

BROOKFIELD HOMES CORP

Form 10-Q

August 10, 2009

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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 June 30, 2009

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 has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 August 3, 2009 the registrant had outstanding 26,768,732 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	June 30, 2009	December 31, 2008
Assets			
Housing and land inventory	2,14	\$ 938,685	\$ 946,875
Investments in housing and land joint ventures	3	103,839	105,261
Consolidated land inventory not owned	2	3,328	3,328
Receivables and other assets	4	29,035	92,333
Cash and cash equivalents		464	
Deferred income taxes	11	65,834	59,438
		\$ 1,141,185	\$ 1,207,235
Liabilities and Equity			
Project specific financings	5	\$ 353,192	\$ 433,580
Revolving and other financings	6	136,700	314,977
Accounts payable and other liabilities	7	101,465	146,320
Total liabilities		591,357	894,877
Other interests in consolidated subsidiaries	8	50,705	49,839
Commitments, contingent liabilities and other	13		
Preferred stock 10,000,000 shares authorized, 10,000,000 shares issued (December 31, 2008 10,000,000 authorized, nil shares issued)	9	249,688	
Common stock 200,000,000 shares authorized, 32,073,781 shares issued (December 31, 2008 65,000,000 shares authorized, 32,073,781 shares issued)	9	321	321
Additional paid-in-capital		141,823	141,286
Treasury stock, at cost 5,305,049 shares (December 31, 2008 5,305,049 shares)		(238,957)	(238,957)
Retained earnings		343,359	356,981
Noncontrolling interest	8	2,889	2,888
Total stockholders' equity		499,123	262,519
		\$ 1,141,185	\$ 1,207,235

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	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
		Three Months Ended June 30,		Six Months Ended June 30,	
		2009	2008	2009	2008
Revenue					
Housing		\$ 82,051	\$ 115,235	\$ 117,412	\$ 181,641
Land		13,050	4,525	14,868	7,811
		95,101	119,760	132,280	189,452
Direct Cost of Sales					
Housing		(75,250)	(101,679)	(106,890)	(157,546)
Land		(10,570)	(3,609)	(12,222)	(7,098)
Impairment of housing and land inventory and write-off of option deposits	14	(4,258)	(16,651)	(8,158)	(22,801)
		5,023	(2,179)	5,010	2,007
Selling, general and administrative expense		(13,545)	(15,087)	(25,274)	(31,692)
Equity (loss) / earnings from housing and land joint ventures	3	(231)	2,385	2,128	2,424
Impairment of investments in housing and land joint ventures	3		(10,000)	(11,618)	(10,000)
Other income / (expense)	13(c)	8,505	8,613	10,950	(417)
Loss Before Income Taxes					
Income tax (expense) / recovery		(248)	(16,268)	(18,804)	(37,678)
		(115)	5,413	6,204	13,061
Net Loss					
Less net loss attributable to noncontrolling interest and other interests in consolidated subsidiaries		(363)	(10,855)	(12,600)	(24,617)
		550	2,020	2,478	3,306
Net Income / (Loss) attributable to Brookfield Homes Corporation					
		\$ 187	\$ (8,835)	\$ (10,122)	\$ (21,311)
Loss Per Share attributable to Brookfield Homes Corporation Common Shareholders					
Basic	10	\$ (0.12)	\$ (0.33)	\$ (0.51)	\$ (0.80)
Diluted	10	\$ (0.12)	\$ (0.33)	\$ (0.51)	\$ (0.80)
Weighted Average Common Shares Outstanding					

(in thousands)

Basic	10	26,769	26,663	26,769	26,663
Diluted	10	26,769	26,663	26,769	26,663

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>	
	Six Months Ended	
	June 30,	
	2009	2008
Preferred Stock		
Opening balance	\$	\$
Preferred stock issuance, net of issuance costs of \$312	249,688	
Ending balance	249,688	
Common Stock	321	321
Additional Paid-in-Capital		
Opening balance	141,286	145,101
Adjustment to stock-based compensation plan	145	
Stock option compensation costs	392	
Ending balance	141,823	145,101
Treasury Stock		
Opening balance	(238,957)	(243,701)
Stock option exercises		
Ending balance	(238,957)	(243,701)
Retained Earnings		
Opening balance	356,981	477,929
Net loss	(10,122)	(21,311)
Common stock dividends		(5,333)
Preferred stock dividends	(3,500)	
Ending balance	343,359	451,285
Total Brookfield Homes Corporation stockholders equity	\$ 496,234	\$ 353,006
Noncontrolling Interest		
Opening balance	\$ 2,888	\$ 1,749
Net loss		
Contributions / (distributions)	1	(176)

