

BROOKFIELD HOMES CORP

Form 10-Q/A

December 22, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A  
Amendment No. 1**

**Part I** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2006  
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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

As of October 31, 2006, the registrant had outstanding 26,554,506 shares of its common stock, \$0.01 par value per share.

**EXPLANATORY NOTE**

This form 10-Q/A is being filed to provide additional segment reporting footnote disclosure. We have restated the accompanying unaudited Consolidated Financial Statements to revise our segment disclosure for all periods presented to disaggregate our operations into four reportable segments. See our revised disclosures in Note 9 to the unaudited Consolidated Financial Statements. Unless otherwise indicated, no information in this Form 10-Q/A has been updated for any subsequent information or events from the original filing.

Conforming changes have been made to Items 1, 2 and 4 of this Form 10-Q/A. The aforementioned changes have no effect on the Company's unaudited consolidated balance sheets as of September 30, 2006 and December 31, 2005 or unaudited consolidated statements of income and related earnings per share amounts, unaudited consolidated statements of stockholders' equity or unaudited consolidated statements of cash flows for the three and nine months ended September 30, 2006 and 2005.

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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, 2006 <i>(Unaudited)</i>	December 31, 2005
<b>Assets</b>			
Housing and land inventory	2	\$ 1,049,544	\$ 912,617
Investments in housing and land joint ventures	3	103,044	53,260
Consolidated land inventory not owned	2	16,925	22,100
Receivables and other assets	8	36,177	94,081
Cash and cash equivalents		12,421	198,411
Deferred income taxes		44,894	49,417
		\$ 1,263,005	\$ 1,329,886
<b>Liabilities and Equity</b>			
Project specific and other financings	8	\$ 665,718	\$ 691,410
Accounts payable and other liabilities	4	217,615	320,787
Minority interest	2	61,778	53,040
Preferred stock 10,000,000 shares authorized, no shares issued			
Common 65,000,000 shares authorized, 32,073,781 shares issued (December 31, 2005 32,073,781 shares issued)		321	321
Additional paid-in-capital		146,730	146,249
Treasury stock, at cost 5,519,275 shares (December 31, 2005 4,695,600 shares)		(248,606)	(217,182)
Retained earnings		419,449	335,261
		\$ 1,263,005	\$ 1,329,886

*See accompanying notes to financial statements*

**BROOKFIELD HOMES CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

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

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenue		2006	2005	2006	2005
		<i>(Unaudited)</i>			
Housing		\$ 160,025	\$ 253,059	\$ 475,530	\$ 633,566
Land and other revenues		16,159	14,650	76,014	38,728
		176,184	267,709	551,544	672,294
<b>Direct Cost of Sales</b>	2	(125,322)	(186,319)	(375,507)	(466,854)
		50,862	81,390	176,037	205,440
Equity in earnings from housing and land joint ventures	3	11,204	15,658	12,874	25,249
Selling, general and administrative expense		(13,592)	(28,907)	(34,664)	(69,894)
Minority interest		(3,737)	(6,888)	(9,141)	(15,877)
<b>Net Income Before Taxes</b>		44,737	61,253	145,106	144,918
Income tax expense		(17,134)	(23,431)	(55,575)	(55,797)
<b>Net Income</b>		\$ 27,603	\$ 37,822	\$ 89,531	\$ 89,121
<b>Earnings Per Share</b>					
Basic	5	\$ 1.04	\$ 1.22	\$ 3.32	\$ 2.88
Diluted	5	\$ 1.03	\$ 1.20	\$ 3.27	\$ 2.83
<b>Weighted Average Common Shares Outstanding</b> <i>(in thousands)</i>					
Basic	5	26,572	30,931	26,981	30,932
Diluted	5	26,898	31,481	27,368	31,518

*See accompanying notes to financial statements*

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<i>(Unaudited)</i>	
<b>Common Stock</b>	\$ 321	\$ 321
<b>Additional Paid-in Capital</b>		
Opening balance	146,249	142,016
Stock option exercises	481	4,233
Ending balance	146,730	146,249
<b>Treasury Stock</b>		
Opening balance	(217,182)	(22,091)
Share repurchases	(37,922)	(9,521)
Stock option exercises	6,498	3,756
Ending balance	(248,606)	(27,856)
<b>Retained Earnings</b>		
Opening balance	335,261	125,870
Net income	89,531	89,121
Dividends	(5,343)	(4,968)
Ending balance	419,449	210,023
Total stockholders equity	\$ 317,894	\$ 328,737

*See accompanying notes to financial statements*

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<i>(Unaudited)</i>			
<b>Cash Flows From Operating Activities</b>				
Net income	\$ 27,603	\$ 37,822	\$ 89,531	\$ 89,121
Adjustments to reconcile net income to net cash used in operating activities:				
(Undistributed)/distributed income from housing and land joint ventures	(10,977)	1,796	(9,987)	2,034
Minority interest	3,737	6,888	9,141	15,877
Deferred income taxes	898	(703)	4,676	(1,664)
Other changes in operating assets and liabilities:				
Decrease/(increase) in receivables and other assets	5,130	(19,192)	57,904	23,720
Increase in housing and land inventory	(46,852)	(61,469)	(138,478)	(206,359)
(Decrease)/increase in accounts payable and other	1,339	39,519	(79,808)	49,583
Net cash (used in)/provided by operating activities	(19,122)	4,661	(67,021)	(27,688)
<b>Cash Flows From Investing Activities</b>				
Investments in housing and land joint ventures	(30,424)	(19,498)	(49,515)	(29,176)
Recovery from housing and land joint ventures	3,088	456	9,718	29,362
Net cash (used in)/provided by investing activities	(27,336)	(19,042)	(39,797)	186
<b>Cash Flows From Financing Activities</b>				
Net (repayments)/borrowings under revolving project specific and other financings	(15,486)	55,184	(25,692)	78,638
Distributions to minority interest	(510)	(1,200)	(14,627)	(20,982)
Contributions from minority interest	1,359	656	4,248	8,898
Repurchase of common shares	(1,251)	(3,971)	(37,922)	(9,521)
Exercise of stock options			164	244
Dividends paid in cash			(5,343)	(4,968)
Net cash (used in)/provided by financing activities	(15,888)	50,669	(79,172)	52,309
(Decrease)/increase in cash and cash equivalents	(62,346)	36,288	(185,990)	24,807
Cash and cash equivalents at beginning of period	74,767	175,250	198,411	186,731
Cash and cash equivalents at end of period	\$ 12,421	\$ 211,538	\$ 12,421	\$ 211,538



**Supplemental Cash Flow Information**

Interest paid	\$ 15,531	\$ 9,935	\$ 40,628	\$ 26,547
Income taxes paid	\$ 13,375	\$ 20,900	\$ 52,185	\$ 64,895
Non-cash increase/(decrease) in consolidated land inventory not owned	\$ 531	\$ (13,102)	\$ (6,726)	\$ (26,407)

*See accompanying notes to financial statements*

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

**Note 1. Significant Accounting Policies**

*(a) Basis of Presentation*

Brookfield Homes Corporation (the Company or Brookfield Homes ) was incorporated on August 28, 2002 as a wholly-owned subsidiary of Brookfield Properties Corporation ( Brookfield Properties ) to acquire as of October 1, 2002 all of the California and Washington D.C. Area 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.

