

BROOKFIELD HOMES CORP

Form 10-K

February 27, 2006

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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.)

**8500 Executive Park Avenue  
Suite 300, Fairfax, Virginia**

(Address of Principal Executive Offices)

**22031**

(Zip Code)

**(703) 270-1700**

(Registrant's Telephone Number, Including Area Code)  
Securities registered pursuant to Section 12(b) of the Act:

**Title of Each Class**  
**Common Stock**

**Name of Each Exchange on Which Registered**  
**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes

No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes

No

As of June 30, 2005, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$673,944,880 based upon the closing market price on June 30, 2005 of a share of common stock on the New York Stock Exchange.

As of February 15, 2006, the registrant had outstanding 27,331,206 shares of its common stock, \$0.01 par value per share.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2006 definitive proxy statement, to be filed with the Commission no later than April 30, 2006, are incorporated by reference into Item 10 (Directors and Executive Officers of the Registrant), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management), Item 13 (Certain Relationships and Related Transactions) and Item 14 (Principal Accounting Fees and Services) of Part III of this annual report on Form 10-K.

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## PART I

### Item 1. Business

#### Introduction

Brookfield Homes Corporation ( Brookfield Homes ) is a residential homebuilder and land developer, building homes and developing land in master-planned communities and infill locations (unless the context requires otherwise, references in this report to we, our, us and the Company refer to Brookfield Homes and its subsidiaries). We design, construct and market single-family and multi-family homes primarily to move-up and luxury homebuyers. We also entitle and develop land for our own communities and sell lots 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. We targeted these markets because we believe they offer strong housing demand, a constrained supply of developable land and close proximity to areas where we expect continued strong employment growth. Our Washington D.C. Area operations commenced in the mid 1980s and our California operations commenced in 1996.

#### General Development of Our Business

We were incorporated on August 28, 2002 in Delaware as a wholly-owned subsidiary of Brookfield Properties Corporation ( Brookfield Properties ) in order to acquire all of the California and Washington D.C. Area homebuilding and land development operations of Brookfield Properties pursuant to a reorganization of its residential homebuilding business (which we refer to as 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 our Company to its common shareholders. We began trading as a separate company on the New York Stock Exchange on January 7, 2003, under the symbol BHS. The following chart summarizes our principal operating subsidiaries in the primary markets in which we operate and the year in which we commenced operations:

Market	Year of Entry	Principal Subsidiary
San Francisco Bay Area	1996	Brookfield Bay Area Holdings LLC
Southland / Los Angeles	1996	Brookfield Southland Holdings LLC
San Diego / Riverside	1996	Brookfield San Diego Holdings LLC
Sacramento	2003	Brookfield Sacramento LLC
Washington D.C. Area	1984	Brookfield Washington LLC

We also formed Brookfield California Land Holdings LLC to purchase and acquire options to purchase unentitled land in California, an operation that commenced in 1998.

#### Overview of the Residential Homebuilding and Land Development Industry

The residential homebuilding and land development industry involves converting raw or undeveloped land into residential housing. This process begins with the purchase of raw land and is followed by the development of the land, and the marketing and sale of homes constructed on the land.

##### *Raw Land*

Raw land is usually unentitled property, without the regulatory approvals which allow the construction of residential, industrial, commercial or mixed-use buildings. Acquiring and developing raw land requires significant capital expenditures and has associated carrying costs, including property taxes. The selection and purchase of raw land provides the inventory required for development purposes and is an important aspect of the real estate development process. Developers of land, from time to time, sell raw or partially approved land to other homebuilders and land developers as part of the normal course of their business.

##### *Land Development*

Land development involves the conversion of raw land to the stage where homes may be constructed on the land. Regulatory bodies at the various governmental levels must approve the proposed end use of the land and many of the details of the development process. The time required to obtain the necessary approvals varies. In most jurisdictions, development occurs on a contiguous basis to existing land services such as water and sanitation.

To shorten the development period, many developers purchase land that has been partially developed. This land is generally more expensive than raw land because a portion of the costs and risk associated with the development have been incurred.

Generally, the first significant step in developing a residential community is to complete a draft specific plan incorporating major street patterns and designating parcels of land for various uses, such as parks, schools, rights of way and residential and commercial uses that is consistent with the local city or county general plan. This plan is then submitted for approval to the governmental authority with principal jurisdiction in the area such as a city or county. The draft specific plan is then refined with the local, state and federal agencies designating main and side streets, lot sizes for residential use and the sizes and locations of parcels of land to be used for schools, parks, commercial properties and multi-family dwellings. These refinements are usually made in consultation with local planning officials, state agencies and, if required, federal agencies. In most cases, this process takes several years to complete. Once the plan has been approved, the developer generally commences negotiations with the local governmental authority on a formal development agreement, which governs the principal aspects of the construction of the community. These negotiations generally involve the review and approval of engineering designs pertaining to various aspects of the development, such as the construction and installation of sewer lines, water mains, utilities, roads and sidewalks. At the same time, the allocation of the costs of these items between the governmental authority and the developer, and the amount of fees which the developer will pay in order to obtain final approval of the plan must be settled.

Upon execution of the development agreement and grading and improvement plans, the developer generally posts a bond with the local governmental authority to secure the developer's obligations and the plan receives final approval. The developer is generally required to convey to the local municipality, for no consideration, the land upon which roads, sidewalks, rights of way and parks are constructed. Land for schools, if any, is sold to the local school district. The school district normally takes responsibility to construct the schools with developer fees and local and state bonds. The developer is usually responsible for the grading of the land and the installation of sewers, water mains, utilities, roads and sidewalks, while the municipality is usually responsible for the construction of recreational and community amenities such as libraries and community centers. The municipality funds its portion of these costs through fees charged to the developer in connection with plan approvals and through the collection of property taxes from local residents.

After a period of one to two years, following the completion by the developer of certain obligations under the development agreement, the municipality takes responsibility from the developer for the underground services, roads and sidewalks, and a portion of the improvement bond posted by the developer is released. The developer is generally required to maintain a minimum portion of the bond with the municipality after completion of the community to ensure performance by the developer of its remaining obligations under the development agreement.

