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

þ **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	**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 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 o 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 (Do not check if a smaller reporting company)	Smaller reporting company o

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 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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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)* 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	*(Unaudited)* Three Months Ended June 30, 2009	2008	*(Unaudited)* Six Months Ended June 30, 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		(248)	(16,268)	(18,804)	(37,678)
Income tax (expense) / recovery		(115)	5,413	6,204	13,061
Net Loss		(363)	(10,855)	(12,600)	(24,617)
Less net loss attributable to noncontrolling interest and other interests in consolidated subsidiaries		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)

	(Unaudited) 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)

	(Unaudited) Three Months Ended June 30, 2009	2008	*(Unaudited)* Six Months Ended June 30, 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

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

BROOKFIELD HOMES CORPORATION
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(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).

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 agreements which the Company is no longer pursuing (2008 $1.6 million related to 108 lot options).

Investments in housing and land joint ventures include $26.1 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 $88.5 million.

The Company holds agreements for a further 5,096 acres of longer term land, with non-refundable deposits and other entitlement costs of $11.9 million which is included in housing and land inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of $72.0 million. However, given that the Company is in the initial stage of land entitlement, the Company has concluded that at this time the level of uncertainty in entitling these properties does not warrant including them in the above totals.

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:

	June 30, 2009	December 31, 2008
Assets		
Housing and land inventory	$ 262,740	$ 310,026
Other assets	21,747	9,242
	$ 284,487	$ 319,268
Liabilities and Equity		
Project specific financings	$ 61,278	$ 62,583
Accounts payable and other liabilities	15,148	15,840
Investment and advances		
Brookfield Homes	103,839	105,261
Others	104,222	135,584
	$ 284,487	$ 319,268

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue and Expenses				
Revenue	$ 29	$ 12,320	$ 388	$ 17,814
Expenses	(2,223)	(9,993)	(1,031)	(13,199)
Net (loss) / income	(2,194)	2,327	(643)	$ 4,615
Company s share of net (loss) / income	(231)	$ 2,385	2,128	$ 2,424
Impairment of investments in housing and land joint ventures	$	$ (10,000)	$ (11,618)	$ (10,000)

In reporting the Company s share of net (loss) / 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 noncontrolling 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.

During the three and six months ended June 30, 2009, in accordance with Accounting Principles Board Opinion No. 18 The Equity Method of Accounting for Investments in Common Stock (APB 18) and SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), the Company recognized impairment charges of nil and $2.4 million (June 30, 2008 nil and nil), related to a joint venture in the Washington D.C. Area as a result of continued deterioration in this project which resulted in the carrying value of the Company s investment in this joint venture exceeding the estimated fair value. Also, during the six months ended June 30, 2009, the lender foreclosed on a property related to a joint venture in the Inland Empire of California in the San Diego / Riverside reportable segment. The Company had provided the lender a several guarantee for fifty percent of the debt outstanding on the property and had previously accrued $18.0 million related to this several guarantee. As a result of the lender foreclosing on the property during the six months ended June 30, 2009, the Company has accrued an additional $9.2 million related to this property, which has been reclassified in the current period from accounts payable and other liabilities to revolving and other financings as a result of loan repayment terms being finalized with the lender. The $9.2 million expense is included in impairments of investments in housing and land joint ventures. At the foreclosure sale held during the six months ended June 30, 2009, the Company acquired the property for $17.1 million. During the three and six months ended June 30, 2008, the Company had recognized $10.0 million of impairment charges related to its investment in the joint venture that owned this property.

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

The Company and/or its joint venture partners have provided varying levels of guarantees of debt in its joint ventures. At June 30, 2009, the Company had completion guarantees of $10.4 million (December 31, 2008 $10.5 million) limited maintenance guarantees of $17.4 million (December 31, 2008 $12.1 million) and recourse guarantees of nil (December 31, 2008 $35.8 million) with respect to debt in its joint ventures.

Note 4. Receivables and Other Assets

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

	June 30, 2009	December 31, 2008
Taxes receivable	$ 3,592	$ 64,292
Proceeds and escrow receivables	4,709	3,731
Refundable deposits	8,288	7,560
Prepaid expenses	4,015	4,649
Miscellaneous receivables	4,629	8,231
Other assets	3,802	3,870
	$ 29,035	$ 92,333

Note 5. Project Specific Financings

Project specific financings of $353.2 million (December 31, 2008 $433.6 million) are revolving in nature, bear interest at floating rates with a weighted average rate of 3.6% as at June 30, 2009 (December 31, 2008 4.0%) 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 at the end of each period.