The 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 of America 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, 2005. In the opinion of management, all adjustments necessary for fair presentation of the accompanying consolidated financial statements have been made.

The Company historically has experienced, and expects to continue to experience, variability in quarterly results. The consolidated statements of income for the three months and nine months ended September 30, 2006 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) Earnings Per Share*

Earnings per share is computed in accordance with Statement of Financial Accounting Standards ( SFAS ) 128. Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding including all dilutive potentially issuable shares under various stock option plans.

*(c) Recent Accounting Pronouncements*

In September 2006, the Securities and Exchange Commission staff (the SEC staff ) issued Staff Accounting Bulletin No. 108 ( SAB 108 ) regarding the process of qualifying financial statement misstatements. SAB 108 expresses the SEC staff s view regarding the diversity in practice in qualifying financial statement misstatements and the potential under current practice for the build-up of improper amounts on the balance sheet. SAB 108 is effective for fiscal years ending after November 15, 2006 (the Company s fiscal year ending December 31, 2006). The Company does not believe that SAB 108 will have a material impact on its consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for fiscal years beginning after November 15, 2007 (the Company s fiscal year beginning January 1, 2008), and interim periods within those fiscal years. The Company is currently reviewing the impact of this Statement on its consolidated financial statements.

In July 2006, FASB issued FASB Interpretation 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes , which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB 109, Accounting for Income Taxes . This Interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on



**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently reviewing the effect of this Interpretation on its consolidated financial statements.

In December 2004, FASB issued SFAS 123(R), *Share-Based Payment*. SFAS 123(R) establishes accounting standards for transactions in which a company exchanges its equity instruments for goods or services. In particular, this Statement requires companies to record compensation expense for all share-based payments, such as employee stock options, at fair market value. This Statement became effective January 1, 2006 for the Company and did not have a material impact on its consolidated financial statements. See Note 6, *Stock-Based Compensation*, for further discussion on share-based payments.

*(d) Variable Interest Entities*

In December 2003, FASB issued revised Interpretation 46 ( *FIN 46R* ), *Consolidation of Variable Interest Entities ( VIEs )*, an Interpretation of Accounting Research Bulletin 51, *Consolidated Financial Statements*, which replaces the previous version of FASB Interpretation 46 issued in January 2003 ( *FIN 46* ). The decision whether to consolidate a VIE begins with establishing that a VIE exists. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investor lacks one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights, the obligation to absorb the expected losses of an entity, and the right to receive the expected residual returns. The entity with the majority of the expected losses or expected residual return is considered to be the primary beneficiary of the entity and is required to consolidate such entity. The Company has determined that it is the primary beneficiary of certain VIEs which are presented in these financial statements under *Consolidated land inventory not owned* with the interest of others included in *Minority interest*. See Notes 2 and 3 for further discussion on the consolidation of land option contracts and joint ventures.

*(e) Reclassification*

Certain prior period amounts in the consolidated financial statements have been reclassified to conform with the September 30, 2006 presentation. In particular, Treasury Stock, Common Stock and Additional Paid-in Capital, which were previously presented in aggregate, have been presented as separate items in the Consolidated Balance Sheet and Consolidated Statement of Stockholders' Equity.

**Note 2. Housing and Land Inventory**

Housing and land inventory includes homes completed, homes under construction, 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:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Housing inventory	\$ 478,205	\$ 441,912
Model homes	33,366	20,837
Land and land under development	537,973	449,868
	<b>\$ 1,049,544</b>	<b>\$ 912,617</b>

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the three months ended September 30, 2006 and 2005 and for the nine months ended September 30, 2006 and 2005, interest incurred and capitalized by the Company was \$15.5 million and \$9.9 million, \$40.6 million and \$26.5 million, respectively. Capitalized interest expensed for the same periods was \$4.5 million, \$6.6 million, \$10.8 million, and \$15.5 million,

respectively.

**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

Capitalized costs are expensed as costs of sales on a specific identification basis or on a relative value basis in proportion to anticipated revenue. Included in direct cost of sales is \$118.2 million and \$343.5 million of costs related to housing revenue for the three and nine months ended September 30, 2006 (September 30, 2005 \$179.7 million and \$447.1 million) and \$7.1 million and \$32.0 million of costs related to land sales and other revenues (September 30, 2005 \$6.6 million and \$19.7 million).

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 of such agreements. Under these option agreements, the Company will fund 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 VIEs, it is the primary beneficiary of options for 568 lots with an aggregate exercise price of \$16.9 million (December 31, 2005 577 lots with an aggregate exercise price of \$22.1 million), which are required to be consolidated. In these cases, the only asset recorded is the Company's exercise price for the option to purchase, with an increase in minority interest of \$11.5 million (December 31, 2005 \$18.3 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 costs totaling \$96.1 million (December 31, 2005 \$58.3 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 \$715.2 million (December 31, 2005 \$720.6 million) including the non-refundable deposits identified above. The number of lots for which the Company has obtained an option to purchase, excluding those already consolidated, and their respective dates of expiry and their exercise price are as follows:

<b>Year of Expiry</b>	<b>Number of Lots</b>	<b>Total Exercise Price</b>
2006	3,105	\$ 116,298
2007	5,351	173,162
2008	543	99,189
Thereafter	7,258	326,594
	16,257	\$ 715,243

The Company holds agreements for a further 3,590 acres of land that may provide upon obtaining entitlements additional lots. However, based on the current 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.

