

BROOKFIELD HOMES CORP

Form 10-Q

May 10, 2010

Table of Contents

**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, 2010
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 (Do not check if a smaller reporting company) 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 6, 2010 the registrant had outstanding 28,424,299 shares of its common stock, \$0.01 par value per share.

INDEX
BROOKFIELD HOMES CORPORATION

PART	PAGE
<u>I.</u> <u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements</u>	
<u>Consolidated Balance Sheets – March 31, 2010 and December 31, 2009</u>	1
<u>Consolidated Statements of Operations – Three Months Ended March 31, 2010 and 2009</u>	2
<u>Consolidated Statements of Equity – Three Months Ended March 31, 2010 and 2009</u>	3
<u>Consolidated Statements of Cash Flows – Three Months Ended March 31, 2010 and 2009</u>	4
<u>Notes to the Consolidated Financial Statements</u>	5
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	27
<u>Item 4.</u> <u>Controls and Procedures</u>	27
<u>PART</u>	
<u>II.</u> <u>OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	28
<u>Item</u>	
<u>1A.</u> <u>Risk Factors</u>	28
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	28
<u>Item 4.</u> <u>Removed and Reserved</u>	28
<u>Item 5.</u> <u>Other Information</u>	28
<u>Item 6.</u> <u>Exhibits</u>	28
<u>SIGNATURES</u>	29
<u>EXHIBITS</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	

EX-32.1

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

		<i>(Unaudited)</i>	
	Note	March 31, 2010	December 31, 2009
Assets			
Housing and land inventory	2, 14	\$ 815,017	\$ 809,829
Investments in unconsolidated entities	3	95,921	92,477
Consolidated land inventory not owned	2	25,386	25,434
Receivables and other assets	4	26,609	61,744
Restricted cash	5	7,485	7,485
Deferred income taxes	9	39,027	40,112
		\$ 1,009,445	\$ 1,037,081
Liabilities and Equity			
Project specific financings	6	\$ 240,446	\$ 231,567
Other revolving financings	7	125,000	150,000
Accounts payable and other liabilities	8	117,134	122,190
Total liabilities		482,580	503,757
Other interests in consolidated subsidiaries	11	43,194	47,011
Commitments, contingent liabilities and other	13		
Preferred stock 10,000,000 shares authorized, 10,000,000 shares issued (December 31, 2009 10,000,000 shares authorized, 10,000,000 shares issued)		249,688	249,688
Common stock 200,000,000 shares authorized, 32,073,781 shares issued (December 31, 2009 32,073,781 shares issued)		321	321
Additional paid-in-capital		142,219	142,106
Treasury stock, at cost 3,649,482 shares (December 31, 2009 3,671,482 shares)		(166,062)	(166,113)
Retained earnings		250,191	252,994
Noncontrolling interest	11	7,314	7,317
Total equity		483,671	486,313
		\$ 1,009,445	\$ 1,037,081

See accompanying notes to financial statements

Table of Contents

BROOKFIELD HOMES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

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

		<i>(Unaudited)</i>	
		Three Months Ended	
		March 31,	
	Note	2010	2009
Revenue			
Housing		\$ 41,765	\$ 35,361
Land		3,666	1,818
		45,431	37,179
Direct Cost of Sales			
Housing		(35,819)	(31,640)
Land		(2,887)	(1,652)
Impairment of housing and land inventory and write-off of option deposits	2		(3,900)
		6,725	(13)
Selling, general and administrative expense		(12,501)	(11,729)
Equity in earnings from unconsolidated entities	3	686	2,359
Impairment of investments in unconsolidated entities	3		(11,618)
Other (expense) / income	13(c)	(219)	2,445
Loss Before Income Taxes		(5,309)	(18,556)
Income tax recovery		1,718	6,319
Net Loss		(3,591)	(12,237)
Less net loss attributable to noncontrolling interest and other interests in consolidated subsidiaries	11	788	1,928
Net Loss attributable to Brookfield Homes Corporation		\$ (2,803)	\$ (10,309)
Loss Per Share Attributable to Brookfield Homes Corporation			
Common Shareholders			
Basic	12	\$ (0.27)	\$ (0.39)
Diluted	12	\$ (0.27)	\$ (0.39)
Weighted Average Common Shares Outstanding (in thousands)			
Basic	12	28,406	26,769
Diluted	12	28,406	26,769

See accompanying notes to financial statements

Table of Contents

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

	<i>(Unaudited)</i>	
	Three Months Ended	
	March 31,	
	2010	2009
Common Stock	\$ 321	\$ 321
Preferred Stock	249,688	
Additional Paid-in-Capital		
Opening balance	142,106	141,286
Adjustment to stock-based compensation plan		145
Stock option compensation costs	113	191
Ending balance	142,219	141,622
Treasury Stock		
Opening balance	(166,113)	(238,957)
Stock option exercises	51	
Ending balance	(166,062)	(238,957)
Retained Earnings		
Opening balance	252,994	356,981
Net loss attributable to Brookfield Homes Corporation	(2,803)	(10,309)
Ending balance	250,191	346,672
Total Brookfield Homes Corporation Equity	\$ 476,357	\$ 249,658
Noncontrolling Interest		
Opening balance	\$ 7,317	\$ 2,888
Net loss attributable to non-controlling interest	(3)	
Distributions		(2)
Ending balance	\$ 7,314	\$ 2,886
Total Equity	\$ 483,671	\$ 252,544