#### *Home Construction and Marketing*

Residential home construction involves the actual construction of single-family houses and multi-family buildings such as townhouses and condominiums. Each dwelling is generally referred to as a unit. A planned community typically includes a large number of lots on which single-family units will be situated and a smaller number of pads of land which have been designated for the construction of multi-family units, schools, parks and commercial buildings. The approved development plan specifically provides the total number of lots and pads in the project. The construction phase normally involves consulting, architectural, engineering, interior design, merchandising and marketing personnel who assist the homebuilder in planning the project. Residential home construction is usually performed by subcontractors under the supervision of the homebuilder's construction management personnel. Marketing and sales of residential units are conducted by marketing sales staff employed by the homebuilder or by independent realtors. Pre-selling residential units before the commencement of their construction is a common sales practice that usually involves the creation of model homes or drawings of the proposed homes in a sales location close to or within the project.

#### **Narrative Description of Our Business**

We design, construct and market single-family and multi-family homes primarily to move-up and luxury home-buyers. We also develop land for our own communities and sell lots to other homebuilders. In each of our

markets, we operate through local business units which are involved in all phases of the planning and building of our master-planned communities and infill developments. These phases include sourcing and evaluating land acquisitions, site planning, obtaining government entitlements, developing the land, product design, constructing, marketing and

selling homes and homebuyer customer service. In the five year period ended December 31, 2005, we closed a total of 8,107 homes and sold 8,202 lots in various stages of development to other homebuilders. A home or lot is considered closed when title has passed to the homebuyer, and for a lot when a significant cash down payment or appropriate security has been received.

We believe we have developed a reputation for innovative planning of master-planned communities and infill developments. Master-planned communities are new home communities that typically feature community centers, parks, recreational areas, schools and other amenities. Within a master-planned community there may be smaller neighborhoods offering a variety of home styles and price levels from which homebuyers may choose. In an infill development, we construct homes in previously urbanized areas on under-utilized land. In connection with planning and building each of our master-planned communities and infill developments, we consider, among other things, amenities, views, traffic flows, open space, schools and security.

In 2005, we closed a total of 1,582 homes, compared with 1,798 in 2004. The breakdown of our home closings by market in the last three years follows:

<i>(Units)</i>	2005	2004	2003
San Francisco Bay Area	192	407	275
Southland / Los Angeles	223	437	296
San Diego / Riverside	611	507	452
Washington D.C. Area	556	447	505
Total	1,582	1,798	1,528

At December 31, 2005, we had in backlog 455 homes or 28% of our planned 1,625 home closings for 2006 delivery. Backlog represents the number of homes subject to pending sales contracts.

We also sell serviced and unserviced lots to other builders, generally on an opportunistic basis where we can enhance our returns, reduce our risk in a market or re-deploy our capital to an asset providing higher returns. 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 2004, we sold 400 lots, the majority of which were bulk sales of raw or undeveloped land in the Washington D.C. Area.

Our average home price in 2005 was \$679,000, an increase of 4% over 2004. This increase was due to our product mix and continued price appreciation of homes within our projects. The breakdown of the average prices on our home closings in the last three years follows:

	2005		2004		2003	
	Sales <i>(Millions)</i>	Average Price	Sales <i>(Millions)</i>	Average Price	Sales <i>(Millions)</i>	Average Price
San Francisco Bay Area	\$ 199	\$ 1,036,000	\$ 328	\$ 804,000	\$ 193	\$ 700,000
Southland / Los Angeles	194	872,000	391	894,000	258	872,000
San Diego / Riverside	378	618,000	231	456,000	137	303,000
Washington D.C. Area	303	545,000	219	491,000	230	456,000
Total	\$ 1,074	\$ 679,000	\$ 1,169	\$ 650,000	\$ 818	\$ 535,000

For more detailed financial information with respect to our revenues, earnings and assets, please see the accompanying consolidated financial statements and related notes included elsewhere in this report.

### **Business Strategy**

Our goal is to maximize the total return on our common stockholders' equity over the long term. The key elements of our strategy to achieve this goal are as follows:

*Selective Acquisition Policies*

We intend to continue to grow by selectively acquiring land that provides us with attractive residential projects that are consistent with our overall strategy and management expertise. We acquire land only if we believe that it will provide us with a minimum return on our invested capital. We also acquire options to purchase land rather than purchasing the land outright, in order to reduce our capital at risk in controlling land. In determining the minimum return we will accept, we take into account the risk inherent in increasing our land inventory and the specific



development project. In making additional land acquisitions in one of our current markets, we also consider our recent financial returns achieved in that market.

In order to expand our market opportunities, we also selectively pursue joint venture projects with landowners, other homebuilders and intermediaries. We are generally active participants in our joint ventures. In certain circumstances, we acquire options to purchase land rather than purchasing the land outright, in order to reduce our capital at risk in controlling land.

#### *Decentralized Operating Structure*

We operate our homebuilding business through local business units responsible for projects in their geographic area. Each of our business units has significant experience in the homebuilding industry in the market in which it operates. We believe that in-depth knowledge of a local market enables our business units to better meet the needs of our customers and to more effectively address the issues that arise on each project. Our business units are responsible for all elements of the homebuilding process, including sourcing and evaluating land acquisitions, site planning and entitlements, developing the land, product design, constructing, marketing and selling homes built on the land, customer service and management reporting. Given the nature of their responsibilities, the compensation of each of the management teams in our business units is directly related to its results. Each business unit operates as a fully integrated profit center and the senior management of each business unit is compensated through a combination of base salary and participation in his or her business unit's profits. Furthermore, certain business unit presidents own a minority equity interest in their business unit.

We maintain a small corporate team that sets our strategic goals and overall strategy. The corporate team approves all acquisitions, allocates capital to the business units based on expected returns and levels of risk, establishes succession plans, ensures operations maintain a consistent level of quality, evaluates and manages risk and holds management of the business units accountable for the performance of their business unit.

#### *Proactive Asset Management*

Our business generally comprises three stages where we make strategic decisions to deploy capital: entitling the raw land that we control; the development of the land; and the construction of homes on the land. As our assets evolve through these stages, we continually assess our ability to maximize returns on our capital, while at the same time minimizing our risks. The decision to invest in or dispose of an asset at each stage of development is based on a number of factors, including the amount of capital to be deployed, the level of incremental returns at each stage and returns on other investment opportunities.

#### *Creating Communities*

We seek to acquire land that allows us to create communities that include recreational amenities such as parks, biking and walking trails, efficient traffic flows, schools and public service facilities. We integrate land planning and development with housing product design in order to deliver lifestyle, comfort and value. We cooperate with local and regulatory authorities in order to be responsive to community conditions, and we attempt to balance our goal of maximizing the value of our land with the impact of development on the community and the environment. We encourage our employees to actively participate in local community activities and associations.