Project specific financing also includes nil (December 31, 2008 $3.1 million) of mortgage finance loans. During the three months ended June 30, 2009, the Company wound down its mortgage brokerage business and no longer originates and sells mortgages. See Note 13(e) for further discussion.

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 June 30, 2009, the Company was in compliance with all its covenants.

Project specific financings mature as follows: 2009 $99.2 million; 2010 $226.1 million; and 2011 $27.9 million.

Note 6. Revolving and Other Financings

Revolving and other financings of $136.7 million (December 31, 2008 $315.0 million) consist of amounts drawn on two unsecured revolving credit facilities due to subsidiaries of the Company s largest stockholder, Brookfield Asset Management Inc., totaling $114.7 million and a loan with a third party lender of $22.0 million which has been reclassified in the current period from accounts payable and other liabilities to revolving and other financings as a result of loan repayment terms being finalized with the lender. The third party loan matures in December 2009 and bears interest at LIBOR plus 3.5%.

During April 2009, the revolving operating facility was decreased to an amount not to exceed $100.0 million, the maturity was extended to December 2011, the interest rate was increased to LIBOR plus 3.5% per annum and the covenants were amended to maintain a minimum stockholders equity of $300.0 million and a consolidated net debt to book capitalization ratio of no greater than 70%. At June 30, 2009, the Company had $15.0 million of availability on this facility and was in compliance with all its covenants. During the three months and six months ended June 30, 2009, interest of $1.4 million and $4.2 million was incurred related to this facility (2008 $2.1 million and $4.7 million, respectively).

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

The revolving acquisition and operating facility was entered into during the six months ended June 30, 2009, initially bearing interest at 12% per annum and maturing in December 2012. This facility is available for the acquisition of housing and land assets. During April 2009, this facility was increased from an aggregate principal amount not to exceed $25.0 million to an amount not to exceed $30.0 million. At June 30, 2009, $29.7 million had been drawn on this facility. During the three and six months ended June 30, 2009, interest of $0.7 million and $0.9 million, respectively, was incurred related to this facility. During July 2009, this facility was increased to an aggregate principal amount not to exceed $100.0 million and include covenants which require Brookfield Homes Holdings Inc. to maintain a minimum stockholders equity of $300.0 million and a consolidated net debt to book capitalization ratio of no greater than 70%.

Note 7. Accounts Payable and Other Liabilities

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

	June 30, 2009	December 31, 2008
Trade payables and cost to complete accruals	$ 36,593	$ 41,247
Warranty costs (Note 13 (b))	12,771	13,123
Customer deposits	2,502	1,347
Stock-based compensation (Note 12)	5,136	5,328
Loans from other interests in consolidated subsidiaries	13,803	16,469
Accrued and deferred compensation	6,595	15,454
Swap contracts (Note 13 (c) and (d))	16,645	25,809
Several guarantee (Notes 3 and 6)		18,000
Other	7,420	9,543
	$ 101,465	$ 146,320

Note 8. Other Interests in Consolidated Subsidiaries and Noncontrolling Interest

Other interests in consolidated subsidiaries includes ownership interests of certain business unit presidents of the Company totaling $50.7 million (December 31, 2008 $49.8 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 estimated bulk sales value of the business unit net assets.

The following table reflects the changes in the Company s other interests in consolidated subsidiaries for the six months ended June 30, 2009 and 2008:

	June 30, 2009	June 30, 2008
Other interests in consolidated subsidiaries, beginning of period	$ 49,839	$ 52,946
Net loss attributable to other interests in consolidated subsidiaries	(2,478)	(3,306)
Contributions from other interests in consolidated subsidiaries	3,344	12,187
Other interests in consolidated subsidiaries, end of period	$ 50,705	$ 61,827

Noncontrolling interest includes third party investments of consolidated joint ventures of $2.9 million (December 31, 2008 $2.9 million).

In accordance with SFAS 160, on a retrospective basis, noncontrolling interest has been classified as a component of stockholders equity and the net loss on the consolidated statement of operations has been adjusted to include the net loss attributable to noncontrolling interest which for both the three and six months ended June 30, 2009 was nil (2008 nil) and other interests in consolidated subsidiaries which for the three and six months ended June 30, 2009 was $0.6 million and $2.5 million, respectively (2008 $2.0 million and $3.3 million, respectively).

