for the six months ended June 30, 2005 was \$113 million or 29.9% compared with \$73 million or 20.8% for the same period in 2004. The increase in the gross margin percentage is due to a higher percentage of home closings in San Diego and the Washington D.C. Area where our margins are the highest as we are building on land that we entitled and developed, and continued price appreciation in all our markets.

Land and other revenues totaled \$15 million for the three months ended June 30, 2005, a decrease of \$2 million over the same period in 2004. For the six months ended June 30, 2005, land and other revenues were \$24 million, an increase of \$3 million compared to the same period in 2004. The increase for the six month period was primarily due to an increase in the number of lots sold and an increase in interest and other revenue. 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 for the three and six months ended June 30, 2005 was \$4 million and \$11 million compared with \$6 million and \$8 million for the same period in 2004.

Equity in earnings from housing and land joint ventures for the three months ended June 30, 2005 was \$2 million, a decrease of \$1 million over the same period in 2004. For the six months ended June 30, 2005, equity in earnings from housing and land joint ventures was \$9 million, an increase of \$5 million over the same period in 2004. The increase was primarily attributable to the bulk sale of 41 lots in Southern California held in a joint venture, which contributed earnings of \$5 million.

*Other Expenses*

Selling, general and administrative expense was \$20 million and \$17 million for the three months ended June 30, 2005 and 2004, and was \$41 million and \$33 million for the six months ended June 30, 2005 and 2004. These expenses typically vary with the level of housing revenues. In addition, for the six months ended June 30, 2005 and 2004, selling, general and administrative expenses include stock compensation costs of \$14 million and \$11 million, respectively.

*Sales Activity*

Net new orders for the three months ended June 30, 2005 totaled 502 units, a decrease of 140 units compared to the same period in 2004. The decrease in net new orders resulted from fewer homes available for sale in our California operations, partially offset by an increase in sales in the Washington D.C. Area. As a result of the decrease in net new orders, our backlog at June 30, 2005 was 1,058 units, a decrease of 224 units compared to June 30, 2004.

**Liquidity and Capital Resources***Financial Position*

Our total assets as of June 30, 2005 were \$1,140 million, an increase of \$58 million compared to December 31, 2004.

The increase is due primarily to an increase in housing and land inventory, offset by a decrease in receivables and other assets. The increase in our housing and land inventory is due mainly to the acquisition of 325 lots for approximately \$50 million and ongoing construction and development on homes in backlog.

Our total debt as of June 30, 2005 was \$536 million, an increase of \$24 million compared to December 31, 2004.

Total debt as of June 30, 2005 consisted mainly of project specific financings, 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 and Wells Fargo. Other debt comprises deferred compensation on which interest is paid at prime, and loans outstanding relating to mortgages we originated that are repaid when the underlying mortgages are sold to permanent lenders. As of June 30, 2005, the average interest rate on our debt was 6.2%, with maturities as follows:  
(\$ millions)

	<b>Maturities</b>				
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Post 2007</b>	<b>Total</b>
San Francisco Bay Area	\$ 32	\$ 53	\$	\$	\$ 85
Southland / Los Angeles	15	39	10		64

Edgar Filing: BROOKFIELD HOMES CORP - Form 10-Q

San Diego / Riverside	118	103	14		235
Washington D.C. Area	58		58	21	137
Other		7	5	3	15
Total	\$ 223	\$ 202	\$ 87	\$ 24	\$ 536



**Table of Contents***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 lots owned and their stage of development at June 30, 2005 compared with the same period last year follows:

	<b>2005</b>	<b>2004</b>
Housing units and model homes	1,232	1,271
Lots ready for house construction	800	514
Graded lots and lots commenced grading	1,201	1,622
Undeveloped land	9,284	8,026
	12,517	11,433

Cash used in our operating activities during the six months ended June 30, 2005 was \$32 million compared with \$51 million for the same period in 2004. The decrease in cash used was primarily a result of a decrease in receivables and other assets, partially offset by an increase in lots purchased.

Cash provided by our investing activities in joint ventures for the six months ended June 30, 2005 was \$19 million, compared with \$2 million for the same period in 2004. The increase in cash flow is primarily due to the bulk sale of 41 lots in Southern California.

Cash provided by our financing activities for the six months ended June 30, 2005 was \$2 million compared with \$52 million for the same period in 2004 when we exclude the special dividend paid in 2004, a decrease of \$50 million. The decrease in cash flow is primarily due to a decrease in net borrowings from project specific financing of \$34 million.

**Contractual Obligations and Other Commitments**

We generally fund the development of our communities through the use of project specific financings. As of June 30, 2005, we had available project specific debt lines of \$197 million that were available to complete land development and construction activities.