**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:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
<b>Assets</b>		
Housing and land inventory	\$ 505,518	\$ 357,833
Other assets	31,149	64,866

	\$	536,667	\$	422,699
<b>Liabilities and Equity</b>				
Project specific financings	\$	285,812	\$	289,851
Accounts payable and other liabilities		46,254		90,459
Investment and advances				
Brookfield Homes		103,044		53,260
Others		101,557		(10,871)
	\$	536,667	\$	422,699

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
<b>Revenue and Expenses</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenue	\$ 86,326	\$ 160,816	\$ 116,549	\$ 232,912
Expenses	(46,973)	(104,523)	(73,496)	(155,370)
Net income	\$ 39,353	\$ 56,293	\$ 43,053	\$ 77,542
Company's share of net income	\$ 11,204	\$ 15,658	\$ 12,874	\$ 25,249

In reporting the Company's share of net income, all inter-company profits or losses from housing and land joint ventures are eliminated on lots purchased by the Company.

Joint ventures 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 joint venture relationships by applying the provisions of FIN 46R. The Company has determined that for those entities for which this interpretation applies, none of these joint ventures were considered to be a VIE requiring consolidation pursuant to the requirements of FIN 46R. The Company and/or its joint venture partners have provided varying levels of guarantees of debt in its joint ventures. At September 30, 2006, the Company had recourse guarantees of nil (December 31, 2005 \$2.0 million) and limited maintenance guarantees of \$84.7 million (December 31, 2005 \$91.6 million) with respect to debt in its joint ventures. As of September 30, 2006, the fair market value of the recourse guarantees was insignificant.

**Note 4. Accounts Payable and Other Liabilities**

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

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Trade payables and cost to complete accruals	\$ 49,514	\$ 86,137
Warranty costs	18,899	17,743
Customer deposits	8,881	12,307
Stock-based compensation	23,806	44,935
Due to minority interest	22,776	39,478
Accrued and deferred compensation	25,359	47,974
Income tax liabilities	63,968	65,039
Other accrued expenses	4,412	7,174
	<b>\$ 217,615</b>	<b>\$ 320,787</b>

**Note 5. Earnings Per Share**

Basic and diluted earnings per share for the three and nine months ended September 30, 2006 and 2005 were calculated as follows (in thousands except per share amounts):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>



**Numerator:**

Net income	\$ 27,603	\$ 37,822	\$ 89,531	\$ 89,121
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**Denominator:**

Basic average shares outstanding	26,572	30,931	26,981	30,932
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Net effect of stock options assumed to be exercised	326	550	387	586
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Diluted average shares outstanding	26,898	31,481	27,368	31,518
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Basic earnings per share	\$ 1.04	\$ 1.22	\$ 3.32	\$ 2.88
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Diluted earnings per share	\$ 1.03	\$ 1.20	\$ 3.27	\$ 2.83
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**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

Options to purchase of 0.3 million shares of common stock were outstanding and anti-dilutive for the three and nine months ended September 30, 2006 and were excluded from the computation of diluted earnings per share. All options outstanding during the three and nine months ended September 30, 2005 were included in the computation of diluted earnings per share.

**Note 6. Stock Based Compensation**

Pursuant to the Company's stock option plan, Brookfield Homes grants options to purchase shares of the Company's common stock at market price of the shares on the day the options are granted. A maximum of two million shares are authorized for issuance under the plan.

Prior to January 1, 2006, the Company accounted for stock option grants in accordance with APB 25. Accordingly, the Company recorded the intrinsic value of options as a liability using variable plan accounting. Effective January 1, 2006, the Company adopted the provisions of SFAS 123R using the modified-prospective-transition method.

As a result of adopting SFAS 123R, the incremental impact to net income for the three and nine months ended September 30, 2006 was income of \$0.2 million and expense of \$0.3 million, respectively. The impact of adopting SFAS 123R on both basic and diluted earnings per share for the three months and nine months ended September 30, 2006 was additional income of \$0.01 per share and an additional expense of \$0.01 per share, respectively.

Compensation expense related to the Company's stock options during the three and nine months ended September 30, 2006 was income of \$1.4 million and \$4.8 million (2005 expense \$5.7 million and \$13.9 million). If the Company had adopted the provisions of SFAS 123R in 2005, the incremental impact to net income for the three and nine months ended September 30, 2005 would have been income of \$0.1 million and expense of \$0.2 million, respectively. The impact on both basic and diluted earnings per share for the nine months ended September 30, 2005 would have been an additional expense of \$0.01 per share.

The fair value of each of the Company's stock option awards is estimated at each reporting 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, which are subject to graded vesting, is expensed over the vesting period of the stock options. Expected volatility is based on historical volatility of the Company's 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 short cut method.

The significant weighted average assumptions relating to the valuation of the Company's stock options for the three and nine months ended September 30, 2006 were as follows:

	<b>2006</b>
Dividend yield	1.42%
Volatility rate	38%
Risk-free interest rate	4.5% 5.0%
Expected option life (years)	1.0 7.0

**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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 plan:

	<b>Shares</b>		<b>September 30, 2006 Weighted Average per Share Exercise Price</b>
Outstanding, January 1, 2006	678,576	\$	10.52
Granted	140,000	\$	52.00
Exercised	(140,525)	\$	1.17
Cancelled			
Outstanding, September 30, 2006	678,051	\$	21.02
Options exercisable at September 30, 2006	82,801	\$	21.35

The weighted average grant date fair value of options granted during the nine months ended September 30, 2006 was \$15.17 per option compared to \$11.88 per option in the same period in 2005.

The intrinsic value of options exercised during the three and nine months ended September 30, 2006 was nil and \$6.8 million, respectively, compared to nil and \$8.0 million, respectively, for the same periods in 2005. Shares were issued out of treasury stock for options exercised during the year. The aggregate intrinsic value of options currently exercisable is \$0.8 million.

At September 30, 2006, there was \$1.8 million of unrecognized compensation expense related to unvested options, which is expected to be recognized over a weighted average period of approximately 1.5 years.

**Note 7. Share Repurchase Program**

The Company's Board of Directors has approved a share repurchase program that allows the Company to repurchase in aggregate up to \$144 million of the Company's outstanding common shares, of which the remaining amount approved for repurchases at September 30, 2006 was \$48.8 million. During the three and nine months ending September 30, 2006, the Company repurchased 50,000 shares at an average price of \$24.99 and 964,200 shares at an average price of \$39.30, respectively. During the three and nine months ending September 30, 2005, the Company repurchased 80,900 shares at an average price of \$49.06 and 215,500 shares at an average price of \$44.15, respectively.

**Note 8. Commitments, Contingent Liabilities and Other**

(a) The Company, in the normal course of its business, has issued performance bonds and letters of credit pursuant to various facilities which at September 30, 2006 amounted to \$244.9 million (December 31, 2005 \$266.4 million) and \$27.8 million (December 31, 2005 \$21.4 million), respectively. The majority of these commitments have been issued to municipal authorities as part of the obligations of the Company in connection with the land servicing requirements.