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Note 9. Stockholders Equity

The Company granted rights to its common stockholders of record on April 3, 2009 to subscribe for 10,000,000 shares of 8% convertible preferred stock, par value $0.01 per share at a subscription price of $25 per share. On April 27, 2009, the stockholders of the Company fully subscribed for the 10.0 million shares of convertible preferred stock. The shares of convertible preferred stock are convertible into shares of common stock at a conversion rate of 3.571428571 shares of common stock per share of convertible preferred stock, which is equivalent to a conversion price of $7.00 per share, subject to future adjustment. Dividends on the convertible preferred stock are fully cumulative, without interest, from the date of original issuance of the convertible preferred stock and will be payable semi-annually in arrears, at the Company s election, in cash, shares of common stock or a combination of cash and common stock. The Company s Board of Directors paid a cash dividend of $0.35 per preferred share on June 30, 2009. There were no preferred stock dividends in arrears for the period ended June 30, 2009. The convertible preferred stock is perpetual and does not have a maturity date; however, beginning June 30, 2014, if the 90-day volume weighted average market price of the common stock is greater than $14 per share, the Company may, at its option, require all preferred stock to be automatically converted into common shares.

During the six months ended June 30, 2009, the Company s stockholders approved an amendment to the Company s Amended and Restated Certificate of Incorporation to increase the total number of authorized shares of common stock from 65.0 million shares to 200.0 million shares.

Note 10. Loss Per Share

Basic and diluted loss per share attributable to Brookfield Homes Corporation s common stockholders for the three and six months ended June 30, 2009 and 2008 were calculated as follows (in thousands except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Numerator:				
Net income / (loss) attributable to Brookfield Homes Corporation	$ 187	$ (8,835)	$ (10,122)	$ (21,311)
Less: Preferred stock dividends	(3,500)		(3,500)	
Net loss attributable to common stockholders	$ (3,313)	$ (8,835)	$ (13,622)	$ (21,311)
Denominator:				
Basic average common shares outstanding	26,769	26,663	26,769	26,663
Dilutive effect of stock options assumed to be exercised				
Dilutive effect of preferred shares assumed to be converted				
Diluted average shares outstanding	26,769	26,663	26,769	26,663
Basic loss per share	$ (0.12)	$ (0.33)	$ (0.51)	$ (0.80)
Diluted loss per share	$ (0.12)	$ (0.33)	$ (0.51)	$ (0.80)

For the three and six months ended June 30, 2009 and 2008, options to purchase 2.5 million and 0.9 million common shares, respectively, were outstanding and anti-dilutive and were excluded from the computation of diluted earnings per share. For the three and six months ended June 30, 2009 and 2008, 10.0 million preferred shares convertible into

35.7 million common shares were outstanding and anti-dilutive and were excluded from the computation of diluted earnings per share.

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Note 11. 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:

	June 30, 2009	December 31, 2008
Differences relating to housing and land inventory	$ 40,583	$ 38,761
Compensation deductible for tax purposes when paid	2,581	6,055
Differences relating to derivative instruments	6,311	9,793
Loss carryforwards	16,359	4,829
	$ 65,834	$ 59,438

As at June 30, 2009, the Company had no unrecognized tax asset or liability (December 31, 2008 nil).

In accordance with the provisions of SFAS 109, Accounting for Income Taxes (SFAS 109) the Company assesses, on a quarterly basis, its ability to realize its deferred tax assets. Based on the more likely than not standard in SFAS 109 and the weight of available evidence, the Company does not believe a valuation allowance against its deferred tax assets is necessary. In determining the need for a valuation allowance, the Company considered the following significant factors: an assessment of recent years profitability and losses, adjusted to reflect the effects of changes to the Company s capital structure that have resulted in a significant reduction to the amount of interest-bearing debt; the Company s expectation of profits based on margins and volumes expected to be realized (which are based on current pricing and volume trends) and including the effects of reduced interest expense due to the reduction in the amount of interest-bearing debt; the financial support of the Company s largest stockholder as evidenced by the revolving operating credit facility and the revolving acquisition and operating credit facility; the long period ten years or more in all significant operating jurisdictions before the expiry of net operating losses, noting further that a substantial portion of the deferred tax asset is composed of deductible temporary differences that are not subject to an expiry period until realized under tax law. However, the recognition of deferred tax assets is based upon an estimate of future results and differences between the expected and actual financial performance of the Company could require all or a portion of the deferred tax assets to be expensed. The Company will continue to evaluate the need for a valuation allowance in future periods.