A total of \$425 million of our project specific and other financings mature prior to the end of 2006. The high level of maturities in 2005 and 2006 is due to our expected project completions over this period. Although the level of our maturing debt is high, we expect to generate sufficient cash flow from our assets in 2005 and 2006 to repay these obligations. Our net debt to total capitalization ratio as of June 30, 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 50% compared to 51% at 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 our Annual Report on Form 10-K for the year ended December 31, 2004 entitled "Risk Factors - Our Debt and Leverage Could Adversely Affect our Financial Condition." During the third quarter of 2004, we entered into an interest rate swap contract which effectively fixes \$60 million of our variable rate debt at 5.89% until the contract expires in 2009. During the second quarter of 2005, we entered into an additional interest rate swap contract that effectively fixes \$50 million of our variable rate debt at 6.54% until the contract expires in 2010. At June 30, 2005, the fair market value of these contracts was \$(1) million.

**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 lots for an extended period of time, until options expire and/or we are ready to construct homes or sell the land. This reduces our financial

risk associated with land holdings. As of June 30, 2005, we had \$65 million of primarily non-refundable option deposits and advanced costs. The total exercise price of these options is \$793 million. Pursuant to FIN 46R, as defined in Note 1 to our consolidated financial statements included elsewhere in this Form 10-Q, we have consolidated \$40 million of these option contracts.

## **Table of Contents**

Please see Note 2 to our consolidated financial statements included elsewhere in this Form 10-Q for additional information on our lot options.

We also control 3,772 lots through joint ventures, formed to own housing and land assets with joint venture partners. As of June 30, 2005, our investment in housing and land joint ventures was \$40 million. We have provided varying levels of guarantees of debt in our joint ventures. As of June 30, 2005, we had recourse guarantees of \$5 million and limited maintenance guarantees of \$87 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 June 30, 2005, we had for these purposes \$25 million in letters of credit outstanding and \$288 million in performance bonds. The cost to complete related to our letters of credit and performance bonds are \$20 million and \$144 million, respectively. We do not believe that any of these letters of credit or bonds are likely to be drawn upon.

### **Forward-Looking Statements**

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

- expected home closings and project completions and the timing thereof;

- targeted lot sales;

- expected lot supply;

- estimates of revenues and cash flows;

- the visibility on our future cash flow and earnings;

- sources of future growth;

- the effect of interest rate changes on our cash flows;

- the effect on our business of existing lawsuits; and

- whether or not our letters of credit or performance bonds will be drawn upon.

Undue 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 our Form 10-K for the year ended December 31, 2004 and our other SEC filings.

We undertake no obligation to publicly update any forward-looking statements unless required by law, 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.

**Table of Contents**

**Item 3. 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 net debt levels as of June 30, 2005, a 1% change up or down in interest rates would have either a negative or positive effect of approximately \$2 million on our cash flows.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* As of the end of our fiscal quarter ended June 30, 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 of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based upon that evaluation, the CEO and CFO have concluded that as of the end of such fiscal quarter, 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.

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 June 30, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are party to various legal actions arising in the ordinary course of our business. We believe that none of these actions, either individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In February 2003, our Board of Directors approved and announced our share repurchase program which allows us to repurchase up to \$40 million of our outstanding common shares. In February 2005, our Board of Directors approved and announced an increase of \$19 million in the share repurchase program. To date, we have repurchased 1,403,749 shares under the program, of which 105,900 shares were purchased in the three months ended June 30, 2005, as detailed below. Our repurchase program does not have an expiration date.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
April 1, 2005 to April 30, 2005 <sup>(1)</sup>	8,200	\$ 42.22	8,200	\$ 34,653,837
May 1, 2005 to May 31, 2005				\$ 34,653,837
June 1, 2005 to June 30, 2005	97,700	\$ 43.44	97,700	\$ 30,409,354
Total	105,900	\$ 43.35	105,900	\$ 30,409,354

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

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

Our 2005 Annual Meeting of Stockholders was held on May 2, 2005. The following proposals were submitted to and approved by security holders at the Annual Meeting. All numbers reported are shares of our common stock.

1. The election of nine directors to hold office in accordance with our By-laws until the 2006 Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified.

Nominee	For	Withheld Authority
Ian G. Cockwell	28,863,840	40,830

Edgar Filing: BROOKFIELD HOMES CORP - Form 10-Q

Robert A. Ferchat	28,878,286	26,384
J. Bruce Flatt	28,815,746	88,924
Bruce T. Lehman	28,849,939	54,731
Alan Norris	28,833,751	70,919
Timothy R. Price	28,129,108	775,562
David M. Sherman	28,876,439	28,231
Robert L. Stelzl	28,877,659	27,011
Michael D. Young	28,877,106	27,564

2. The ratification of the appointment of Deloitte & Touche LLP as our independent auditors for the 2005 fiscal year.

<b>For</b>		<b>Against</b>	<b>Abstain</b>
28,856,777		46,247	1,646

**Table of Contents**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits.

- 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, Chief Financial Officer and Treasurer.
- 32.1 Section 1350 certification of the Chief Executive Officer and Chief Financial Officer.



**Table of Contents**

**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 9<sup>th</sup> day of August, 2005.

**BROOKFIELD HOMES CORPORATION**

By: /s/ PAUL G. KERRIGAN

Paul G. Kerrigan  
Executive Vice President, Chief Financial Officer and Treasurer

18

---

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>
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, Chief Financial Officer and Treasurer.
32.1	Section 1350 certification of the Chief Executive Officer and Chief Financial Officer.