

BROOKFIELD HOMES CORP

Form 10-Q

May 12, 2008

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

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2008

Commission File Number: 001 31524

BROOKFIELD HOMES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

37-1446709
(I.R.S. Employer
Identification No.)

**8500 Executive Park Avenue
Suite 300
Fairfax, Virginia**
(Address of Principal Executive Offices)

22031
(Zip Code)

(703) 270-1700

(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

As of May 5, 2008, the registrant had outstanding 26,663,413 shares of its common stock, \$0.01 par value per share.

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

		<i>(Unaudited)</i>	
	Note	March 31, 2008	December 31, 2007
Assets			
Housing and land inventory	2	\$ 1,118,644	\$ 1,078,229
Investments in housing and land joint ventures	3	126,612	130,546
Consolidated land inventory not owned	2	25,548	26,748
Receivables and other assets		54,001	50,066
Cash and cash equivalents		10,762	9,132
Deferred income taxes	6	58,148	55,943
		\$ 1,393,715	\$ 1,350,664
Liabilities and Equity			
Project specific and other financings		\$ 798,036	\$ 734,572
Accounts payable and other liabilities	4	146,874	159,956
Minority interest	2	81,631	76,486
Preferred stock - 10,000,000 shares authorized, no shares issued			
Common 65,000,000 shares authorized, 32,073,781 shares issued (December 31, 2007 32,073,781 shares issued)		321	321
Additional paid-in-capital		145,101	145,101
Treasury stock, at cost 5,410,368 shares (December 31, 2007 5,410,368 shares)		(243,701)	(243,701)
Retained earnings		465,453	477,929
		\$ 1,393,715	\$ 1,350,664

See accompanying notes to financial statements

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BROOKFIELD HOMES CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

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

		<i>(Unaudited)</i>	
	Note	Three Months Ended	
		March 31,	
		2008	2007
Revenue			
Housing		\$ 66,406	\$ 104,040
Land		3,286	3,519
		69,692	107,559
Direct cost of sales	2	(59,356)	(86,581)
Impairments on housing and land inventory	2	(6,150)	
		4,186	20,978
Equity in earnings from housing and land joint ventures	3	39	324
Other (expense) / income	8(d)	(9,030)	387
Selling, general and administrative expense		(16,605)	(16,512)
Operating (Loss) / Income		(21,410)	5,177
Minority interest		1,286	(165)
(Loss) / Income Before Taxes		(20,124)	5,012
Income tax recovery		7,648	23,648
Net (Loss) / Income		\$ (12,476)	\$ 28,660
(Loss) / Earnings Per Share			
Basic	5	\$ (0.47)	\$ 1.08
Diluted	5	\$ (0.47)	\$ 1.07
Weighted Average Common Shares Outstanding (in thousands)			
Basic	5	26,663	26,615
Diluted	5	26,663	26,894

See accompanying notes to financial statements

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

	<i>(Unaudited)</i>	
	Three Months Ended	
	March 31,	
	2008	2007
Common Stock	\$ 321	\$ 321
Additional Paid-in Capital		
Opening balance	145,101	146,730
Stock option exercises		(664)
Ending balance	145,101	146,066
Treasury Stock		
Opening balance	(243,701)	(248,606)
Stock option exercises		3,302
Ending balance	(243,701)	(245,304)
Retained Earnings		
Opening balance	477,929	472,961
Net (loss) / income	(12,476)	28,660
Ending balance	465,453	501,621
Total stockholders equity	\$ 367,174	\$ 402,704

See accompanying notes to financial statements

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

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2008	2007
Cash Flows From / (Used in) Operating Activities		
Net (loss) / income	\$ (12,476)	\$ 28,660
Adjustments to reconcile net (loss) / income to net cash used in operating activities:		
Income (loss) from housing and land joint ventures	(39)	266
Minority interest	(1,286)	165
Deferred income taxes	(2,205)	1,216
Impairments on housing and land inventory	6,150	
Other changes in operating assets and liabilities:		
(Increase) / decrease in receivables and other assets	(3,935)	10,409
Increase in housing and land inventory	(10,935)	(31,071)
Decrease in accounts payable and other liabilities	(7,078)	(97,867)
Net cash used in operating activities	(31,804)	(88,222)
Cash Flows From / (Used in) Investing Activities		
Investments in housing and land joint ventures	(7,305)	(7,405)
Distribution from housing and land joint ventures	47	835
Acquisition of additional interest in joint venture	(5,400)	
Net cash used in investing activities	(12,658)	(6,570)
Cash Flows From / (Used in) Financing Activities		
Net borrowings under revolving project specific and other financings	45,464	22,478
Distributions to minority interest	(272)	(1,750)
Contributions from minority interest	900	1,474
Exercise of stock options		73
Net cash provided by financing activities	46,092	22,275
Increase / (decrease) in cash and cash equivalents	1,630	(72,517)
Cash and cash equivalents at beginning of period	9,132	86,809
Cash and cash equivalents at end of period	\$ 10,762	\$ 14,292
Supplemental Cash Flow Information		
Interest paid	\$ 14,982	\$ 15,402