(b) 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 or results of operations of the Company.

(c) 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 periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The following table reflects the changes in the Company's warranty liability for the nine months ended September 30, 2006 and 2005:

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

	<b>2006</b>	<b>2005</b>
Balance, January 1	\$ 17,743	\$ 18,202
Payments and other adjustments made during the period	(2,450)	(3,206)
Warranties issued during the period	3,606	3,818
Balance, September 30	\$ 18,899	\$ 18,814

(d) The Company entered into an interest rate swap contract during the third quarter of 2004 which effectively fixes \$60.0 million of the Company's variable rate debt at 5.89% until the contract expires in 2009. At September 30, 2006, the fair market value of the contract was \$1.7 million and is included in Receivables and other assets. During the second quarter of 2005, the Company entered into an additional interest rate swap contract which effectively fixes \$50.0 million of the Company's variable rate debt at 6.54% until the contract expires in 2010. At September 30, 2006, the fair market value of the contract was \$0.7 million and is included in Receivables and other assets. A loss of \$2.0 million and income of \$0.3 million was recognized during the three and nine months ended September 30, 2006 and was included in Land and other revenues (September 30, 2005 \$2.2 million and \$1.3 million). Both interest rate swaps are recorded at fair market value because hedge accounting has not been applied. During October 2006, the Company entered into an interest rate swap contract which effectively fixes \$50.0 million of the Company's variable rate debt at 6.93% until the contract expires in 2011.

(e) During the second quarter, the Company entered into an unsecured revolving credit facility with a financial subsidiary of the Company's largest stockholder, Brookfield Asset Management Inc., in an aggregate principal amount not to exceed \$50.0 million. Included in Project specific and other financings is \$15.0 million related to this facility. The interest rate on this facility is LIBOR plus 2.00%.

(f) During the third quarter, the Company entered into an equity swap transaction maturing in July 2007 at an average cost per share of \$26.72, which effectively fixes the stock compensation liability on 620,000 shares which is included in Accounts payable and other liabilities. At September 30, 2006, the fair market value of the equity swap was \$0.4 million and was included in Accounts receivable and other assets. Income of \$0.4 million was recognized during the three and nine months ended September 30, 2006 and was included in Land and other revenues. The equity swap is recorded at fair market value because hedge accounting has not been applied.

**Note 9. Segment Information (as restated)**

As defined in SFAS 131, *Disclosures About Segments of an Enterprise and Related Information*, we have five operating segments. Historically, the Company has aggregated its operating segments into one reportable segment. Subsequent to the issuance of our consolidated financial statement for the quarter ended September 30, 2006, we have concluded that we should revise our segment disclosure for all periods presented by providing disclosure for each of our four reportable segments: Northern California, Southland / Los Angeles, San Diego / Riverside, and the Washington D.C. Area. The Company's fifth operating segment does not meet the quantitative thresholds for separate disclosure. See below for the accompanying consolidated financial statements that the Company has restated to revise its segment disclosures for all periods presented.

The Company is a residential homebuilder and land developer. 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*.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<i>Revenues</i>				
Northern California	\$ 38,088	\$ 61,090	\$ 73,376	\$ 109,528
Southland / Los Angeles	54,439	40,177	160,751	134,778
San Diego / Riverside	27,410	104,186	122,578	256,464
Washington, D.C. Area	47,157	59,312	165,417	162,457
Corporate and Other	9,090	2,944	29,422	9,067
	\$ 176,184	\$ 267,709	\$ 551,544	\$ 672,294
<i>Segment Operating Income</i>				
Northern California	\$ 18,092	\$ 11,869	\$ 22,229	\$ 20,460
Southland / Los Angeles	7,925	4,482	33,719	22,196
San Diego / Riverside	10,346	46,414	42,113	96,617
Washington D.C. Area	8,400	13,270	35,321	43,365
Corporate and Other <sup>(1)</sup>	3,711	(7,894)	20,865	(21,843)
	\$ 48,474	\$ 68,141	\$ 154,247	\$ 160,795
Minority Interest	(3,737)	(6,888)	(9,141)	(15,877)
Net Income before Taxes	\$ 44,737	\$ 61,253	\$ 145,106	\$ 144,918

<sup>(1)</sup> Includes operating income related to other operations, interest and other income, and corporate general and administrative expenses including stock compensation income and expenses.

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
<i>Housing and Land Assets<sup>(1)</sup></i>		

Northern California	\$	218,974	\$	167,985
Southland / Los Angeles		211,623		185,309
San Diego / Riverside		384,076		293,804
Washington, D.C. Area		298,024		291,380
Corporate and Other		56,816		49,499
	\$	1,169,513	\$	987,977

(1) Consists of housing and land inventory, investments in housing and land joint ventures and consolidated land inventory not owned.

The following tables set forth additional financial information relating to the Company's reportable operating segments:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<i>Equity in Earnings from Housing &amp; Land Joint Ventures</i>				
Northern California	\$ 10,500	\$	\$ 10,500	\$
Southland / Los Angeles		9	(52)	6,335
San Diego / Riverside		12,018		12,018
Washington D.C. Area	704	3,631	2,426	6,896
Corporate and Other				
	\$ 11,204	\$ 15,658	\$ 12,874	\$ 25,249

	<b>September 30,</b>		<b>December 31,</b>	
	<b>2006</b>		<b>2005</b>	
<i>Investments in Housing and Land Joint Ventures</i>				
Northern California	\$	17,017	\$	(14,989)
Southland / Los Angeles		5,544		2,733
San Diego / Riverside		39,988		30,152
Washington, D.C. Area		31,328		30,091
Corporate and Other		9,167		5,273
	\$	103,044	\$	53,260

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This discussion includes forward-looking statements that reflect our current views with respect to future events and financial performance and that involve risks and uncertainties. Our actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of certain factors including risks discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements and Item 1A Risk Factors elsewhere in this report and in our Annual Report on Form 10-K/A for the year ended December 31, 2005.

**Outlook**

After benefiting in 2005 from increases in home prices, in 2006 we continue to experience a slowdown in our housing markets, particularly in the San Diego and Washington D.C. Area. This slowdown is a result of negative homebuyer sentiment and increases in resale inventories. During these challenging times, we continue to proactively manage our assets and entitle our land options.