Ending balance	\$ 2,889	\$ 1,573
Total Stockholders Equity	\$ 499,123	\$ 354,579

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)

	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Cash Flows From / (Used in) Operating Activities				
Net loss	\$ (363)	\$ (10,855)	\$ (12,600)	\$ (24,617)
Adjustments to reconcile net loss to net cash used in operating activities:				
Distributed / (undistributed) income from housing and land joint ventures	129	(1,366)	(2,221)	(1,405)
Deferred income taxes	(77)	7,263	(6,396)	5,058
Impairment of housing and land inventory and write-off of option deposits	4,258	16,651	8,158	22,801
Impairment of investments in housing and land joint ventures		10,000	11,618	10,000
Stock option compensation costs	201		392	
Other changes in operating assets and liabilities:				
Decrease / (increase) in receivables and other assets	505	2,375	63,298	(1,560)
Decrease in housing and land inventory	11,431	30,167	32	19,232
Decrease in accounts payable and other liabilities	(99)	(5,165)	(21,620)	(12,243)
Net cash provided by operating activities	15,985	49,070	40,661	17,266
Cash Flows From / (Used in) Investing Activities				
Investments in housing and land joint ventures	(1,848)	(5,049)	(2,933)	(12,354)
Distribution from housing and land joint ventures	1,612	348	1,778	395
Acquisition of additional interest in housing and land joint ventures		(1,444)		(6,844)
Net cash used in investing activities	(236)	(6,145)	(1,155)	(18,803)
Cash Flows From / (Used in) Financing Activities				
Net repayments under revolving project specific financings	(53,330)	(89,900)	(80,388)	(156,436)
Net (repayments) / borrowings under revolving and other financings	(208,546)	41,000	(205,520)	153,000
Distributions to minority interest	(29)	(121)	(57)	(393)
Contributions from minority interest	432	667	735	1,567
Preferred stock issuance	250,000		250,000	
Preferred stock issuance costs	(312)		(312)	
Preferred stock dividends paid in cash	(3,500)		(3,500)	
Common stock dividends paid in cash		(5,333)		(5,333)

Net cash used in financing activities	(15,285)	(53,687)	(39,042)	(7,595)
Increase / (decrease) in cash and cash equivalents	464	(10,762)	464	(9,132)
Cash and cash equivalents at beginning of period		10,762		9,132
Cash and cash equivalents at end of period	\$ 464	\$	\$ 464	\$

Supplemental Cash Flow Information

Interest paid	\$ 8,995	\$ 15,338	\$ 18,984	\$ 30,320
Income taxes recovered	\$ 1,883	\$ 18,049	\$ 60,700	\$ 18,049
Non-cash decrease in consolidated land inventory not owned	\$	\$ (15,636)	\$	\$ (15,837)

Acquisition of Additional Interest in Joint Ventures

Increase in housing and land inventory	\$	\$ 68,597	\$	\$ 97,828
Reduction in investment in housing and land joint ventures	\$	\$ 22,729	\$	\$ 33,960
Liabilities assumed	\$	\$ 45,868	\$	\$ 63,868

See accompanying note 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 land development and homebuilding 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 unaudited 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 for the year ended December 31, 2008. In the opinion of management, all adjustments necessary for fair presentation of the accompanying unaudited consolidated financial statements have been made.