See accompanying notes to financial statements

Table of Contents

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

	<i>(Unaudited)</i>	
	Three Months Ended	
	March 31,	
	2010	2009
Cash Flows From / (Used in) Operating Activities		
Net loss	\$ (3,591)	\$ (12,237)
Adjustments to reconcile net loss to net cash used in operating activities:		
Undistributed income from unconsolidated entities	(693)	(2,350)
Deferred income taxes	1,085	(6,319)
Impairment of housing and land inventory and write-off of option deposits		3,900
Impairment of investments in unconsolidated entities		11,618
Stock option compensation costs	113	191
Other changes in operating assets and liabilities:		
Decrease in receivables and other assets	35,135	62,793
Increase in housing and land inventory	(8,538)	(11,399)
Decrease in accounts payable and other liabilities	(2,107)	(21,521)
 Net cash provided by operating activities	 21,404	 24,676
 Cash Flows (Used In) / From Investing Activities		
Investments in unconsolidated entities	(4,139)	(1,085)
Distribution from unconsolidated entities	6	166
 Net cash used in investing activities	 (4,133)	 (919)
 Cash Flows (Used in) / From Financing Activities		
Net borrowings / (repayments) under project specific financings	8,879	(27,058)
Net (repayments) / borrowings under other revolving financings	(25,000)	3,026
Distributions to noncontrolling interest and other interests in consolidated subsidiaries	(1,535)	(28)
Contributions from noncontrolling interest and other interests in consolidated subsidiaries	334	303
Exercise of stock options	51	
 Net cash used in financing activities	 (17,271)	 (23,757)
 Increase in cash and cash equivalents		
Cash and cash equivalents at beginning of period		
 Cash and cash equivalents at end of period	 \$	 \$

Supplemental Cash Flow Information

Interest paid	\$ 8,302	\$ 9,989
Income taxes recovered	\$ 39,446	\$ 58,817

See accompanying notes to financial statements

4

Table of Contents

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

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

Brookfield Homes Corporation (the Company or Brookfield Homes) was incorporated on August 28, 2002 in Delaware and thereafter acquired all the California and Washington D.C. area land development and homebuilding operations of Brookfield Properties Corporation. The Company began trading on the New York Stock Exchange on January 7, 2003, under the symbol BHS.

These unaudited consolidated 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 entities and variable interest entities 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 U.S. GAAP 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, 2009. 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 consolidated statements of operations for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with U.S. GAAP 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 and assumptions.

(b) Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance now incorporated in Accounting Standards Codification (ASC) Topic 810, Consolidation (formerly SFAS 167) amending the consolidation guidance applicable to variable interest entities and the definition of a variable interest entity, and requiring enhanced disclosure to provide more information about a company s involvement in a variable interest entity. This guidance also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. This guidance is effective for the Company s fiscal year beginning January 1, 2010. The Company has adopted this guidance in its unaudited consolidated financial statements for the period ended March 31, 2010. See Notes 2 and 3 for additional 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, 2010	December 31, 2009
Housing inventory	\$ 360,953	\$ 359,132
Model homes	32,469	32,542
Land and land under development	421,595	418,155
	\$ 815,017	\$ 809,829

Table of Contents

BROOKFIELD HOMES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the three months ended March 31, 2010 and 2009, interest incurred and capitalized by the Company was \$8.0 million and \$10.0 million, respectively. Capitalized interest expensed as direct cost of sales for the same periods was \$3.9 million and \$2.5 million, respectively.

No impairment charges were recognized related to housing and land inventory the Company directly owned during the three months ended March 31, 2010 (March 31, 2009 \$3.9 million).

In the ordinary course of business, the Company has entered into a number of option contracts to acquire land or lots in the future in accordance with specific terms and conditions and the Company will advance deposits to secure these rights. Effective for the Company's fiscal year beginning January 1, 2010, the Company is no longer required to follow quantitative guidance determining the primary beneficiary of a variable interest entity (VIE), but is required by ASC 810 Consolidation to qualitatively assess whether it is the primary beneficiary based on whether it has the power over the significant activities of the VIE and an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Company has evaluated its option contracts in accordance with this revised guidance and determined that for those entities considered to be VIEs, it is the primary beneficiary of options with an aggregate exercise price of \$25.4 million (December 31, 2009 \$25.4 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 \$25.4 million (December 31, 2009 \$25.4 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 \$43.8 million (December 31, 2009 \$42.6 million) in connection with options that are not required to be consolidated in terms of the guidance incorporated in ASC Topic 810 Consolidation (formerly FASB Interpretation (FIN) No. 46(R)). The total exercise price of these options is \$146.5 million (December 31, 2009 \$156.9 million), including the non-refundable deposits and other entitlement costs identified above. The number of lots which the Company has obtained an option to purchase, excluding those already consolidated and those held through unconsolidated entities and their respective dates of expiry and aggregate exercise prices follow:

Year of Expiry	Number of Lots		Total Exercise Price
2010	179	\$	12,758
2011	555		20,942
Thereafter	5,528		112,764
	6,262	\$	146,464

Investments in unconsolidated entities include \$27.4 million of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,987 lots under option. The Company's share of the total exercise price of these options is \$88.0 million.