**Overview**

We design, construct and market single-family and multi-family homes primarily to move-up and luxury homebuyers and develop land for sale to other homebuilders. Our operations are currently focused primarily in five regional markets:

San Francisco Bay Area; Southland / Los Angeles; San Diego / Riverside; Sacramento; and the Washington D.C. Area. Our goal is to maximize the total return on our common stockholders' equity over the long term. We plan to achieve this by actively managing our assets and creating value on the lots we own or control.

We operate in the following geographic regions which are presented as our reportable segments: Northern California (San Francisco Bay Area and Sacramento), Southland / Los Angeles, San Diego / Riverside and Washington D.C. Area. Our other operations that do not meet the quantitative thresholds for separate disclosure are included in Corporate and Other.

The 29,248 lots that we control, 12,423 of which we own directly or through joint ventures, provide a strong foundation for our future homebuilding business and visibility on our future cash flow and earnings. We believe we add value to the lots we control through entitlements, development and the construction of homes. In allocating capital to our operations we generally limit our risk on unentitled land through optioning such land positions in all our markets thereby mitigating our capital at risk. Option contracts for the purchase of land permits us to control lots for an extended period of time. We have controlled our 29,248 lots since the following specified years:

<b>Year</b>	<b>Lots</b>	<b>% of Lots</b>
Pre-2003	9,428	32%
2003	9,176	31%
2004	7,203	25%
2005	2,808	10%
2006	633	2%
	29,248	100%

Homebuilding is our primary source of revenue and has represented approximately 90% of our total revenue since 2001. Our operations are positioned to close between 1,500 and 2,000 homes annually. Operating in markets with higher price points and catering to move-up and luxury buyers, our average sales price for the nine months ended September 30, 2006 of \$697,000 was well in excess of the national average sales price. We also sell serviced and unserviced lots to other homebuilders, generally on an opportunistic basis where we can redeploy capital to an asset providing higher returns or reduce risk in a market. We are continuing our program of bulk lot sales and we have closed 592 lots year-to-date in net income from this program of \$20 million, or \$0.73 per share.

In addition to our housing and land inventory and investments in housing and land joint ventures, which together comprised 93% of our total assets as of September 30, 2006, we had \$12 million in cash and cash equivalents and \$81 million in other assets. Other assets consist of homebuyer receivables of \$13 million, deferred income taxes of



\$45 million, and mortgages and other receivables of \$23 million. Homebuyer receivables consist primarily of proceeds due from homebuyers on the closing of homes.

Since 2001, our revenues and net income have grown at compounded annual growth rates of 12% and 53%, respectively. Over the same period, we generated approximately \$500 million in operating cash flow that was used mainly to return cash to shareholders. At the same time, we believe we have positioned our business to create further shareholder value through the selective optioning or acquisition of a significant number of large projects and the level of lots controlled.

**Critical Accounting Policies and Estimates**

There have been no significant changes to our critical accounting policies and estimates during the three and nine months ended September 30, 2006 compared to those disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K/A for the year ended December 31, 2005.

**Results of Operations*****Selected Financial Information***

<i>(\$ millions)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2006</b>	<b>2005</b>	<b>September 30, 2006</b>	<b>2005</b>
Revenue:				
Housing	\$ 160	\$ 253	\$ 475	\$ 634
Land and other revenues	16	14	76	38
Total revenues	176	267	551	672
Direct cost of sales	(125)	(186)	(375)	(467)
Gross margin	51	81	176	205
Equity in earnings from housing and land joint ventures	11	16	13	25
Selling, general and administrative expense	(14)	(28)	(35)	(69)
Operating income	48	69	154	161
Minority interest	(3)	(7)	(9)	(16)
Net income before taxes	45	62	145	145
Income tax expense	(17)	(24)	(55)	(56)
Net income	\$ 28	\$ 38	\$ 90	\$ 89

***Segment Information***

Housing revenue (\$ millions):				
Northern California	\$ 29	\$ 61	\$ 64	\$ 110
Southland / Los Angeles	54	40	132	133
San Diego / Riverside	24	96	100	248
Washington D.C. Area	44	56	154	142
Corporate and Other	9		25	1
Total	\$ 160	\$ 253	\$ 475	\$ 634
Land and Other revenues (\$ millions):				
Northern California	\$ 9	\$	\$ 9	\$
Southland / Los Angeles	1	1	29	2
San Diego / Riverside	3	8	22	8
Washington D.C. Area	3	2	11	20
Corporate and Other		3	5	8
Total	\$ 16	\$ 14	\$ 76	\$ 38

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Gross Margin (\$ millions):

Northern California	\$ 10	\$ 15	\$ 18	\$ 27
Southland / Los Angeles	12	9	45	27
San Diego / Riverside	13	38	51	94
Washington D.C. Area	12	14	48	50
Corporate and Other	4	5	14	7
Total	\$ 51	\$ 81	\$ 176	\$ 205

Home closings (units):

Northern California	29	59	59	118
Southland / Los Angeles	71	61	168	136
San Diego / Riverside	43	153	162	418
Washington D.C. Area	72	92	258	268
Corporate and Other	13		35	2
Total	228	365	682	942

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Average selling price:				
Northern California	\$ 999,000	\$ 1,032,000	\$ 1,089,000	\$ 928,000
Southland / Los Angeles	760,000	651,000	787,000	977,000
San Diego / Riverside	555,000	629,000	618,000	594,000
Washington D.C. Area	607,000	611,000	597,000	530,000
Corporate and Other	731,000		709,000	586,000
Average	\$ 702,000	\$ 693,000	\$ 697,000	\$ 673,000
Net new orders (units): <sup>(1)</sup>				
Northern California	36	26	81	143
Southland / Los Angeles	84	55	268	180
San Diego / Riverside	77	59	171	401
Washington D.C. Area	48	106	193	511
Corporate and Other	16		30	30
Total	261	246	743	1,265
Backlog (units at end of period): <sup>(2)</sup>				
Northern California	34	79		
Southland / Los Angeles	205	128		
San Diego / Riverside	91	264		
Washington D.C. Area	131	438		
Corporate and other	55	30		
Total	516	939		
Lots controlled (units at end of period):				
Lots owned:				
San Francisco Bay Area	1,290	1,592		
Southland / Los Angeles	946	457		
San Diego / Riverside	6,603	6,338		
Washington D.C. Area	3,433	4,151		
Corporate and Other	151	254		
	12,423	12,792		
Lots under option	16,825	17,217		
Total	29,248	30,009		

(1) Net new orders for any period represent the aggregate of all

homes ordered  
by customers,  
net of  
cancellations,  
excluding joint  
ventures.

