BROOKFIELD HOMES CORP
Form 10-Q
November 10, 2008

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

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

For the quarterly period ended September 30, 2008
Commission File Number: 001 31524
BROOKFIELD HOMES CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**37-1446709**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
8500 Executive Park Avenue Suite 300 Fairfax, Virginia	**22031**
(Address of Principal Executive Offices)	(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 þ No o

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 o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(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 o No þ

As of November 1, 2008 the registrant had outstanding 26,768,732 shares of its common stock, $0.01 par value per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Note	*(Unaudited)* September 30, 2008	December 31, 2007
Assets			
Housing and land inventory	2	$ 1,093,415	$ 1,078,229
Investments in housing and land joint ventures	3	95,778	130,546
Consolidated land inventory not owned	2	9,448	26,748
Receivables and other assets		60,310	50,066
Cash and cash equivalents			9,132
Deferred income taxes	7	61,123	55,943
		$ 1,320,074	$ 1,350,664
Liabilities and Equity			
Project specific financings	4	$ 511,321	$ 644,572
Other revolving financings	4	272,000	90,000
Accounts payable and other liabilities	5	142,409	159,956
Minority interest	2	66,629	76,486
Preferred stock 10,000,000 shares authorized, no shares issued			
Common stock 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		425,994	477,929
		$ 1,320,074	$ 1,350,664

See accompanying notes to financial statements

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

	Note	*(Unaudited)* Three Months Ended September 30, 2008	2007	*(Unaudited)* Nine Months Ended September 30, 2008	2007
Revenue					
Housing		$ 106,378	$ 117,405	$ 288,019	$ 376,077
Land		3,312	3,359	11,123	9,598
		109,690	120,764	299,142	385,675
Direct cost of sales	2	(97,501)	(99,498)	(262,145)	(315,141)
Impairment of housing and land inventory and write-off of option deposits	2	(31,787)	(34,413)	(54,588)	(34,413)
		(19,598)	(13,147)	(17,591)	36,121
Selling, general and administrative expense		(15,924)	(16,007)	(47,616)	(50,037)
Equity in (loss) / earnings from housing and land joint ventures	3	(41)	408	2,383	788
Impairment of investments in housing and land joint ventures	3	(8,525)	(7,135)	(18,525)	(7,135)
Other (expense) / income	9(c)	(699)	(5,519)	(1,116)	174
Operating Loss		(44,787)	(41,400)	(82,465)	(20,089)
Minority interest		3,994	3,691	7,300	2,763
Loss Before Taxes		(40,793)	(37,709)	(75,165)	(17,326)
Income tax recovery		15,502	39,328	28,563	57,135
Net (Loss) / Income		$ (25,291)	$ 1,619	$ (46,602)	$ 39,809
(Loss) / Earnings Per Share					
Basic	6	$ (0.95)	$ 0.06	$ (1.75)	$ 1.50
Diluted	6	$ (0.95)	$ 0.06	$ (1.75)	$ 1.48
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	6	26,663	26,628	26,663	26,623
Diluted	6	26,663	26,816	26,663	26,865

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)

	(Unaudited) Nine Months Ended September 30, 2008	*(Unaudited)* Nine Months Ended September 30, 2007
Common Stock	$ 321	$ 321
Additional Paid-in Capital		
Opening balance	145,101	146,730
Stock option exercises		(670)
Ending balance	145,101	146,060
Treasury Stock		
Opening balance	(243,701)	(248,606)
Stock option exercises		3,319
Ending balance	(243,701)	(245,287)
Retained Earnings		
Opening balance	477,929	472,961
Net (loss) / income	(46,602)	39,809
Dividends	(5,333)	(5,326)
Ending balance	425,994	507,444
Total stockholders equity	$ 327,715	$ 408,538