#### *Risk Management*

We focus on managing risk in each stage of the homebuilding and land development process. In the land acquisition phase, we use options and joint ventures to mitigate the risk that land values will decline due to poor economic or real estate market conditions, or that we will be unable to obtain approval for development of a proposed community. We attempt to limit development approval risk by conducting significant due diligence before we close land acquisitions. Furthermore, we generally participate in land developments which we believe will allow us to sell our interest or take other protective actions should a downturn in the real estate market occur. We sell lots and parcels when we believe we can redeploy capital to an asset providing higher returns or reduce risk in a market.

When constructing homes, we strive to satisfy our customers and limit our product liability risk by:

- selecting carefully the building materials that we use;

- emphasizing to our employees and subcontractors that our homes are to be built to meet a high standard of quality and workmanship;

- using only insured subcontractors to perform construction activities;

providing on-site quality control; and  
providing after-sales service.

Finally, we attempt to limit the risk of overbuilding by matching our construction starts to our sales rates. We generally do not begin selling homes until a significant portion of the homes' construction costs have been established through firm subcontractor bids.

#### Asset Profile

Our assets are focused on single-family and multi-family homebuilding in the markets in which we operate. They consist primarily of housing and land inventory and investments in housing and land joint ventures. Our total assets excluding cash and cash equivalents and deferred income taxes as of December 31, 2005 were \$1,082 million, with \$726 million of these assets located in California and \$356 million in the Washington D.C. Area.

As of December 31, 2005, we controlled 29,512 lots. Controlled lots include those we directly own, our proportionate share of those owned by our joint ventures and those that we have the option to purchase. Our controlled lots provide a strong foundation for our future homebuilding business and visibility on our future cash flow and earnings. Ninety percent of our owned lots are entitled and ready for development and our optioned lots are generally unentitled and require various regulatory approvals before development can commence. The number of residential building lots we control in each of our markets as of December 31, 2005 follows:

<i>(Lots)</i>	Owned			Total Lots
	Directly	Joint Ventures	Options	
San Francisco Bay Area	700	382	3,551	4,633
Southland / Los Angeles	1,246	33	1,616	2,895
San Diego / Riverside	3,796	2,153	2,300	8,249
Sacramento		310	4,810	5,120
Washington D.C. Area	2,701	1,012	4,902	8,615
Total December 31, 2005	8,443	3,890	17,179	29,512
Total December 31, 2004	9,081	3,966	14,919	27,966

Our housing and land inventory includes homes completed or under construction, developed land and raw land. The book value of our housing and land inventory in each of our primary markets for the last two years follows:

<i>(Book Value, \$ millions)</i>	December 31, 2005	December 31, 2004
San Francisco Bay Area	\$ 153	\$ 115
Southland / Los Angeles	227	91
San Diego / Riverside	264	274
Sacramento	16	11
Washington D.C. Area	253	189
Total	\$ 913	\$ 680

The book value of our investments in housing and land joint ventures as of December 31, 2005 was \$53 million. The total book value of the assets and liabilities of these joint ventures and our share of the equity of the joint ventures as of December 31, 2005 follows:

<i>(Book Value, \$ millions)</i>	December 31, 2005
Assets	\$ 423

Liabilities	\$	380
Brookfield Homes net investment	\$	53

The following describes our major projects:

*Windemere, San Francisco Bay Area.* Windemere is a 5,200 lot master-planned community located on one of the last premier infill tracts of residential housing land in the East Bay area of San Francisco. Windemere was acquired under option in 1998, final approvals were obtained in 2000 and lot sales commenced in 2001. We hold a one-third interest in Windemere, with the other two-thirds owned equally by Centex Corporation and Lennar Corporation. We have no affiliation with Centex Corporation or Lennar Corporation. We directly own 270 lots in Windemere and our share of the remaining joint venture units is 382 lots.

*University District, San Francisco Bay Area.* University District is a 254 acre project in Rohnert Park, near Santa Rosa which is currently being entitled for 1,419 lots, all of which we control.

*Irvine Ranch, Orange County.* The Irvine Ranch is a master-planned community owned by the Irvine Company. We acquire lots from the Irvine Company on a rolling option basis, and believe we have developed a strong reputation for our homes among upper-end buyers in Orange County, California. We have closed more than 600 homes on the Irvine Ranch since 1999, and as of December 31, 2005, we owned or had under contract to purchase or option 136 lots in this area.

*Morningstar Ranch, Riverside County.* Morningstar Ranch is a 1,081 lot master-planned community near Temecula in Riverside County. The initial phases of 448 lots have closed out and land development on the remaining 633 lots, all of which we own, commenced in 2004.

*Audie Murphy, Riverside County.* Audie Murphy Ranch is a 999 acre project in the Menifee Valley in the County of Riverside. We obtained final approvals in 2004 and grading commenced in 2005. We hold a 50% interest in Audie Murphy, with the remaining 50% held by Woodside Homes. We have no affiliation with Woodside Homes.

*Calavera Hills, San Diego County.* Calavera Hills is an 800 acre project located in the coastal community of Carlsbad. We completed Phase I of the project with the construction of 483 homes. Approvals for Phase II were obtained for 642 homes, grading commenced in 2002 and home closings commenced in 2004. Phase III, planned with 400 units, is currently being processed by the local authorities. We hold a 50% interest in Calavera Hills, with the remaining 50% held by McMillin Companies. We have no affiliation with McMillin Companies.

*Sycamore Canyon, San Diego County.* Sycamore Canyon is a 2,132 acre project located in San Diego County. The project was acquired under option in 1998, and in 2002, final approvals were obtained and grading of the site commenced. Home closings commenced in 2004 and as of December 31, 2005, we owned 308 units.

*Winding Walk, San Diego County.* Winding Walk (Otay Ranch Village II) in south San Diego County is a 1,200 acre project. Grading on the site commenced in 2002 and home closings commenced in 2004. We hold a 50% interest in this project, with the remaining 50% held by Shea Homes. We have no affiliation with Shea Homes. We own directly 91 units and our share of the remaining joint venture is 387 units.

*Braemar, Washington D.C. Area.* Braemar is a master-planned community located in Prince William County that began development in 1994. Since 1999, we have closed over 2,100 homes and lots. As of December 31, 2005, we had 827 lots remaining in Braemar and adjacent communities in which we hold a 100% interest.