During the three and six months ended June 30, 2009, the Company had not incurred any interest or penalties (2008 nil). The statute of limitations for the Company s major tax jurisdictions remains open for examination for fiscal years 2005 through 2008.

Note 12. Stock Based Compensation

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. In March 2009, the Company s stockholders approved the Brookfield Homes 2009 stock option plan, under which a maximum of three million shares is authorized for issuance. No further awards will be made under the Company s stock option plan that was adopted in November 2002.

During the six months ended June 30, 2009, the Company s existing stock option awards made under the 2002 stock option plan were modified to eliminate the cash feature. As a result, the stock options outstanding at the time of the amendment were reclassified from accounts payable and other liabilities to additional paid-in-capital. The stock options vested at the time of the amendment were reclassified at their fair value of $0.1 million on the date the revised stock option plan became effective. The significant weighted average assumptions relating to the valuation of the

Company s stock options at the time of modification were as follows:

	2009
Dividend yield	0.0%
Volatility rate	74%
Risk-free interest rate	0.0% 2.6%
Expected option life (years)	0 6.5

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The fair value of the Company s stock option awards is estimated at the grant date using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company s stock option awards is expensed over the vesting period of the stock options. Expected volatility is based on historical volatility of the Company s common stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the stock option award granted. The Company uses historical data to estimate stock option exercises and forfeitures within its valuation model. The expected term of stock option awards granted for some participants is derived from historical exercise experience under the Company s share-based payment plan and represents the period of time that stock option awards granted are expected to be outstanding. The expected term of stock options granted for the remaining participants is derived by using the simplified method.

During the three and six months ended June 30, 2009, the Company granted a total of nil and 1,670,000 new stock options respectively, to eligible employees, of which 1,000,000 options were subject to cliff vesting and 670,000 options were subject to graded vesting. The significant weighted average assumptions relating to the valuation of the Company s stock options granted during the six months ended June 30, 2009 subject to cliff vesting are as follows:

	2009
Dividend yield	0.0%
Volatility rate	74%
Risk-free interest rate	2.4%
Expected option life (years)	5.0

The significant weighted average assumptions relating to the valuation of the Company s stock options granted during the six months ended June 30, 2009 subject to graded vesting are as follows:

	2009
Dividend yield	0.0%
Volatility rate	74%
Risk-free interest rate	2.9%
Expected option life (years)	7.5

The total compensation costs recognized in income related to the Company s stock options during both the three and six months ended June 30, 2009 was expense of $0.2 million (2008 income of $1.1 million and $0.5 million, respectively).

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 plans:

	June 30, 2009			
	Exercise Price Range		**Total**	**Total Weighted Average per Share Exercise**
	$1.74 $2.65	**> $12.25**	**Shares**	**Price**
Outstanding, January 1, 2009	46,000	829,000	875,000	$ 30.57

Granted	1,670,000		1,670,000	$	2.65
Exercised					
Cancelled					
Outstanding, June 30, 2009	1,716,000	829,000	2,545,000	$	12.25
Options exercisable at June 30, 2009	46,000	424,200	470,200	$	31.01

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A summary of the status of the Company s unvested options included in equity as of June 30, 2009 and changes during the six months ended June 30, 2009 is as follows:

	June 30, 2009		
	Shares		Weighted Average Fair Value Per Share
Unvested options outstanding, January 1, 2009			
Unvested options reclassified to equity from accounts payable and other liabilities	570,600	$	0.24
Granted	1,670,000	$	1.74
Vested	(165,800)	$	0.18
Exercised			
Cancelled			
Unvested options outstanding, June 30, 2009	2,074,800	$	1.45

At June 30, 2009, the aggregate intrinsic value of options currently exercisable is $0.1 million and the aggregate intrinsic value of options outstanding is $0.1 million.

At June 30, 2009, there was $2.6 million of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 3.8 years.

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 Company may also make additional grants of units to its executives and directors pursuant to the DSUP. As of June 30, 2009, the Company had granted 1,190,151 units under the DSUP, of which 1,058,034 were outstanding at June 30, 2009, and of which 651,659 units are currently vested and 406,375 vest over the next five years.

