

BROOKFIELD HOMES CORP

Form 10-Q

November 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2003
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.)

**12865 Pointe Del Mar
Suite 200
Del Mar, California**
(Address of Principal Executive Offices)

92014
(Zip Code)

(858) 481-8500
(Registrant's Telephone Number, Including Area Code)

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

Yes

No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes

No

As of November 3, 2003, the registrant had outstanding 30,881,048 shares of its common stock, \$0.01 par value per share.

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BROOKFIELD HOMES CORPORATION

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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	September 30, 2003 (Unaudited)	December 31, 2002
Assets			
Housing and land inventory	2	\$ 624,089	\$ 616,425
Investments in housing and land joint ventures	3	84,309	80,959
Receivables and other assets		70,005	74,534
Cash and cash equivalents	4	94,677	35,903
Deferred tax asset		4,254	36,115
		<u>\$ 877,334</u>	<u>\$ 843,936</u>
Liabilities and Equity			
Project specific and other financings		\$ 387,221	\$ 325,492
Accounts payable and other liabilities		110,461	74,634
Subordinated debt due to related party			98,300
Minority interest		28,553	24,772
Preferred stock 10,000,000 shares authorized, no shares issued			
Common stock 65,000,000 shares authorized, 30,881,048 (excluding 1,192,733 shares in treasury with a cost of \$21,695) and 32,073,781 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively		299,043	320,738
Retained earnings		52,056	
		<u>\$ 877,334</u>	<u>\$ 843,936</u>

See accompanying notes to financial statements

BROOKFIELD HOMES CORPORATION

CONSOLIDATED STATEMENTS OF NET INCOME

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

		(Unaudited)			
		Three Months Ended September 30		Nine Months Ended September 30	
	Note	2003	2002	2003	2002
Revenue					
Housing		\$ 232,111	\$ 138,368	\$ 496,897	\$ 494,122
Land and other revenues		54,595	8,491	120,880	24,808
Equity in earnings from housing and land joint ventures		1,888	2,488	14,464	2,488
		<u>288,594</u>	<u>149,347</u>	<u>632,241</u>	<u>521,418</u>
Direct Cost of Sales					
		208,221	113,934	464,885	408,670
		<u>80,373</u>	<u>35,413</u>	<u>167,356</u>	<u>112,748</u>
Selling, general & administrative expense		18,911	11,429	45,465	40,409
Interest expense	2	7,116	6,462	20,139	23,276
Minority interest		7,548	1,478	10,722	4,525
		<u>46,798</u>	<u>16,044</u>	<u>91,030</u>	<u>44,538</u>
Net Income Before Taxes					
Income tax expense		18,720	6,418	36,412	17,816
		<u>28,078</u>	<u>9,626</u>	<u>54,618</u>	<u>26,722</u>
Net Income					
		<u>\$ 28,078</u>	<u>\$ 9,626</u>	<u>\$ 54,618</u>	<u>\$ 26,722</u>
Earnings Per Share Basic					
Earnings Per Share	1	\$ 0.88	\$ 0.30	\$ 1.71	\$ 0.83
		<u>\$ 0.88</u>	<u>\$ 0.30</u>	<u>\$ 1.71</u>	<u>\$ 0.83</u>
Earnings Per Share Diluted					
Earnings Per Share	1	\$ 0.87	\$ 0.30	\$ 1.69	\$ 0.83
		<u>\$ 0.87</u>	<u>\$ 0.30</u>	<u>\$ 1.69</u>	<u>\$ 0.83</u>

See accompanying notes to financial statements

BROOKFIELD HOMES CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(all dollar amounts are in thousands of U.S. dollars)

	(Unaudited)	
	Nine Months Ended September 30,	
	2003	2002
Common Stock		
Opening balance	\$ 320,738	\$ 1
Repurchase of common shares	(21,695)	
Ending balance	299,043	1
Combined Companies Capital		
Opening balance		286,979
Contributions of capital		8,298
Net income		26,722
Ending balance	321,999	321,999
Retained Earnings		
Opening balance		
Net income	54,618	
Dividends	(2,562)	
Ending balance	52,056	
Total stockholders equity	\$ 351,099	\$ 322,000

See accompanying notes to financial statements

BROOKFIELD HOMES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(all dollar amounts are in thousands of U.S. dollars)