- (2) Backlog  
represents the  
number of new  
homes subject  
to pending sales  
contracts,  
excluding joint  
ventures.

**Three Months and Nine Months Ended September 30, 2006 Compared with Three Months and Nine Months Ended September 30, 2005**

*Net Income*

Net income was \$28 million and \$90 million for the three and nine months ended September 30, 2006, compared with \$38 million and \$89 million for the same periods in 2005. The decrease in net income for the three months ended September 30, 2006 was primarily attributable to a lower contribution from housing operations, offset by income from stock compensation accruals which is included in selling, general and administrative expense.

*Results of Operations*

Company-wide: Housing revenues were \$160 million and \$475 million for the three and nine months ended September 30, 2006, a decrease of \$93 million and \$159 million over the three and nine months ended September 30, 2005, respectively. The decrease in housing revenue for the three and nine months ended September 30, 2006 was due primarily to a decrease in home closings.

The gross margin on housing revenues for the three months ended September 30, 2006 was \$42 million or 26.1% compared with \$73 million or 29.0% for the same period in 2005. The gross margin on housing revenues for the nine months ended September 30, 2006, was \$132 million or 27.8% compared with \$186 million or 29.4% for the same period in 2005. The decrease in the gross margin percentage is due to a lower percentage of home closings in San Diego and the Washington D.C. Area where our housing margins are currently higher as we are building on land that we entitled and developed and greater use of sales incentives as a result of the more challenging market conditions in 2006.

Northern California: Housing revenues were \$29 million and \$64 million for the three and nine months ended September 30, 2006, a decrease of \$32 million and \$46 million over the three and nine months ended September 30, 2005. The decrease in housing revenue for the three months ended September 30, 2006 was due to a decrease in home closings and a decrease in our average selling price. The gross margin on housing revenues for the three months ended September 30, 2006 was \$4 million or 13% compared with \$15 million or 24% for the same period in 2005. The decrease in gross margin percentage is due to a higher use of incentives as a result of more challenging market conditions in 2006 and product mix. The gross margin on housing revenues for the nine months ended September 30, 2006 was \$12 million or 20% compared with \$27 million or 25% for the same period in 2005.

Southland / Los Angeles: Housing revenues were \$54 million and \$132 million for the three and nine months ended September 30, 2006, an increase of \$14 million and a decrease of \$1 million over the three and nine months ended September 30, 2005. The increase in housing revenues for the three months ended September 30, 2006 was due to an increase in home closings and an increase in our average selling price. The gross margin on housing revenues for the three months ended September 30, 2006 was \$11 million or 21% compared with \$8 million or 21% for the same period in 2005. The gross margin on housing revenues for the nine months ended September 30, 2006 was \$28 million or 21% compared with \$25 million or 19% for the same period in 2005.

San Diego / Riverside: Housing revenues were \$24 million and \$100 million for the three and nine months ended September 30, 2006, a decrease of \$72 million and \$148 million over the three and nine months ended September 30, 2005. The decrease in housing revenues for the three months ended September 30, 2006 was due to a decrease in home closings and a decrease in our average selling price. The gross margin on housing revenue for the three months ended September 30, 2006 was \$11 million or 45% compared with \$35 million or 37% for the same period in 2005. The increase in gross margin percentage is due to product mix and partially offset by higher incentives as a result of more challenging market conditions in 2006 and product mix. The gross margin on housing revenues for the nine months ended September 30, 2006 was \$37 million or 36% compared with \$91 million or 36% for the same period in 2005.

Washington D.C. Area: Housing revenues were \$44 million and \$154 million for the three and nine months ended September 30, 2006, a decrease of \$12 million and increase of \$12 million over the three and nine months ended September 30, 2005. The decrease in housing revenues for the three months ended September 30, 2006 was due to a decrease in home closings and a decrease in our average selling price. The gross margin on housing revenues for the three months ended September 30, 2006 was \$12 million or 27% compared with \$17 million or 31% for the same period in 2005. The gross margin on housing revenues for the nine months ended September 30, 2006 was \$47 million or 30% compared with \$44 million or 31% for the same period in 2005.

Company-wide: Land and other revenues totaled \$16 million for the three months ended September 30, 2006, an increase of \$2 million over the three months ended September 30, 2005. For the nine months ended September 30, 2006, land and other revenues were \$76 million, an increase of \$38 million over the same period in 2005. The increase in land and other revenues for the nine months ended September 30, 2006 was primarily due to an increase in the number of lots sold. Our land revenues may vary significantly from period to period due to the timing and the nature of land sales, as they generally occur on an opportunistic basis.

The gross margin on land and other revenues for the three and nine months ended September 30, 2006 was \$9 million and \$44 million compared with \$8 million and \$19 million for the same periods in 2005. The increase for the nine months is due to the increase in number of lots sold.

Northern California: Land and other revenues totaled \$9 million for the three and nine months ended September 30, 2006, compared to nil for the same period in 2005. The increase is due to a bulk land sale which contributed \$6 million to our gross margin.

Southland / Los Angeles: Land and other revenues totaled \$29 million for the nine months ended September 30, 2006, an increase of \$27 million over the nine months ended September 30, 2005. The increase is primarily due to a bulk land sale which contributed \$15 million to our gross margin during the nine months ended September 30, 2006.

San Diego / Riverside: Land and other revenues totaled \$3 million and \$22 million for the three and nine months ended September 30, 2006, a decrease of \$5 million and an increase of \$14 million over the three and nine months ended September 30, 2005. The increase in land and other revenues for the nine months ended September 30, 2006

was due to bulk land sales which contributed \$13 million to our gross margin.

Washington D.C. Area: Land and other revenues totaled \$3 million and \$11 million for the three and nine months ended September 30, 2006, an increase of \$1 million and a decrease of \$9 million over the three and nine months ended September 30, 2005. The decrease in land and other revenues for the nine months ended September 30, 2006 was primarily due to a decrease in lots sold.

Equity in earnings from housing and land joint ventures for the three months ended September 30, 2006 was \$11 million, a decrease of \$5 million, over the three months ended September 30, 2005. For the nine months ended September 30, 2006, equity in earnings from housing and land joint ventures was \$13 million, a decrease of \$12 million over the same period in 2005. The decrease in earnings was primarily attributable to a decrease in land sales in 2006.