In addition, the Company has adopted a Senior Operating Management Deferred Share Unit Plan, (MDSUP) under which certain senior operating management employees receive a portion of their annual compensation in the form of deferred share units. As of June 30, 2009, the Company had granted 73,375 units under the MDSUP, all of which were outstanding at June 30, 2009.

The liability of $5.1 million (2008 $5.0 million) relating to the DSUP and MDSUP is included in accounts payable and other liabilities. The financial statement impact relating to the DSUP and MDSUP for the three and six months ended June 30, 2009 was expense of $0.5 million and $0.1 million, respectively (2008 income of $2.7 million and $1.4 million, respectively).

The following table sets out the number of deferred share units that executive officers, directors and senior operating management employees of the Company may redeem under the Company s DSUP and MDSUP:

	June 30, 2009
Outstanding, January 1, 2009	867,257
Granted	264,152
Exercised	
Cancelled	

Outstanding, June 30, 2009	1,131,409
Deferred share units vested at June 30, 2009	725,034

Note 13. Commitments, Contingent Liabilities and Other

(a) 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, results of operations or cash flows of the Company.

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(b) 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 regularly reviews the warranty reserve and makes adjustments to its pre-existing warranties in order to reflect changes in estimates as additional information becomes available. The following table reflects the changes in the Company s warranty liability for the six months ended June 30, 2009 and 2008:

	2009	**2008**
Balance, at beginning of period	$ 13,123	$ 17,844
Payments made during the period	(1,429)	(2,290)
Warranties issued during the period	927	1,460
Adjustments related to pre-existing warranties	150	
Balance, end of period	$ 12,771	$ 17,014

(c) The Company is exposed to financial risk that arises from 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. From time to time, the Company enters into interest rate swap contracts. As at June 30, 2009, the Company had seven interest rate swap contracts outstanding which effectively fixed $260.0 million of the Company s variable rate debt at an average rate of 8.5% per annum. The contracts expire between 2009 and 2017. At June 30, 2009, the fair market value of the contracts was a liability of $16.5 million (December 31, 2008 liability of $25.6 million) and was included in accounts payable and other liabilities. Income of $7.0 million and $9.2 million was recognized during the three and six months ended June 30, 2009, respectively (2008 income of $8.4 million and expense of $0.9 million, respectively) and was included in other income / (expense). All interest rate swaps are recorded at fair market value and are presented in the statement of operations because hedge accounting has not been applied. See Note 14 for additional disclosure.

(d) The Company is exposed to financial risk that arises from fluctuations in its stock price. During July 2008, an equity swap transaction was entered into at an average cost of $12.31 per share on 1,022,987 of the Company s shares which mature during July 2009. During June 2009, the notional amount on the equity swap was subsequently amended to an average cost per share of $4.10. At June 30, 2009, the fair market value of the equity swap was a liability of $0.2 million (December 31, 2008 liability of $0.2 million) and was included in accounts payable and other liabilities. Income of $0.6 million and expense of $0.2 million was recognized during the three and six months ended June 30, 2009, respectively (2008 expense of $4.3 million and $3.2 million, respectively) and was included in selling, general and administrative expense. The equity swap is recorded at fair market value and is presented in the statement of operations because hedge accounting has not been applied. See Note 14 for additional disclosure. During July 2009, the equity swap contract matured and a new equity swap transaction was entered into at an average cost of $3.60 per share on 1,022,987 shares, maturing in August 2009.

(e) In previous quarters, the Company offered mortgage brokerage services to its homebuying customers in each of its markets. The Company had agreements with various lenders to receive a fee on loans made by the lenders to customers that the Company introduced to the lenders. The Company provided mortgage origination services to its customers in the Washington D.C. Area and did not retain or service the mortgages it originates. The Company customarily sold all of the loans and loan servicing rights that it originated in the secondary market within a month of origination and on a limited recourse basis, generally limited to early payment defaults, or fraud and misrepresentation. Effective April 1, 2009, the Company no longer originates and sell mortgages.

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Note 14. Fair Value Measurements

SFAS 157, Fair Value Measurements, (SFAS 157) provides a framework for measuring fair value, expands disclosures about fair value measurements and establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value.