### **Property Acquisition and Sale**

Before entering into an agreement to purchase land, we complete comparative studies and analyses that assist us in evaluating the acquisition. We manage our risk and attempt to maximize our return on invested capital on land acquisitions by either entering into option agreements or joint venture arrangements. We attempt to limit our development approval risk by conducting significant due diligence before we close land acquisitions. Furthermore, we generally seek to participate in land developments which we believe will allow us to sell our interest or take other protective actions should a downturn in the real estate market occur.

We believe that we own an adequate supply of land in our existing markets to maintain, on average, our operations at their current levels for at least the next seven years. We regularly evaluate our land inventory and strategically sell lots and parcels of land to third parties at various stages of the development process to increase our returns from a project.

### **Construction and Development**

We attempt to match our construction starts to our sales rate. We control our construction starts by constructing and selling homes in phases. Generally, we will not start construction of a phase of homes until sales of homes to be built in the phase have met predetermined targets. The size of these phases depends upon factors such as current sales and cancellation rates, the type of buyer targeted for a particular project, the time of year and our assessment of prevailing and anticipated economic conditions. We generally do not begin selling homes until a significant portion of the homes construction costs are established through firm subcontractor bids.

We attempt to limit the number of unsold units under construction by limiting the size of each construction phase and closely monitoring sales activity. Building homes of a similar product type in phases also allows us to utilize production techniques that reduce our construction costs. The number of our unsold homes fluctuates depending



upon the timing of completion of construction and absorption of home phases. As of December 31, 2005, we had 46 completed and unsold homes, excluding the 41 model homes we currently maintain.

We function as a general contractor, subcontracting the construction activities for our projects. We manage these activities with on-site supervisory employees and informational and management control systems. We engage independent architectural, design, engineering and other consulting firms to assist in project planning. We do not have long-term contractual commitments with our subcontractors, consultants or suppliers of materials, who are generally selected on a competitive bid basis. We employ subcontractors for site improvements and for virtually all of the work involved in the construction of homes. In almost all instances, our subcontractors commit to complete the specified work in accordance with written price schedules. These price schedules normally change to meet fluctuations in labor and material costs. We do not own heavy construction equipment and we have a relatively small labor force used to supervise development and construction, and to perform routine maintenance service and minor amounts of other work. We have generally been able to obtain sufficient materials and subcontractors, even during times of market shortages. We build a home in approximately five to eight months, depending upon design, the availability of raw materials and supplies, governmental approvals, local labor situation, time of year and other factors.

### **Sales and Marketing**

We advertise in local newspapers and magazines and on billboards to assist us in selling our homes. We also utilize direct mailings, special promotional events, illustrated brochures and model homes in our marketing program. The internet has also become an important source of information for our customers. Through the internet, potential buyers are able to search for their home, take a virtual video tour of selected homes, obtain general information about our projects and communicate directly with our personnel.

We sell our homes through our own sales representatives and through independent real estate brokers. Our in-house sales force typically works from sales offices located in model homes close to or in each community. Sales representatives assist potential buyers by providing them with basic floor plans, price information, development and construction timetables, tours of model homes and the selection of options. Sales personnel are licensed by the applicable real estate bodies in their respective markets, are trained by us and generally have had prior experience selling new homes in the local market. Our personnel, along with subcontracted marketing and design consultants, carefully design exteriors and interiors of each home to coincide with the lifestyles of targeted buyers. We use various floor plan types and elevations to provide a more varied street scene and a sense of customization for the buyers.

As of December 31, 2005, we owned 41 model homes, which are not generally available for sale until the final build-out of a project. Generally, two to four different model homes are built and decorated at each project to display design features. Model homes play a key role in helping buyers understand the efficiencies and value provided by each floor plan type. In addition to model homes, customers can gain an understanding of the various design features and options available to them using our design centers. At each design center, customers can meet with a designer and are shown the standard and upgraded selections available to them, including professional interior design furnishings and accessories.

We typically sell homes during construction using sales contracts that include cash deposits by the purchasers. Before entering into sales contracts, we generally pre-qualify our customers. However, purchasers can generally cancel sales contracts if they are unable to sell their existing homes, if they fail to qualify for financing, or under certain other circumstances. Although cancellations can delay the sale of our homes, they have not in the past had a material impact on our operating results because we closely monitor the progress of prospective buyers in obtaining financing. We also monitor and adjust our construction start plans depending on the level of demand for our homes.

### **Customer Service and Quality Control**

We pay particular attention to the product design process and carefully consider quality and choice of materials in order to attempt to eliminate building deficiencies. The quality and workmanship of the trade contractors we employ are monitored and we make regular inspections to ensure our standards are met.

We staff each business unit with quality control and customer service staff whose role includes providing a positive experience for each customer throughout the pre-sale, sale, building, closing and post-closing periods. These employees are also responsible for providing after-sales customer service. Our quality and service initiatives include taking customers on a comprehensive tour of their home prior to closing and using customer survey results to improve

our standards of quality and customer satisfaction.



### **Mortgage Brokerage Operations**

We offer mortgage brokerage services exclusively to our customers in our San Francisco Bay Area, Southland / Los Angeles, San Diego and Washington D.C. Area markets. We have agreements with various lenders to receive a fee on loans made by the lenders to customers we introduce to the lenders. We provide mortgage origination services to our customers in the Washington D.C. Area and do not retain or service the mortgages we originate. We customarily sell all of the loans and loan servicing rights that we originate in the secondary market within a month of origination. For the year ended December 31, 2005, less than 1% of our revenue and less than 1% of our net income was derived from our mortgage operations.

### **Relationship with Affiliates**

We are a residential homebuilder and land developer, building homes and developing land primarily in four markets in California and in the Washington D.C. Area. None of our affiliates, including Brookfield Asset Management Inc. (formerly Brascan Corporation) and Brookfield Properties, operate in similar businesses in our markets. Nevertheless, there are agreements among our affiliates to which we are a party or subject relating to a name license, the lease of office space and a deposit facility. For a further description of these agreements 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.

Four of our directors serve as executive officers and directors of our affiliates. For a description of those relationships 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.

### **Competition**

The residential homebuilding industry is highly competitive. We compete against numerous homebuilders and others in the real estate business in and near the areas where our communities are located. Our principal competitors are primarily national public company homebuilders, including Centex Corporation, Lennar Corporation, Pulte Corporation, Standard Pacific Corp. and Toll Brothers, Inc. We may compete for investment opportunities, financing, available land, raw materials and skilled labor with entities that possess greater financial, marketing and other resources than us. Competition may increase the bargaining power of property owners seeking to sell and industry competition may increase if there is future consolidation in the residential homebuilding and land development industry.