Income taxes paid	\$	\$ 21,549
Non-cash (decrease) / increase in consolidated land inventory not owned	\$ (201)	\$ 10,064

Acquisition of Additional Interest in Joint Venture

Increase in housing and land inventory	\$ 29,231	\$
Reduction in investment in housing and land joint ventures	\$ 11,231	\$
Increase in project specific and other financings	\$ 18,000	\$

See accompanying notes to financial statements

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

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Since they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, they should be read in conjunction with the Company s consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K/A for the year ended December 31, 2007. In the opinion of management, all adjustments necessary for fair presentation of the accompanying consolidated financial statements have been made.

The Company historically has experienced, and expects to continue to experience, variability in quarterly results. The consolidated statements of income for the three months March 31, 2008 are not necessarily indicative of the results to be expected for the full year.

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

(b) Recent Accounting Pronouncements

In February 2007, the United States Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows companies to choose to measure certain financial instruments and other items at fair value. Companies electing the fair value option are required to report subsequent changes in fair value in earnings. This Statement was effective for the Company s fiscal year beginning January 1, 2008. The Company did not elect the fair value option in FAS 159 and the standard had no impact on the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Company adopted SFAS 157 as of January 1, 2008. See Notes 2 and 8 for fair value disclosure.

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:

	March 31, 2008	December 31, 2007
Housing inventory	\$ 609,515	\$ 600,241
Model homes	58,854	58,042
Land and land under development	450,275	419,946

\$ 1,118,644 \$ 1,078,229

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The Company capitalizes interest which is expensed as housing units and building lots are sold. For the three months ended March 31, 2008 and 2007, interest incurred and capitalized by the Company was \$15.0 million and \$15.4 million, respectively. Capitalized interest expensed as direct cost of sales for the same periods was \$4.5 million and \$6.1 million, respectively.

Capitalized costs are expensed as costs of sales on a specific identification basis or on a relative value basis in proportion to anticipated revenue. Included in direct cost of sales is \$55.9 million of costs related to housing revenue for the three months ended March 31, 2008 (March 31, 2007 \$83.8 million) and \$3.5 million of costs related to land sales

(March 31, 2007 \$2.8 million), excluding impairment charges.

For the period ended March 31, 2008, due to continued challenging housing market conditions, the Company recognized \$6.2 million of impairment charges related to the housing and land the Company directly owns (2007 nil). The \$6.2 million in impairment charges is related to 222 lots located in Southland and the Washington D.C. Area. The basis used to determine fair value for the housing and land inventory impaired during the quarter is as follows:

	Fair Value Measurements At March 31, 2008 Using Significant Other Observable Inputs (Level 2)		Total Gains / (Losses)
Housing and land inventory impaired during the quarter	\$ 22,614	\$	(6,150)

The fair value measurements for housing and land inventory are determined by comparing the carrying amount of an asset to 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. Such projections generally assume current home selling prices, cost estimates and sales rates for short-term projects are consistent with recent sales activity. For longer-term projects, planned sales rates for 2008 and 2009 assume recent sales activity and normalized sales rates beyond 2009. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired. If the assets are considered to be impaired, they are then written down to fair value less estimated selling costs. In addition, when assessing fair value, the Company also calculates a static residual value analysis, which is assessed in conjunction with the discounted value analysis.

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 variable interest entities (VIEs), it is the primary beneficiary of options for 197 lots with an aggregate exercise price of \$25.5 million (December 31, 2007 204 lots with an aggregate exercise price of \$26.7 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 \$21.6 million (December 31, 2007 \$21.8 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.

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BROOKFIELD HOMES CORPORATION
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(Tabular amounts in thousands of U.S. dollars except per share amounts)

Housing and land inventory includes non-refundable deposits and other entitlement costs totaling \$58.1 million (December 31, 2007 \$55.6 million) in connection with options that are not required to be consolidated under the provisions of FASB Interpretation No. 46 (Revised 2003) (FIN 46R). The total exercise price of these options is \$366.6 million (December 31, 2007 \$409.4 million) including the non-refundable deposits identified above. The number of lots for which the Company has obtained an option to purchase, excluding those already consolidated, and their respective dates of expiry and their exercise price follows:

Year of Expiry	Number of Lots	Total Exercise Price
2008	207	\$ 57,079
2009	6	2,000
2010	2,238	76,624
Thereafter	7,461	230,876
	9,912	\$ 366,579

Investments in housing and land joint ventures includes \$19.6 million of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,329 lots under option. The Company's share of the total exercise price of these options is \$84.9 million.