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 September 30,		*(Unaudited)* Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Cash Flows From / (Used in) Operating Activities				
Net (loss) / income	$ (25,291)	$ 1,619	$ (46,602)	$ 39,809
Adjustments to reconcile net (loss) / income to net cash used in operating activities:				
(Undistributed) / distributed income from housing and land joint ventures	41	11	(1,364)	277
Minority interest	(3,994)	(3,691)	(7,300)	(2,763)
Deferred income taxes	(10,238)	(10,798)	(5,180)	(4,342)
Impairment of housing and land inventory and write-off of option deposits	31,787	34,413	54,588	34,413
Impairment of investments in housing and land joint ventures	8,525	7,135	18,525	7,135
Other changes in operating assets and liabilities:				
(Increase) / decrease in receivables and other assets	(8,684)	1,529	(10,244)	517
Decrease / (increase) in housing and land inventory	17,085	(22,685)	36,317	(73,232)
Increase / (decrease) in accounts payable and other liabilities	3,145	(38,909)	(9,098)	(132,408)
Net cash provided by / (used in) operating activities	12,376	(31,376)	29,642	(130,594)
Cash Flows From / (Used in) Investing Activities				
Investments in housing and land joint ventures	(5,078)	(12,006)	(17,432)	(33,063)
Distribution from housing and land joint ventures	684	4,185	1,079	7,864
Acquisition of additional interest in housing and land joint ventures			(6,844)	
Net cash used in investing activities	(4,394)	(7,821)	(23,197)	(25,199)
Cash Flows From / (Used in) Financing Activities				
Net (repayments) / borrowings under revolving project specific financing	(37,542)	5,106	(193,978)	17,637
Net borrowings under other revolving financings	29,000	30,000	182,000	55,000
Distributions to minority interest	(110)		(503)	(1,750)
Contributions from minority interest	670	1,537	2,237	4,503
Exercise of stock options		11		84
Dividends paid in cash			(5,333)	(5,326)
Net cash (used in) / provided by financing activities	(7,982)	36,654	(15,577)	70,148

Decrease in cash and cash equivalents		(2,543)	(9,132)	(85,645)
Cash and cash equivalents at beginning of period		3,707	9,132	86,809
Cash and cash equivalents at end of period	$	$ 1,164	$	$ 1,164
Supplemental Cash Flow Information				
Interest paid	$ 11,612	$ 16,386	$ 41,932	$ 48,531
Income taxes recovered / (paid)	$	$	$ 18,049	$ (22,154)
Non-cash (decrease) / increase in consolidated land inventory not owned	$ (44)	$ 139	$ (15,881)	$ 5,956
Acquisitions of Additional Interest in Joint Ventures				
Increase in housing and land inventory	$	$	$ 97,828	$
Reduction in investment in housing and land joint ventures	$	$	$ 33,960	$
Liabilities assumed	$	$	$ 63,868	$

See accompanying notes to financial statements

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 operations for the three months and nine months ended September 30, 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 December 2007, the United States Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 160 Non-controlling Interests in Consolidated Financial Statements. SFAS 160 clarifies the accounting for non-controlling interests and establishes accounting and reporting standards for the non-controlling interest in a subsidiary, including classification as a component of stockholders equity. This statement is effective for fiscal years beginning on or after December 15, 2008 (the Company s fiscal year beginning January 1, 2009). The Company is currently reviewing the impact, if any, that SFAS 160 may have on its consolidated financial statements.

In December 2007, FASB issued SFAS 141R, Business Combinations which replaces the previous version of SFAS 141. SFAS 141R provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interests in the acquiree as a result of business combinations. The revised standard also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 (the Company s fiscal year beginning January 1, 2009). The Company is currently reviewing the impact, if any, that SFAS 141R may have on its consolidated financial statements.

In February 2007, FASB issued 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 for any of its financial assets or financial liabilities under FAS 159 and the standard has had no impact on the Company s

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

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. Effective January 1, 2008, the Company adopted SFAS 157. SFAS 157 specifies a hierarchy of valuation techniques that are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. The three levels of the hierarchy are as follows: level 1 inputs are derived from quoted prices for identical instruments in active markets; level 2 inputs are derived from quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and level 3 inputs which are derived from instruments with primarily unobservable value drivers. See Notes 2 and 8 for fair value disclosure.

(c) Reclassifications

Certain prior period amounts in the consolidated balance sheet have been reclassified to conform with the September 30, 2008 presentation. Specifically, other revolving financings which had previously been shown as a component of project specific and other financings is shown separately. This reclassification had no impact on the Company s results from operations.

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:

	September 30, 2008	December 31, 2007
Housing inventory	$ 582,450	$ 600,241
Model homes	55,638	58,042
Land and land under development	455,327	419,946
	$ 1,093,415	$ 1,078,229

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the three months ended September 30, 2008 and 2007, and for the nine months ended September 30, 2008 and 2007, interest incurred and capitalized by the Company was $11.6 million and $16.4 million, and $41.9 million and $48.5 million, respectively. Capitalized interest expensed as direct cost of sales for the same periods was $7.7 million and $6.0 million, and $20.6 million and $20.9 million, respectively.