### **Material Contracts**

Other than contracts arising in connection with the reorganization and the Spin-off of the residential homebuilding operations of Brookfield Properties, and a deposit facility with a subsidiary of Brookfield Asset Management Inc., we are not party or subject to any material contracts. For a description of the material contracts arising in connection with the reorganization, 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.

### **Regulation and Environment**

We are subject to local and state laws and regulations concerning zoning, design, construction and similar matters, including local regulations which impose restrictive zoning and density requirements in order to limit the number of homes that eventually can be built within the boundaries of a particular area. We are also subject to periodic delays in our homebuilding projects due to building moratoria. In addition, new development projects may be subject to various assessments for schools, parks, streets and highways and other public improvements, the costs of which can be substantial. When made, these assessments can have a negative impact on our sales by raising the price that homebuyers must pay for our homes.

We are also subject to local, state and federal laws and regulations concerning the protection of the environment. The environmental laws that apply to a given homebuilding site depend upon the site's location, its environmental conditions and the present and former uses of the site and its adjoining properties. Environmental laws and conditions may result in delays, or cause us to incur substantial compliance and other costs, and can prohibit or severely restrict homebuilding activity in environmentally sensitive regions or areas.



We do not currently have any material estimated capital expenditures related to governmental assessments or environmental compliance costs for the remainder of fiscal 2006, fiscal 2007 or fiscal 2008.

In connection with our operations, some of our employees have general contractor and real estate sales licenses, which are subject to governmental regulations. Our employees holding those licenses are currently in material compliance with all applicable regulations.

#### **Seasonality**

We have historically experienced variability in our 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, although the rate of orders for new homes is highly dependent upon the number of active communities. Because new home deliveries trail orders for new homes by several months, we typically deliver a greater percentage of new homes in the second half of the year compared with the first half of the year. As a result, our revenues from sales of homes are generally higher in the second half of the year.

#### **Employees**

As of December 31, 2005, we had 636 employees. We consider our relations with our employees to be good. Our construction operations are conducted primarily through independent subcontractors, thereby limiting the number of our employees. None of our employees are currently represented by a union or covered by a collective bargaining agreement. We have not recently experienced any work stoppages.

#### **Available Information**

We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports as soon as reasonably practicable after we file such material with, or furnish it to, the SEC. The reports may be accessed by visiting our website at [www.brookfieldhomes.com](http://www.brookfieldhomes.com) and clicking on the Investor Relations link. We will also provide these reports in paper format to our stockholders free of charge upon request made to our Investor Relations department. Information on our website is not part of this annual report on Form 10-K.

#### **NYSE Annual Disclosure**

We confirm that we have submitted a Section 12(a) CEO Certification to the NYSE in 2005 and filed with the SEC the CEO / CFO certification required under Section 302 of the Sarbanes-Oxley Act for the 2005 fiscal year.

#### **Item 1A. Risk Factors**

This section describes the material risks associated with an investment in our common stock. Stockholders should carefully consider each of the risks described below and all of the other information in this Form 10-K. If any of the following risks occurs, our business, prospects, financial condition, results of operations or cash flow could be materially and adversely affected. In such an event, the trading price of shares of our common stock could decline substantially, and stockholders may lose all or part of the value of their shares of our common stock.

*Our business and results of operations will be materially and adversely affected by weakness in general economic, real estate and other conditions.*

The residential homebuilding and land development industry is cyclical and is significantly affected by changes in general and local economic conditions, such as employment levels, availability of financing for homebuyers, interest rates, consumer confidence and housing demand. In addition, significant supply of alternatives to new homes, such as rental properties and used homes, may depress prices and reduce margins for the sale of new homes. Homebuilders are also subject to risks related to the availability and cost of materials and labor, and adverse weather conditions that can cause delays in construction schedules and cost overruns. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by us can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we will have to sell homes at a loss or hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. We may be particularly affected by changes in local market conditions in California, where we derive a large proportion of our revenue.

*Rising mortgage rates or decreases in the availability of mortgage financing will discourage people from buying new homes.*

Virtually all of our customers finance their home acquisitions through lenders providing mortgage financing. Mortgage rates are currently at or near their lowest levels in many years. Increases in mortgage rates or decreases in the availability of mortgage financing could depress the market for new homes because of the increased monthly mortgage costs to potential homebuyers. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their homes to potential buyers who need financing, which would result in reduced demand for new homes. As a result, rising mortgage rates could adversely affect our ability to sell new homes and the price at which we can sell them.

*Laws and regulations related to property development and related to the environment subject us to additional costs and delays which adversely affect our business and results of operations.*

We must comply with extensive and complex regulations affecting the homebuilding and land development process. These regulations impose on us additional costs and delays, which adversely affect our business and results of operations. In particular, we are required to obtain the approval of numerous governmental authorities regulating matters such as permitted land uses, levels of density, the installation of utility services, zoning and building standards. We must also comply with a variety of local, state and federal laws and regulations concerning the protection of health and the environment, including with respect to hazardous or toxic substances. These environmental laws sometimes result in delays, cause us to incur additional costs, or severely restrict land development and homebuilding activity in environmentally sensitive regions or areas.

*If we are not able to develop and market our master-planned communities successfully, our business and results of operations will be adversely affected.*

Before a master-planned community generates any revenues, material expenditures are incurred to acquire land, obtain development approvals and construct significant portions of project infrastructure, amenities, model homes and sales facilities. It generally takes several years for a master-planned community development to achieve cumulative positive cash flow. If we are unable to develop and market our master-planned communities successfully and to generate positive cash flows from these operations in a timely manner, it will have a material adverse effect on our business and results of operations.

*Difficulty in retaining qualified trades workers, or obtaining required materials and supplies, will adversely affect our business and results of operations.*

The homebuilding industry has from time to time experienced significant difficulties in the supply of materials and services, including with respect to: shortages of qualified trades people; labor disputes; shortages of building materials; unforeseen environmental and engineering problems; and increases in the cost of certain materials (particularly increases in the price of lumber, wall board and cement, which are significant components of home construction costs). When any of these difficulties occur, it causes delays and increases the cost of constructing our homes.