The Company holds agreements for a further 5,829 acres of longer term land, with non-refundable deposits and other entitlement costs of \$9.5 million which is included in housing and land inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of \$185.0 million. However, given that the Company is in the initial stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

In the ordinary course of business, the Company selectively acquires land that it anticipates will provide a minimum return on invested capital. During January 2008, the Company acquired its former partner's 50% interest in one of its joint ventures for a cash consideration of \$5.4 million. As a result, the Company now owns 100% of this venture and it is included in the Company's consolidated financial statements. This acquisition resulted in an increase to the Company's housing and land inventory of \$29.2 million, an increase to project specific and other financings of \$18.0 million and a decrease in investments in housing and land joint ventures of \$11.2 million.

In addition, during April 2008, the Company acquired the interest of a joint venture partner for a cash consideration of \$1.4 million. As a result, the Company now owns 100% of this venture and it will be included in the Company's consolidated financial statements in the second quarter of 2008, increasing housing and land inventory by approximately \$69.9 million, increasing project specific and other financings by approximately \$42.7 million, increasing accounts payable and other liabilities by approximately \$3.1 million, and decreasing investment in housing and land joint ventures by approximately \$22.7 million.

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

Note 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:

	March 31, 2008	December 31, 2007
Assets		
Housing and land inventory	\$ 455,058	\$ 476,250
Other assets	11,698	11,526
	\$ 466,756	\$ 487,776
Liabilities and Equity		
Project specific financings	\$ 180,843	\$ 193,259
Accounts payable and other liabilities	26,841	26,497
Investment and advances		
Brookfield Homes	126,612	130,546
Others	132,460	137,474
	\$ 466,756	\$ 487,776
		Three Months Ended March 31, 2008
		2007
Revenue and Expenses		
Revenue	\$ 5,494	\$ 7,188
Expenses	(3,206)	(6,456)
Net income	\$ 2,288	\$ 732
Company's share of net income	\$ 39	\$ 324

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 from the joint ventures.

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 and/or its joint venture partners have provided varying levels of guarantees of debt in its joint ventures. At March 31, 2008, the Company had recourse guarantees of \$21.4 million (December 31, 2007 \$8.5 million) and limited maintenance guarantees of \$57.9 million (December 31, 2007 \$76.1 million) with respect to debt in its joint ventures. As of March 31, 2008, the fair market value of the recourse guarantees was insignificant.

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

Note 4. Accounts Payable and Other Liabilities

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

	March 31, 2008	December 31, 2007
Trade payables and cost to complete accruals	\$ 42,960	\$ 46,017
Warranty costs (Note 8 (c))	17,006	17,844
Customer deposits	3,184	2,495
Stock-based compensation	15,326	13,164
Due to minority interest	17,569	23,573
Accrued and deferred compensation	29,329	46,304
Swap contracts (Note 8 (d) and (e))	15,844	6,523
Other	5,656	4,036
	\$ 146,874	159,956

Note 5. (Loss) / Earnings Per Share

Basic and diluted (loss) / earnings per share for the three months ended March 31, 2008 and 2007 were calculated as follows (in thousands except per share amounts):

	Three Months Ended March 31,	
	2008	2007
Numerator:		
Net (loss) / income	\$ (12,476)	\$ 28,660
Denominator:		
Basic average shares outstanding	26,663	26,615
Net effect of stock options assumed to be exercised		279
Diluted average shares outstanding	26,663	26,894
Basic (loss) / earnings per share	\$ (0.47)	\$ 1.08
Diluted (loss) / earnings per share	\$ (0.47)	\$ 1.07

For the three months ended March 31, 2008 and 2007, options to purchase 1.0 million shares and 0.4 million shares, respectively were outstanding and anti-dilutive and were excluded from the computation of diluted earnings per share.

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:

	March 31, 2008	December 31, 2007
Compensation deductible for tax purposes when paid	\$ 20,554	\$ 20,434
Differences relating to properties	31,470	32,927
Other	6,124	2,582
	\$ 58,148	\$ 55,943

As at March 31, 2008, the Company had no unrecognized tax asset or liability (2007 nil).

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