The Company holds agreements for a further 4,417 acres of longer term land, with non-refundable deposits and other entitlement costs of \$7.3 million, which is included in housing and land inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of \$36.0 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.

Table of Contents

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

Note 3. Investments in Unconsolidated Entities

The Company participates in nine unconsolidated entities in which it has less than a controlling interest. Summarized condensed financial information on a combined 100% basis of the unconsolidated entities follows:

	March 31, 2010	December 31, 2009
Assets		
Housing and land inventory	\$ 238,860	\$ 235,864
Other assets	6,453	6,722
	\$ 245,313	\$ 242,586
Liabilities and Equity		
Project specific financings	\$ 48,898	\$ 52,175
Accounts payable and other liabilities	14,351	14,082
Equity		
Brookfield Homes interest	95,921	92,477
Others interest	86,143	83,852
	\$ 245,313	\$ 242,586
		Three Months Ended March 31, 2010
		2009
Revenue and Expenses		
Revenue	\$ 3,140	\$ 2,818
Cost of sales	(4,385)	(2,459)
Other income	4,050	1,192
Net income	\$ 2,805	\$ 1,551
Company's share of net income	\$ 686	\$ 2,359
Impairment of investments in unconsolidated entities	\$	\$ 11,618

In reporting the Company's share of net income, all inter-company profits or losses from unconsolidated entities are eliminated on lots purchased by the Company from unconsolidated entities. For the three months ended March 31, 2010, the difference between the Company's share of the net income of its investments in unconsolidated entities and equity in earnings from unconsolidated entities primarily arises from differences in accounting policies followed by unconsolidated entities.

During the three months ended March 31, 2010, in accordance with ASC Topic 323 Investments - Equity Method and Joint Ventures (formerly Accounting Principles Board Opinion 18) and ASC Topic 360 Property, Plant and Equipment (formerly SFAS 144), the Company recognized impairment charges of nil (March 31, 2009)

\$11.6 million).

Unconsolidated entities 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 unconsolidated entity relationships by applying the provisions of ASC Topic 810 Consolidation (formerly SFAS 160).

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt in its unconsolidated entities. At March 31, 2010, the Company had completion guarantees of \$6.8 million (December 31, 2009 \$7.9 million) and limited maintenance guarantees of \$14.8 million (December 31, 2009 \$15.3 million) with respect to debt in its unconsolidated entities.

Table of Contents

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

Note 4. Receivables and Other Assets

The components of receivables and other assets included in the Company's balance sheets are summarized as follows:

	March 31, 2010	December 31, 2009
Taxes receivable	\$ 3,339	\$ 40,002
Proceeds and escrow receivables	1,615	1,414
Refundable deposits	4,797	4,815
Notes receivable	2,425	2,425
Prepaid expenses	2,354	2,970
Miscellaneous receivables	6,693	5,261
Other assets	5,386	4,857
	\$ 26,609	\$ 61,744

Note 5. Restricted Cash

At March 31, 2010, the Company had restricted cash of \$7.5 million (December 31, 2009 \$7.5 million). During 2009, the Company entered into a total return swap transaction (see Note 13 (d)) which requires the Company to maintain cash deposits as collateral equivalent to 1,022,987 shares at \$7.31 per share, the prevailing share price at the date of the transaction.

Note 6. Project Specific Financings

Project specific financings of \$240.4 million (December 31, 2009 \$231.6 million) are revolving in nature, bear interest at floating rates with a weighted average rate of 4.3% as at March 31, 2010 (December 31, 2009 4.2%) 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.

Project specific financings mature as follows: 2010 \$143.8 million; 2011 \$87.5 million; and 2012 \$9.1 million. The Company's project specific financings require Brookfield Homes Holdings Inc., a wholly-owned subsidiary of the Company, to maintain a tangible net worth of at least \$250.0 million, a net debt to capitalization ratio of no greater than 65% and a net debt to tangible net worth of no greater than 2.50 to 1. As of March 31, 2010, the Company was in compliance with all of its covenants.

Note 7. Other Revolving Financings

Other revolving financings of \$125.0 million (December 31, 2009 \$150.0 million) consist of amounts drawn on two unsecured revolving credit facilities due to subsidiaries of the Company's largest stockholder, Brookfield Asset Management Inc.

The revolving operating facility is in a principal amount not to exceed \$100.0 million, matures December 2011 and bears interest at LIBOR plus 3.5% per annum. During the three months ended March 31, 2010 and 2009, interest of \$0.9 million and \$2.8 million, respectively, was incurred related to this facility.