*We sometimes face liabilities when we act as a general contractor, and we are sometimes responsible for losses when we hire general contractors.*

Where we act as the general contractor, we are responsible for the performance of the entire contract, including work assigned to subcontractors. Claims may be asserted against us for construction defects, personal injury or property damage caused by the subcontractors, and if successful these claims give rise to liability. Where we hire general contractors, if there are unforeseen events like the bankruptcy of, or an uninsured or under-insured loss claimed against, our general contractors, we sometimes become responsible for the losses or other obligations of the general contractors.

*If we are not able to raise capital on favorable terms, our business and results of operations will be adversely affected.*

We operate in a capital intensive industry and require significant capital expenditures to maintain our competitive position. The failure to secure additional debt or equity financing or the failure to do so on favorable terms will limit our ability to grow our business, which in turn will adversely affect our business and results of operations. We expect to make significant capital expenditures in the future to enhance and maintain the operations of our properties and to

expand and develop our real estate inventory. If our plans or assumptions change or prove to be inaccurate, or

if our cash flow from operations proves to be insufficient due to unanticipated expenses or otherwise, we will likely seek to minimize cash expenditures and/or obtain additional financing in order to support our plan of operations. If sufficient funding, whether obtained through public or private debt, equity financing or from strategic alliances is not available when needed or is not available on acceptable terms, our business and results of operations will be adversely affected.

*Our debt and leverage could adversely affect our financial condition.*

We are leveraged, and also guarantee shortfalls under some of our bond debt service agreements, when the revenues, fees and assessments which are designed to cover principal and interest and other operating costs of the bonds are not paid. Our leverage could have important consequences, including the following: our ability to obtain additional financing for working capital, capital expenditures or acquisitions may be impaired in the future; a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our debt, thereby reducing the funds available to us for other purposes; some of our borrowings are and will continue to be at variable rates of interest, which will expose us to the risk of increased interest rates; and our substantial leverage may limit our flexibility to adjust to changing economic or market conditions, reduce our ability to withstand competitive pressures and make us more vulnerable to a general economic downturn.

We finance each of our projects individually. As a result, to the extent we increase the number of our projects and our related investment, our total debt obligations may increase.

We repay the principal of our debt from the proceeds of home closings, and as a result our annual debt service is equal to the interest that accrues on our debt. Based on our debt levels as of December 31, 2005, a 1% change up or down in interest rates could have either a positive or negative effect of approximately \$4 million on our cash flows. Refer also to the section of this Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures About Market Risks - Interest Rates."

If any of these conditions occur, our financial condition will be adversely affected. In addition, our various debt instruments contain financial and other restrictive covenants that limit our ability to, among other things, borrow additional funds that we might need in the future.

*Our business and results of operations will be adversely affected if poor relations with the residents of our communities negatively impact our sales.*

As a master-planned community developer, we are sometimes expected by community residents to resolve any issues or disputes that arise in connection with the development of our communities. Our sales will likely be negatively affected if any efforts made by us to resolve these issues or disputes are unsatisfactory to the affected residents, which in turn would adversely affect our results of operations. In addition, our business and results of operations would be adversely affected if we are required to make material expenditures related to the settlement of these issues or disputes, or to modify our community development plans.

*Our business is susceptible to adverse weather conditions and natural disasters.*

The homebuilding industries in California and the Washington D.C. Area are susceptible to, and are significantly affected by, adverse weather conditions and natural disasters such as hurricanes, tornadoes, earthquakes, floods and fires. These adverse weather conditions and natural disasters can cause delays and increased costs in the construction of new homes and the development of new communities. If insurance is unavailable to us or is unavailable on acceptable terms, or if our insurance is not adequate to cover business interruption or losses resulting from adverse weather or natural disasters, our business and results of operations will be adversely affected. In addition, damage to new homes caused by adverse weather or a natural disaster can cause our insurance costs to increase.

*Increased insurance risk adversely affects our business.*

Due in part to the terrorist activities of September 11, 2001 and other recent events, we are confronting reduced availability of, and generally lower limits for, insurance against some of the risks associated with our business. Some of the other actions that have been or could be taken by insurance companies include: increasing insurance premiums; requiring higher self-insured retention and deductibles; requiring additional collateral on surety bonds; imposing additional exclusions, such as with respect to sabotage and terrorism; and refusing to underwrite certain risks and classes of business. The imposition, of any of the preceding actions, has and will continue to adversely affect our ability to obtain appropriate insurance coverage at reasonable costs.



*Tax law changes could make home ownership more expensive or less attractive.*

Significant expenses of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for an individual's federal, and in some cases state income taxes subject to various limitations under current tax law and policy. If the federal government or a state government changes income tax laws, as has been discussed recently, to eliminate or substantially modify these income tax deductions, then the after-tax cost of owning a new home would increase substantially. This could adversely impact demand for, and/or sales prices of new homes.

*Residential homebuilding is a competitive industry, and competitive conditions adversely affect our results of operations.*

The residential homebuilding industry is highly competitive. Residential homebuilders compete not only for homebuyers, but also for desirable properties, financing, building materials and labor. We compete with other local, regional and national homebuilders, often within larger communities designed, planned and developed by such homebuilders. Any improvement in the cost structure or service of our competitors will increase the competition we face. Competitive conditions in the homebuilding industry could result in: difficulty in acquiring suitable land at acceptable prices; increased selling incentives; lower sales volumes and prices; increased construction costs; and delays in construction.

*Provisions in our charter documents and Delaware law may make it difficult for a third party to acquire us, which could depress the price of our common stock.*

Provisions in our certificate of incorporation, our by-laws and Delaware law could delay, defer or prevent a change of control of our Company. These provisions, which include authorizing the Board of Directors to issue preferred stock and limiting the persons who may call special meetings of stockholders, could also discourage proxy contests and make it more difficult for stockholders to elect directors and take other corporate actions.

We are also subject to provisions of Delaware law which could delay, deter or prevent us from entering into an acquisition, including Section 203 of the Delaware General Corporation Law, which prohibits a Delaware corporation from engaging in a business combination with an interested stockholder unless specific conditions are met. The existence of any of the above factors could adversely affect the market price of our common stock.

*The trading price of shares of our common stock could be adversely affected because Brookfield Asset Management Inc. owns approximately 52% of our common stock.*

Brookfield Asset Management Inc. owns approximately 52% of the outstanding shares of our common stock. If Brookfield Asset Management Inc. should decide in the future to sell any of our shares owned by it, the sale (or the perception of the market that a sale may occur) could adversely affect the trading price of our common stock.