The Company s financial assets are measured at fair value on a recurring basis and are as follows:

		Fair Value Measurements Using Significant Observable Inputs (Level 2)
Interest rate swap contracts at June 30, 2009	$	(16,491)

The fair value measurements for the interest rate swap contracts are determined based on notional amounts, terms to maturity, and the USD LIBOR rates. The LIBOR rates vary depending on the term to maturity and the conditions set out in the underlying swap agreements.

		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Equity swap contract at June 30, 2009	$	(154)

The fair value measurement for the equity swap contract is determined based on the notional amount, stock price, the number of underlying shares and the three month USD LIBOR rate. The Company performed a sensitivity analysis of the estimated fair value and the impact to the consolidated financial statements using alternative reasonable likely assumptions on June 30, 2009 and the impact to the consolidated financial statements was nominal.

The Company s non-financial assets measured at fair value on a nonrecurring basis are those housing and land assets for which the Company has recorded an impairment adjustment or a write-off during the current period. 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. The estimated fair value of housing and land inventory deemed to be impaired by reportable segment during the three months ended June 30, 2009 is as follows:

		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Southland / Los Angeles	$	13,600
Washington, D.C. Area		2,561
Total at June 30, 2009	$	16,161

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 deemed to be impaired during the three months ended June 30, 2009, the Company estimated the cash flow for the life of each project. Specifically, project by project, the Company evaluated the margins on homes that have been closed, margins on sales contracts which are in backlog, estimated margins with regard to future home sales over the life of the projects, as well as estimated margins with respect to future land sales. The Company evaluated and continues to evaluate projects where inventory is turning over slower than expected or whose average sales price and margins are declining and are expected to continue to decline. 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 2009 and 2010 assume recent sales activity and normalized sales rates beyond 2010. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value less estimated selling costs.

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There are several factors that could lead to changes in the estimate of future cash flows for a given project. The most significant of these include the sales pricing levels actually realized by the project, the sales rate, and the costs incurred to construct the homes. The sales pricing levels are often inter-related with sales rates for a project, as a price reduction usually results in an increase in the sales rate. Further, pricing is heavily influenced by the competitive pressures facing a given community from both new homes and existing homes, including foreclosures.

In light of the market conditions, the Company has reviewed all of its projects for impairment in accordance with the provisions of SFAS 144 and SFAS 157. For the three months ended June 30, 2009, housing and land inventory on two projects with a carrying amount of $20.5 million was written down to its fair value of $16.2 million, resulting in an impairment charge of $4.3 million, which was included in impairment and write-off of option deposits (2008 $15.0 million). For the six months ended June 30, 2009, housing and land inventory on three projects with a carrying amount of $32.9 million was written down to its fair value of $24.7 million, resulting in an impairment charge of $8.2 million, which was included in impairment of housing and land inventory and write-off of option deposits (2008 $21.2 million).

Note 15. Segment Information

As defined in SFAS 131, Disclosures About Segments of an Enterprise and Related Information, the Company has five operating segments. The Company has four reportable segments: Northern California, Southland / Los Angeles, San Diego / Riverside, and the Washington D.C. Area.

The Company is a land developer and residential homebuilder. The Company is organized and manages its business based on the geographical areas in which it operates. Each of the Company s segments specialize in lot entitlement and development and the construction of single-family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of other risk factors. Earnings performance is measured using segment operating income. The accounting policies of the segments are the same as those described in Note 1, Significant Accounting Policies.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Northern California	$ 27,645	$ 37,565	$ 36,080	$ 46,768
Southland / Los Angeles	14,938	31,561	26,229	56,287
San Diego / Riverside	16,473	19,375	25,647	32,235
Washington, D.C. Area	25,759	28,545	33,438	51,448
Corporate and Other	10,286	2,714	10,886	2,714
Total Revenues	$ 95,101	$ 119,760	$ 132,280	$ 189,452
Segment Income / (Loss):				
Northern California	$ (1,066)	$ (1,109)	$ 690	$ (2,148)
Southland / Los Angeles	(5,102)	1,215	(6,908)	800
San Diego / Riverside	753	(7,159)	(9,222)	(5,706)
Washington D.C. Area	(37)	(16,281)	(3,323)	(23,983)
Corporate and Other	5,204	7,066	(41)	(6,641)
Loss before Income Taxes	$ (248)	$ (16,268)	$ (18,804)	$ (37,678)

	June 30, 2009	December 31, 2008
Housing and Land Assets: [1)]		
Northern California	$ 231,482	$ 240,469
Southland / Los Angeles	136,890	