#### *Other Expenses*

Selling, general and administrative expense was \$14 million and \$28 million for the three months ended September 30, 2006 and 2005 and \$35 million and \$69 million for the nine months ended September 30, 2006 and 2005. These expenses normally vary with the level of housing revenues, however for the three months and nine months ended September 30, 2006, selling, general and administrative expense decreased significantly as it includes stock compensation income of \$4 million and \$14 million, respectively, as a result of a reduction in our share price during 2006 compared to an expense for stock compensation of \$11 million and \$25 million, respectively, for the same periods in 2005.

#### *Sales Activity*

Net new orders for the quarter ended September 30, 2006 totaled 261 units, an increase of 15 units or 6% compared to the same period in 2005. The increase in net new orders is primarily due to an increase in active selling communities in Southern California, partially offset by a decrease in sales in the Washington, D.C. Area.

### **Liquidity and Capital Resources**

#### *Financial Position*

Our total assets as of September 30, 2006 were \$1,263 million, a decrease of \$67 million compared to December 31, 2005. The decrease is due primarily to decreases in cash and cash equivalents and in receivables and other assets, partially offset by an increase in housing and land inventory.

Our total debt as of September 30, 2006 was \$666 million, a decrease of \$25 million compared to December 31, 2005. Total debt as of September 30, 2006 consisted mainly of project specific financings, which represent construction and development loans that are repaid from home and lot sales proceeds. As new homes are constructed, further loan facilities are arranged on a rolling basis. Our major project specific lenders are Bank of America, Housing Capital Corporation, Wells Fargo Bank and Union Bank of California. Other debt comprises deferred compensation on which interest is paid at prime, loans outstanding relating to mortgages we originated that are repaid when the underlying mortgages are sold to permanent lenders, project specific financings related to our other operations and a promissory note due to a subsidiary of our largest stockholder, Brookfield Asset Management Inc. As of September 30, 2006, the average interest rate on our debt was 8.0%, with maturities as follows:

(\$ millions)	Maturities				Total
	2006	2007	2008	Post 2008	
Northern California	\$ 7	\$ 40	\$ 47	\$	\$ 94
Southland / Los Angeles		62	55		117
San Diego / Riverside	58	89	92		239
Washington D.C. Area	63	48	27		138
Other	1	52	18	7	78
Total	\$ 129	\$ 291	\$ 239	\$ 7	\$ 666

#### *Cash Flow*

Our principal uses of working capital include purchases of land, land development and home construction. Cash flows for each of our communities depend upon the applicable stage of the development cycle and can differ substantially from reported earnings. Early stages of development require significant cash outlays for land acquisitions, site approvals and entitlements, construction of model homes, roads, certain utilities and other amenities and general landscaping. Because these costs are capitalized, income reported for financial statement purposes during such early



stages may significantly exceed cash flow. Later, cash flow can significantly exceed earnings reported for financial statement purposes, as cost of sales includes charges for substantial amounts of previously expended costs. A summary of lots owned and their stage of development at September 30, 2006 compared with the same period last year follows:

	<b>2006</b>	<b>2005</b>
Housing units and model homes	1,079	1,743
Lots ready for house construction	978	845
Graded lots and lots commenced grading	2,823	1,597
Undeveloped land	7,543	8,607
	12,423	12,792

Cash used in our operating activities during the nine months ended September 30, 2006 was \$67 million compared with cash used of \$28 million for the same period in 2005. The increase in cash used is primarily a result of a reduction in accounts payable and other, partially offset by a reduction in other assets and a lower investment in housing and land inventory.

Cash used in our investing activities in joint ventures for the nine months ended September 30, 2006 was \$40 million, compared with cash provided of nil for the same period in 2005. The increase in cash used is primarily due to capital contributions to joint ventures undergoing development activities and additionally a decrease in land sales in our joint ventures.

Cash used by our financing activities for nine months ended September 30, 2006 was \$79 million compared with cash provided of \$52 million for the same period in 2005. The increase in cash used is primarily due to an increase in share repurchases and repayment of debt.

#### **Contractual Obligations and Other Commitments**

Our contractual obligations and other commitments have not changed materially from those reported in Management's Discussion and Analysis of Financial Conditions and Results of Operations in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005.

We generally fund the development of our communities through the use of project specific financings. As of September 30, 2006, we had available project specific debt lines of \$283 million that were available to complete land development and construction activities.

A total of \$420 million of our project specific and other financings mature prior to the end of 2007. The high level of maturities in 2006 and 2007 is due to our expected project completions over this period. Although the level of our short term maturing debt is high, we expect to generate sufficient cash flow from our assets in 2006 and 2007 to repay these obligations. Our net debt to total capitalization ratio as of September 30, 2006, which is defined as total interest-bearing debt, less cash, divided by total interest-bearing debt less cash plus stockholders' equity and minority interest, was 63% compared to 61% at December 31, 2005. For a description of the specific risks facing us if, for any reason, we are unable to meet these obligations, refer to the section of our Annual Report on Form 10-K/A for the year ended December 31, 2005 entitled "Risk Factors - Our Debt and Leverage Could Adversely Affect our Financial Condition."

Our project specific financings require Brookfield Homes Holdings Inc., a wholly-owned subsidiary of our Company, to maintain a tangible net worth of between \$200 million and \$250 million, a net debt to capitalization ratio of no greater than 65% and a net debt to tangible net worth ratio of no greater than 2.50 to 1. As of September 30, 2006, we have the capacity to fully draw our available project specific debt lines of \$283 million.

During the third quarter of 2004, we entered into an interest rate swap contract that effectively fixes \$60 million of our variable rate debt at 5.89% per year until the contract expires in 2009. During the second quarter of 2005, we entered into an additional interest rate swap contract that effectively fixes \$50 million of our variable rate debt at 6.54% per year until the contract expires in 2010. At September 30, 2006, the fair market value of these contracts was \$2 million. During October 2006, we entered into an interest rate swap contract which effectively fixes \$50 million of our variable rate debt at 6.93% per year until the contract expires in 2011.

During the third quarter of 2006, we entered into an equity swap transaction maturing in July 2007 at an average cost per share of \$26.72, which effectively fixes our stock compensation liability on 620,000 shares. At September 30, 2006, the fair market value of this contract was \$0.4 million.



### **Off-Balance Sheet Arrangements**

In the ordinary course of business, we use lot option contracts and joint ventures to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control lots for an extended period of time, until options expire and/or we are ready to sell the land or construct homes. This reduces our financial risk associated with land holdings. As of September 30, 2006, we had \$102 million of primarily non-refundable option deposits and advanced costs. The total exercise price of these options is \$732 million. Pursuant to FIN 46R, as defined in Note 1 to our consolidated financial statements included elsewhere in this Form 10-Q/A, we have consolidated \$17 million of these option contracts. Please see Note 2 to our consolidated financial statements included elsewhere in this Form 10-Q/A for additional information on our lot options.