*The trading price of shares of our common stock could fluctuate significantly.*

The trading price of shares of our common stock in the open market cannot be predicted. The trading price could fluctuate significantly in response to factors such as: variations in our quarterly or annual operating results and financial condition; changes in government regulations affecting our business; the announcement of significant events by us or our competitors; market conditions specific to the homebuilding industry; changes in general economic conditions; differences between our actual financial and operating results and those expected by investors and analysts; changes in analysts' recommendations or projections; the depth and liquidity of the market for shares of our common stock; investor perception of the homebuilding industry; events in the homebuilding industry; investment restrictions; and our dividend policy. In addition, securities markets have experienced significant price and volume fluctuations in recent years that have often been unrelated or disproportionate to the operating performance of particular companies. These broad fluctuations may adversely affect the trading price of our common stock.



**Item 2. Properties**

In addition to real estate held for development and sale, which we either own or hold under an option to purchase, we lease and maintain corporate and administrative offices in Del Mar, California and Toronto, Canada. Our Del Mar lease expires in 2007, but we may, at our option, extend the lease for an additional six years and our Toronto lease is a sublease from Brookfield Asset Management Inc., which expires in 2008.

In addition, we have other offices located in the markets in which we conduct business, generally in our communities or in leased space. None of these other office premises are material to our business. We believe that our office space is suitable and adequate for our needs for the foreseeable future.

**Item 3. 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 4. Submission of Matters to a Vote of Security Holders**

None.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the New York Stock Exchange under the symbol BHS, and began regular trading on January 7, 2003. The following table shows high and low sales prices for our common stock, for the periods included, as reported by the NYSE, as adjusted for the \$9.00 per share Special Dividend paid in 2004.

	Year Ended December 31, 2005			Year Ended December 31, 2004		
	High	Low	Cash Dividends Per Share	High	Low	Cash Dividends Per Share
1 <sup>st</sup> Quarter	\$ 45.00	\$ 31.70		\$ 26.71	\$ 14.90	
2 <sup>nd</sup> Quarter	\$ 49.25	\$ 39.60	\$ 0.16	\$ 30.91	\$ 21.75	\$ 9.08 <sup>(1)</sup>
3 <sup>rd</sup> Quarter	\$ 55.68	\$ 43.56		\$ 29.01	\$ 24.87	
4 <sup>th</sup> Quarter	\$ 56.40	\$ 46.30	\$ 0.16	\$ 34.66	\$ 24.81	\$ 0.08

(1) \$4.50 was paid in the form of a subordinate note which was redeemed for cash during the fourth quarter of 2004.

As of February 15, 2006, there were approximately 878 holders of record of our common stock.

On February 1, 2006 our Board of Directors declared a semi-annual dividend of \$0.20 per share, payable June 30, 2006 to stockholders of record on June 15, 2006. Our Board of Directors periodically reviews our dividend policy. Future dividends on our common stock, if any, will be at the discretion of our Board of Directors and will depend upon, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions, investment opportunities and other factors that our Board of Directors considers relevant.

There are no current or anticipated contractual terms in our credit or other arrangements that restrict our ability to pay dividends, other than the requirements imposed by our project specific financings that require Brookfield Homes Holdings Inc., our wholly-owned subsidiary, to maintain a tangible net worth of at least \$250 million, and the additional requirements of our project specific financings that Brookfield Homes Holdings Inc. maintain a net debt to tangible net worth ratio of 1.75 to 1 and a net debt to capitalization ratio of no greater than 65%. Refer to

Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Other Commitments for additional information about these and other restrictions.

In February 2003, our Board of Directors approved and publicly announced our 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. As of December 31, 2005, we had repurchased 1,976,649 shares under the program, of which 492,000 were purchased in the three months ended December 31, 2005. Our repurchase program does not have an expiration date. In October 2005, our 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 on October 14, 2005 and expired on November 15, 2005. Under the offer, we purchased 3,000,000 of our common stock for \$165 million including expenses.

During the three months and year ended December 31, 2005, we repurchased the following shares of our common stock:

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs</b>
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
<b>Total (Year)</b>	<b>3,707,500</b>	<b>\$ 53.63</b>	<b>3,707,500</b>	<b>\$ 52,128,294</b>
<b>Total (Fourth Quarter)</b>	<b>3,492,000</b>	<b>\$ 54.21</b>	<b>3,492,000</b>	<b>\$ 52,128,294</b>

(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.

<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
<b>Number of Securities to be Issued Upon Exercise of Outstanding Options,</b>	<b>Weighted-average Exercise Price of Outstanding Options,</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities</b>

	<b>Warrants and Rights</b>		<b>Warrants and Rights</b>	<b>Reflected in Column (a))</b>
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.



- (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.

## **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.

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.

**Results of Operations**

<i>Selected Financial Information (\$ millions)</i>	<b>Years Ended December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Revenue:			
Housing	\$ 1,074	\$ 1,169	\$ 818
Land and other revenues	157	63	183
Total revenues <sup>(1)</sup>	1,231	1,232	1,001
Direct cost of sales <sup>(1)</sup>	(815)	(945)	(790)
Gross margin <sup>(1)</sup>	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

<i>Selected Operating Data</i>	<b>Years Ended December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Home closings (units):			
San Francisco Bay Area	192	407	275
Southland / Los Angeles	223	437	296
San Diego / Riverside	611	507	452
Washington D.C. Area	556	447	505
Total	1,582	1,798	1,528
Average selling price:			
San Francisco Bay Area	\$ 1,036,000	\$ 804,000	\$ 700,000
Southland / Los Angeles	872,000	894,000	872,000
San Diego / Riverside	618,000	456,000	303,000
Washington D.C. Area	545,000	491,000	456,000
Average	\$ 679,000	\$ 650,000	\$ 535,000

Net new orders (units): <sup>(2)</sup>			
San Francisco Bay Area	150	348	342
Southland / Los Angeles	302	338	358
San Diego / Riverside	412	674	447
Washington D.C. Area	557	405	563

Total	1,421	1,765	1,710
Backlog (units at end of year): <sup>(3)</sup>			
San Francisco Bay Area	12	54	113
Southland / Los Angeles	165	86	185
San Diego / Riverside	82	281	114
Washington D.C. Area	196	195	237
Total	455	616	649
Lots controlled:			
Lots owned:			
San Francisco Bay Area	1,082	1,413	1,928
Southland / Los Angeles	1,279	510	404
San Diego / Riverside	5,949	6,680	6,282
Sacramento	310	310	310
Washington D.C. Area	3,713	4,134	2,081
	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*

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.