The Company historically has experienced, and expects to continue to experience, variability in quarterly results. The unaudited consolidated statements of operations for the three months and six months ended June 30, 2009 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 Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of stockholders equity. This statement was effective for the Company s fiscal year beginning January 1, 2009. The Company has adopted SFAS 160 in its consolidated financial statements for the period ended June 30, 2009. See Note 8 for disclosure regarding its impact on the consolidated financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement 133 (SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand how and why an entity uses derivative instruments and the instruments effects on an entity s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. This pronouncement is related to disclosure and did not have a material impact on the Company s consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position (FSP) FSP SFAS 140-4 and FASB Interpretation (FIN) 46R-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. The document increases disclosure requirements for public companies and is effective for reporting periods (interim and annual) that end after December 15, 2008. The purpose of this FSP is to promptly improve disclosures by public entities and enterprises until the pending amendments to SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140), and FASB Interpretation 46R,

Consolidation of

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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)

Variable Interest Entities (FIN 46R), are finalized and approved by the FASB. The FSP amends SFAS 140 to require public entities to provide additional disclosures about transferors' continuing involvements with transferred financial assets. It also amends FIN 46R to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. This pronouncement is related to disclosure only and did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, (FSP 107-1). FSP 107-1 requires that the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, Disclosure about Fair Value of Financial Instruments, be included in interim financial statements. In addition, FSP 107-1 requires public companies to disclose the method and significant assumptions used to estimate the fair value of those financial instruments and to discuss any changes of method or assumptions, if any, during the reporting period. FSP 107-1 is effective for the Company's interim period ended June 30, 2009. FSP 107-1 did not have a material effect on the Company's consolidated financial statements, but resulted in additional disclosure.

In May 2009, the FASB issued SFAS 165, Subsequent Events, (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before the consolidated financial statements are issued or are available to be issued. Among other items, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Company has adopted SFAS 165 in its unaudited consolidated financial statements for the period ended June 30, 2009. See Note 16 for disclosure.

In June 2009, the FASB issued SFAS 167, Amendments to FASB Interpretation No. 46(R), (SFAS 167). SFAS 167 amends the consolidation guidance applicable to variable interest entities and the definition of a variable interest entity, and requires enhanced disclosures to provide more information about a company's involvement in a variable interest entity. This statement also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for the Company's fiscal year beginning January 1, 2010. The Company is currently reviewing the impact of SFAS 167 on its consolidated financial statements.

In June 2009, the FASB issued SFAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162, (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 will be effective for the Company's September 30, 2009 consolidated financial statements. SFAS 168 does not change GAAP and will not have a material impact on the Company's consolidated financial statements.

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:

	June 30, 2009	December 31, 2008
Housing inventory	\$ 443,966	\$ 440,394
Model homes	44,300	54,165
Land and land under development	450,419	452,316
	\$ 938,685	\$ 946,875

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the three and six months ended June 30, 2009, interest incurred and capitalized by the Company was \$9.0 million and \$19.0 million, respectively (2008 \$15.3 million and \$30.3 million, respectively). Capitalized interest expensed as direct cost of sales for the same periods was \$6.1 million and \$8.6 million, respectively (2008 \$8.4 million and \$12.9 million, respectively).

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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)

For the three and six months ended June 30, 2009, the challenging housing market conditions continued. Despite the increase in sales during the second quarter compared to the first quarter of 2009, rising unemployment, increased foreclosures and more stringent credit standards continued to present challenges for the housing industry to generate increased sales. For the three and six months ended June 30, 2009, the Company recognized \$4.3 million and \$8.2 million, respectively, of impairment charges on housing and land inventory the Company directly owns (2008 \$15.0 million and \$21.2 million, respectively). The \$8.2 million in impairment charges were on lots located in the Southland / Los Angeles, Washington D.C. Area and Corporate and Other reportable segments. See Note 14 for additional disclosure.

During the three and six months ended June 30, 2009, the Company acquired 1,412 lots and 3,212 lots, located in the San Diego / Riverside reportable segment for \$12.2 million and \$29.4 million, respectively.

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 with an aggregate exercise price of \$3.3 million (December 31, 2008 \$3.3 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 accounts payable and other liabilities of \$3.3 million (December 31, 2008 \$3.3 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 \$63.3 million (December 31, 2008 \$59.3 million) in connection with options that are not required to be consolidated under the provisions of FIN 46R. The total exercise price of these options is \$273.3 million (December 31, 2008 \$277.8 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 those held through joint ventures, and their respective dates of expiry and exercise price are as follows:

Year of Expiry	Number of Lots		Total Exercise Price
2009	12	\$	2,663
2010	1,707		32,406
2011	555		20,942
Thereafter	6,760		217,284
	9,034	\$	273,295

During the three and six months ended June 30, 2009, the Company wrote off nil related to unentitled lot option a