We also control 4,145 lots through joint ventures. As of September 30, 2006, our investment in housing and land joint ventures was \$103 million. We have provided varying levels of guarantees of debt in our joint ventures. As of September 30, 2006, we did not have any recourse guarantees and we had limited maintenance guarantees of \$85 million with respect to debt in our joint ventures.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of September 30, 2006, we had for these purposes \$28 million in letters of credit outstanding and \$245 million in performance bonds. The costs to complete related to our letters of credit and performance bonds are \$23 million and \$98 million, respectively. We do not believe that any of these letters of credit or bonds are likely to be drawn upon.

### **Forward-Looking Statements**

This quarterly report on Form 10-Q/A contains forward-looking statements within the meaning of the United States federal securities laws. The words may, believe, will, anticipate, expect, estimate, project, future, and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. The forward-looking statements in this quarterly report on Form 10-Q/A include, among others, statements with respect to:

- expected home closings and project completions and the timing thereof;

- targeted lot sales and the proceeds thereof;

- expected lot supply;

- estimates of revenues and cash flows;

- the visibility on our future cash flow and earnings;

- sources of future growth;

- the effect of interest rate changes on our cash flows;

- the effect on our business of existing lawsuits; and

- whether or not our letters of credit or performance bonds will be drawn upon.

Undue reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from the anticipated future results expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forward in the forward-looking statements include, but are not limited to:

- changes in general economic, real estate and other conditions;

mortgage rate changes;

availability of suitable undeveloped land at acceptable prices;

adverse legislation or regulation;

ability to obtain necessary permits and approvals for the development of our land;

availability of labor or materials or increases in their costs;

ability to develop and market our master-planned communities successfully;

confidence levels of consumers;

ability to raise capital on favorable terms;

adverse weather conditions and natural disasters;

relations with the residents of our communities;

risks associated with increased insurance costs or unavailability of adequate coverage;

ability to obtain surety bonds;

competitive conditions in the homebuilding industry, including product and pricing pressures; and

additional risks and uncertainties, many of which are beyond our control, referred to in our Form 10-K/A for the year ended December 31, 2005 and our other SEC filings.

We undertake no obligation to publicly update any forward-looking statements unless required by law, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Exchange Rates**

We conduct business in U.S. dollars only, so we are not exposed to currency risks.

#### **Interest Rates**

We are exposed to financial risks that arise from the fluctuations in interest rates. Our interest bearing assets and liabilities are mainly at floating rates, so we would be negatively affected, on balance, if interest rates increase. In addition, we have an interest rate swap contract which effectively fixes \$60 million of our variable rate debt at 5.89% and an interest rate swap contract which effectively fixes \$50 million of our variable interest rate debt at 6.54%. During October 2006, we entered into an interest rate swap contract which effectively fixes \$50 million of our variable rate debt at 6.93%. Based on our net debt levels as of September 30, 2006, a 1% change up or down in interest rates would have either a negative or positive effect of approximately \$5 million on our cash flows.

### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* As of the end of our fiscal quarter ended September 30, 2006, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the United States Securities Exchange Act of 1934 (the Exchange Act)) was carried out under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based upon that evaluation, the CEO and CFO have concluded that as of the end of such fiscal quarter, our disclosure controls and procedures are effective: (i) to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

As described in Note 9 to the unaudited Consolidated Financial Statements, we have restated our Note 9 to the unaudited Consolidated Financial Statements to disaggregate our operations into four reportable segments. Our management, including our CEO and CFO, has re-evaluated our disclosure controls and procedures as of the end of the period covered by this report to determine whether the restatement changes their prior conclusion, and have determined that it does not change their conclusion that at September 30, 2006, our disclosure controls and procedures were effective. The restatement represents a change in judgment under current practice as to the application of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information. The treatment of our homebuilding business as a single, national, reportable segment was in accordance with the practice followed by substantially all the large, geographically diverse homebuilders that file reports with the SEC. The change in the way we report segment information did not result in any change to the Company's unaudited consolidated balance sheets, unaudited consolidated statements of income, unaudited consolidated statements of stockholders' equity and unaudited consolidated statements of cash flows for any of the periods presented.

It should be noted that while our management, including the CEO and CFO, believe our disclosure controls and procedures provide a reasonable level of assurance that such controls and procedures are effective, they do not expect that our disclosure controls and procedures or internal controls will prevent all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There was no change in our internal control over financial reporting during the quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are party to various legal actions arising in the ordinary course of our business. We believe that none of these actions, either individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

**Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Our Board of Directors approved a share repurchase program that allows us to repurchase in aggregate up to \$144 million of our outstanding common shares, of which the remaining amount approved for repurchases at September 30, 2006 was \$49 million. Since the initial approval of the program in February 2003, the following annual share repurchases have been made under the program: 2003 1,192,749 shares at an average price of \$18.19; 2004 76,400 shares at an average price of \$25.39; 2005 707,500 shares at an average price of \$47.81. In addition, during the first nine months of 2006 we repurchased 964,200 shares at an average price of \$39.30. Separately, during the fourth quarter of 2005 we repurchased 3,000,000 of our shares through a fixed price tender offer at a purchase price of \$55.00 per share.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate
				Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
July 1, 2006 July 31, 2006		\$		\$ 50,000,000
August 1, 2006 August 31, 2006	50,000	\$ 24.99	50,000	\$ 48,750,330
September 1, 2006 September 30, 2006		\$		\$ 48,750,330
Total	50,000	\$ 24.99	50,000	\$ 48,750,330

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits.

31.1 Rule 13a 14(a) certification by Ian G. Cockwell, President and Chief Executive Officer.

31.2 Rule 13a 14(a) certification by Paul G. Kerrigan, Executive Vice President and Chief Financial Officer.

32.1 Section 1350 certification of the Chief Executive Officer and Chief Financial Officer.





**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 22<sup>nd</sup> day of December, 2006.

**BROOKFIELD HOMES  
CORPORATION**

By: /s/ PAUL G. KERRIGAN  
Paul G. Kerrigan  
Executive Vice President and Chief  
Financial Officer

**EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>
31.1	Rule 13a 14(a) certification by Ian G. Cockwell, President and Chief Executive Officer.
31.2	Rule 13a 14(a) certification by Paul G. Kerrigan, Executive Vice President and Chief Financial Officer.
32.1	Section 1350 certification of the Chief Executive Officer and Chief Financial Officer.