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.

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*

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.

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.

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.

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, and loans outstanding relating to mortgages we originated totaling \$35 million, which are repaid when the underlying mortgages are sold to permanent lenders. As of December 31, 2005, the average interest rate on our debt was 7.4%, with maturities as follows:

(\$ millions)	<b>Maturities</b>				<b>Total</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Post 2008</b>	
San Francisco Bay Area	\$ 66	\$ 38	\$	\$	\$ 104
Southland / Los Angeles	72	36			108
San Diego / Riverside	136	96			232
Washington D.C. Area	70	65	22		157
Other	35	30	18	7	90
<b>Total</b>	<b>\$ 379</b>	<b>\$ 265</b>	<b>\$ 40</b>	<b>\$ 7</b>	<b>\$ 691</b>



*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:

	<b>2005</b>	<b>2004</b>
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 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 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-owned 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:

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

(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 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, 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 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.

#### **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.

#### *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	
	2005	2004	2005	2004	2005	2004	2005	2004
<i>(\$ millions, except home closings and per share amounts)</i>								
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 <sup>(1)</sup>	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.

### 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 contains forward-looking statements within the meaning of the United States federal securities laws. The words may, believe, will, anticipate, expect, planned, estimate, project, future, and other similar 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 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 of 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 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.

#### **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.

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

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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.

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 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

**BROOKFIELD HOMES CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

*(all dollar amounts are in thousands of U.S. dollars)*

	<b>Note</b>	<b>As at December 31</b>	
		<b>2005</b>	<b>2004</b>
<b>Assets</b>			
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
<b>Liabilities and Equity</b>			
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*



**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
<b>Revenue</b>				
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
<b>Direct Cost of Sales</b>	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)
<b>Net Income Before Taxes</b>		354,522	239,713	147,077
Income tax expense	6	(135,782)	(93,297)	(58,830)
<b>Net Income</b>		\$ 218,740	\$ 146,416	\$ 88,247
 <b>Earnings Per Share</b>				
Basic	10	\$ 7.17	\$ 4.74	\$ 2.78
Diluted	10	\$ 7.04	\$ 4.64	\$ 2.75
 <b>Weighted Average Common Shares Outstanding</b> <i>(in thousands)</i>				
Basic	10	30,497	30,903	31,751
Diluted	10	31,071	31,547	32,048

*See accompanying notes to consolidated financial statements*

**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
<b>Common Stock</b>		\$ 321	\$ 321	\$ 321
<b>Additional Paid-in Capital</b>				
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
<b>Treasury Stock</b>				
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)
<b>Retained Earnings</b>				
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*

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

	<b>Years Ended December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Cash Flows From Operating Activities</b>			
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
<b>Cash Flows From Investing Activities</b>			
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
<b>Cash Flows From Financing Activities</b>			
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**

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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.

**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) *Segment Information*

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

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 or 2003. All of the Company's assets are in the United States.

(l) *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.

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

*(m) 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 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.

*(n) Derivatives*

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

*(o) 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.

*(p) 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.

**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:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Housing inventory	\$ 441,912	\$ 345,266
Model homes	20,837	19,179
Land and land under development	449,868	315,485
	<b>\$ 912,617</b>	<b>\$ 679,930</b>

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:

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





**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:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Housing and land inventory	\$ 357,833	\$ 345,939
Other assets	64,866	54,510
	<b>\$ 422,699</b>	<b>\$ 400,449</b>
<b>Liabilities and Equity</b>		
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
	<b>\$ 422,699</b>	<b>\$ 400,449</b>
<b>Revenue and Expenses</b>		
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.

**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:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
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
	<b>\$ 320,787</b>	<b>\$ 256,985</b>

**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:

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

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.

**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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.

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Current taxes payable	\$ 13,904	\$ 13,167
Other tax liabilities	51,135	45,641
	<b>\$ 65,039</b>	<b>\$ 58,808</b>

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:

	<b>December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Current	\$ 146,737	\$ 75,430	\$ 28,863
Deferred	(10,955)	17,867	29,967
	<b>\$ 135,782</b>	<b>\$ 93,297</b>	<b>\$ 58,830</b>

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

	<b>December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Statutory Federal rate	35.0%	35.0%	35.0%
State income tax	4.0%	3.9%	5.0%
Other	(0.7)%		
Effective rate	<b>38.3%</b>	<b>38.9%</b>	<b>40.0%</b>

**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 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.

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	Options Exercisable at December 31, 2005

		<b>Contract Life</b>	
\$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.

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

*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 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



**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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.

**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):

	<b>Years Ended December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Numerator:</b>			
Net income	\$ 218,740	\$ 146,416	\$ 88,247
<b>Denominator:</b>			
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.

**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

(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:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
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.

(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.

**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.

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**

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.

**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, 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 expressed an unqualified opinion on those financial statements.

Independent Registered Chartered Accountants

Toronto, Ontario, Canada

February 1, 2006

**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.

<b>Name</b>	<b>Age</b>	<b>Position Held</b>
<b>Officers:</b>		
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
<b>Significant Employees:</b>		
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.

*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 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 26.

(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.

**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 24<sup>th</sup> day of February, 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.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ J. BRUCE FLATT		
J. Bruce Flatt	Chairman of the Board	February 24, 2006
/s/ IAN G. COCKWELL		
Ian G. Cockwell	President and Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2006
/s/ PAUL G. KERRIGAN		
Paul G. Kerrigan	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	February 24, 2006
/s/ JOAN H. FALLON		
Joan H. Fallon	Director	February 24, 2006
/s/ ROBERT A. FERCHAT		
Robert A. Ferchat	Director	February 24, 2006
/s/ BRUCE T. LEHMAN		
Bruce T. Lehman	Director	February 24, 2006
/s/ ALAN NORRIS		
Alan Norris	Director	February 24, 2006
/s/ TIMOTHY R. PRICE		
	Director	February 24, 2006



Timothy R. Price

/s/ DAVID M. SHERMAN

David M. Sherman

Director

February 24, 2006

/s/ ROBERT L. STELZL

Robert L. Stelzl

Director

February 24, 2006

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**EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>
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.
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, Chief Financial Officer and Treasurer.
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

Copies of the exhibits filed with or incorporated by reference into this annual report on Form 10-K do not accompany copies of this annual report on Form 10-K distributed to our stockholders. We will furnish a copy of any of such exhibits to any stockholder requesting the same.