Capitalized costs are expensed as costs of sales on a specific identification basis or on a relative value basis in proportion to revenue. Before impairment charges, included in direct cost of sales is $95.0 million and $252.5 million of costs related to housing revenue for the three months and nine months ended September 30, 2008 (September 30, 2007 $96.1 million and $306.5 million) and $2.5 million and $9.6 million of costs related to land sales (September, 2007 $3.4 million and $8.6 million), respectively.

For the three months and nine months ended September 30, 2008, the continued challenging housing market conditions resulted in a reduction of average selling prices along with an increase in sales incentives and additionally, the Company recognized $27.0 million and $48.2 million, respectively, of impairment charges on the housing and land inventory the Company directly owns (2007 $31.4 million and $31.4 million, respectively). The $48.2 million in impairment charges is on 1,512 lots primarily located in the San Diego / Riverside and the Washington D.C. Areas.

The table below sets forth information regarding the Company s fair value measurement method and values basis used to determine fair value for the housing and land inventory impaired during the quarter:

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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)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Estimated fair value of housing and land inventory impaired during the third quarter	$ 56,445

In accordance with the provisions of SFAS 144 and SFAS 157, housing and land inventory with a carrying amount of $83.4 million was written down to its fair value of $56.4 million, resulting in an impairment charge of $27.0 million, which was included in earnings for the three months ending September 30, 2008 (September 30, 2007 $31.4 million). The fair value measurements for housing and land inventory were determined by comparing the carrying amount of an asset to cash flows expected to be generated by the asset. To arrive at the estimated fair value of housing and land inventory impaired during the third quarter, the Company estimated 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, with cost estimates and sales rates for short-term projects consistent with recent sales activity. For longer-term projects, planned sales rates for the remainder of 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 cash flow analysis to validate results from the fair value assessment.

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. Under these option agreements, the Company will advance 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 25 lots with an aggregate exercise price of $9.4 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 $5.9 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.

Housing and land inventory includes non-refundable deposits and other entitlement costs totaling $58.2 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 $290.7 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 the respective dates of expiry and exercise price for these options is as follows:

Year of Expiry	**Number of Lots**	**Total Exercise Price**
2008	77	$ 12,405
2009	58	21,173
2010	1,713	18,927
Thereafter	7,315	238,226

	9,163	$ 290,731

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

During the three months and nine months ended September 30, 2008, the Company wrote-off $4.8 million and $6.4 million, respectively (September 30, 2007 $3.0 million and $3.0 million). The $6.4 million of option write-offs primarily related to unentitled lot option agreements on 714 lots which the Company is no longer pursuing.

Investments in housing and land joint ventures includes $24.0 million of the Company s share of non-refundable deposits and other entitlement costs in connection with 1,784 lots under option. The Company s share of the total exercise price of these options is $93.7 million.

The Company holds agreements for a further 5,608 acres of longer term land, with non-refundable deposits and other entitlement costs of $10.3 million which is included in housing and land inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of $112.0 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. In the first quarter of 2008, the Company acquired its former partner s 50% interest in one of its joint ventures for cash consideration of $5.4 million and assumed project specific and other financings of $9.0 million. As a result, the Company now owns 100% of this venture and as of January 15, 2008, 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 the second quarter of 2008, the Company acquired its former partner s 50% interest in another joint venture for cash consideration of $1.4 million and assumed project specific and other financings of $21.3 million. As a result, the Company now owns 100% of this venture and as of April 11, 2008, 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 $68.6 million, an increase to project specific and other financings of $42.7 million, an increase to accounts payable and other liabilities of $3.1 million, and a decrease in investments in housing and land joint ventures of $22.7 million.

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:

	September 30, 2008	December 31, 2007
Assets		
Housing and land inventory	$ 379,457	$ 476,250
Other assets	8,748	11,526
	$ 388,205	$ 487,776
Liabilities and Equity		
Project specific financings	$ 135,157	$ 193,259
Accounts payable and other liabilities	23,604	26,497
Investment and advances		
Brookfield Homes	95,778	130,546
Others	133,666	137,474
	$ 388,205	$ 487,776