	(Unaudited)	
	Nine Months Ended September 30	
	2003	2002
Cash Flows From Operating Activities		
Net income	\$ 54,618	\$ 26,722
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Undistributed income from housing and land joint ventures	(3,871)	(2,488)
Minority interest	10,722	4,525
Provision for deferred income taxes	31,861	17,816
Stock option expense	1,664	948
Changes in operating assets and liabilities:		
Decrease in receivables and other assets	4,529	20,694
Increase in housing and land inventory	(7,664)	(41,107)
Increase in accounts payable and other liabilities	34,163	21,080
Net cash provided by operating activities	126,022	48,190
Cash Flows From Investing Activities		
Net recovery from/(investment in) housing and land joint ventures	521	(15,480)
Net cash provided by/(used in) investing activities	521	(15,480)
Cash Flows From Financing Activities		
Net borrowings under revolving project specific and other financings	61,729	35,327
Net borrowings under revolving subordinated debt		(71,673)
Repayment of subordinated debt	(98,300)	
Net (distributions to)/contributions from minority interest	(6,941)	3,479
Contributions of capital		1,496
Repurchase of common shares	(21,695)	
Dividends paid	(2,562)	
Net cash used in financing activities	(67,769)	(31,371)
Increase in cash and cash equivalents	58,774	1,339
Cash and cash equivalents at beginning of period	35,903	756
Cash and cash equivalents at end of period	\$ 94,677	\$ 2,095
Supplemental Cash Flow Information		
Interest paid	\$ 13,904	\$ 17,321

See accompanying notes to financial statements

BROOKFIELD HOMES CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in \$U.S. thousands 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 Northern Virginia homebuilding and land development operations (the Land and Housing Operations) of Brookfield Properties pursuant to a reorganization of its business (the Spin-off). On January 6, 2003, Brookfield Properties completed the Spin-off by distributing all of the issued and outstanding common stock it owned in the Company to its common stockholders. Brookfield Homes began trading as a separate company on the New York Stock Exchange on January 7, 2003.

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the consolidated accounts of Brookfield Homes and its subsidiaries and investments in unconsolidated joint ventures. The financial statements for the comparative period are presented on a combined basis as if the Land and Housing Operations had been owned by the Company for the prior period presented.

The financial statements have been prepared by management without audit and should be read in conjunction with the December 31, 2002 audited financial statements in the Company's Annual Report on Form 10-K for the year then ended. However, in the opinion of management, all adjustments necessary for fair presentation of the accompanying consolidated condensed financial statements have been made.

The Company historically experienced, and expects to continue to experience, variability in quarterly results. The consolidated statements of net income for the three and nine months ended September 30, 2003 are not necessarily indicative of the results to be expected for the full year. In addition, certain of the comparative figures have been reclassified to conform with the current year's presentation.

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) Earnings Per Share

Earnings per share is computed in accordance with Statement of Financial Accounting Standards (SFAS) No. 128. Earnings per share have been calculated on the weighted average number of common shares of Brookfield Homes for the three and nine month periods ended September 30, 2003 and of Brookfield Properties for the three and nine month periods ended September 30, 2002 divided by a factor of five to reflect the ratio of distribution of the Company's shares to Brookfield Properties' stockholders. The weighted average number of common shares outstanding used in the calculation of basic earnings per share for the three months ended September 30, 2003 and 2002 were 32.0 million and 32.2 million, respectively, and for the nine months ended September 30, 2003 and 2002 were 32.0 million and 32.2 million, respectively. Diluted earnings per share for the same periods were calculated on the basis that for the three months ended September 30, 2003 and 2002 there were 32.4 million and 32.2 million shares outstanding, respectively, and for the nine months ended September 30, 2003 and 2002 there were 32.4 million and 32.2 million shares outstanding, respectively, reflecting the dilutive impact of options issued by the Company.

BROOKFIELD HOMES CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*(Tabular amounts in \$U.S. thousands except per share amounts)***Note 2. Housing and Land Inventory**

Housing and land inventory includes homes completed and under construction, model homes and land under and held for development which will be used in the Company's homebuilding operations or sold as building lots to other homebuilders. The following summarizes the components of housing and land inventory:

	September 30, 2003	December 31, 2002
Housing under construction	\$ 255,611	\$ 200,734
Model homes	23,843	29,015
Land and land under development	344,635	386,676
	<u>\$ 624,089</u>	<u>\$ 616,425</u>

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the three months ended September 30, 2003 and 2002, interest incurred and capitalized by the Company was \$5.1 million and \$4.2 million, respectively. Capitalized interest expensed for the same periods was \$7.1 million and \$6.5 million, respectively. For the nine months ended September 30, 2003 and 2002, interest incurred and capitalized by the Company was \$13.9 million and \$17.3 million, respectively. Capitalized interest expensed for the same periods was \$20.1 million and \$23.3 million, respectively.

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 is as follows:

	September 30, 2003	December 31, 2002
Assets		
Housing and land inventory	\$ 325,386	\$ 327,588
Other assets	44,906	39,738
	<u>\$ 370,292</u>	<u>\$ 367,326</u>
Liabilities and Equity		
Accounts payable and other liabilities	\$ 20,466	\$ 9,623
Project specific financings	188,852	201,574
Investment and advances		
Brookfield Homes	84,309	80,959
Others	76,665	75,170
	<u>\$ 370,292</u>	<u>\$ 367,326</u>

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenue and Expenses				
Revenue	\$57,170			