

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
		288,594	149,347	632,241	521,418
Direct Cost of Sales					
		208,221	113,934	464,885	408,670
		80,373	35,413	167,356	112,748
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
Net Income Before Taxes					
		46,798	16,044	91,030	44,538
Income tax expense		18,720	6,418	36,412	17,816
Net Income					
		\$ 28,078	\$ 9,626	\$ 54,618	\$ 26,722
Earnings Per Share Basic					
	1	\$ 0.88	\$ 0.30	\$ 1.71	\$ 0.83
Earnings Per Share Diluted					
	1	\$ 0.87	\$ 0.30	\$ 1.69	\$ 0.83

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
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	\$ 53,951	\$ 161,721	\$ 53,951
Expenses	47,694	44,713	124,108	44,713
Net income	\$ 9,476	\$ 9,238	\$ 37,613	\$ 9,238
Company's share of net income	\$ 1,888	\$ 2,488	\$ 14,464	\$ 2,488

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.

BROOKFIELD HOMES CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Tabular amounts in \$U.S. thousands 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 September 30, 2003, the Company had recourse guarantees of \$56.7 million and limited maintenance guarantees of \$35.8 million with respect to debt in its joint ventures.

Note 4. Other

- (a) When selling a home, it is normal course for the Company to provide customers with standard product one year limited warranties. The following summarizes the product warranties accrual recorded as part of accounts payable and other liabilities in the Consolidated Balance Sheet as at September 30:

	2003
Balance, at beginning of period	\$ 10,209
Payments made during the period	(3,492)
Warranties issued during the period	4,070
	<hr/>
Balance, at end of period	\$ 10,787

- (b) The Company had demand deposits of \$100 million at September 30, 2003 (December 31, 2002 \$35.0 million) with a financial subsidiary of the Company's largest stockholder.

Note 5. New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FIN No. 46, Consolidation of Variable Interest Entities . FIN No. 46 provides accounting guidance for consolidation of off-balance sheet entities with certain characteristics (variable interest entities). The consolidation requirements apply immediately to variable interest entities (VIEs) created after January 31, 2003 and no later than the beginning of the first interim or annual reporting period beginning after December 15, 2003 for VIEs created prior to February 1, 2003. The Company has performed an assessment of the impact of adopting the requirements of FIN No. 46 for the Company's subsidiaries and joint ventures created after January 31, 2003 and has determined that there are no additional disclosure requirements required. The Company is in the process of evaluating the remainder of its investments and other interests in entities that may be deemed variable interest entities under the provisions of FIN No. 46. The Company cannot make any definitive conclusion until it completes its evaluation in the fourth fiscal quarter.

In April 2003, the FASB issued SFAS No. 149, Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133). In particular, it: clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative; clarifies when a derivative contains a financing component; amends the definition of an underlying; and amends certain other existing pronouncements. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 by the Company has not had a material impact on the results of operations or financial conditions.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements . The remaining provisions of this Statement are consistent with the proposal to revise that definition to encompass certain obligations that a reporting

entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 by the Company has not had a material impact on the results of operations or financial condition.

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 elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2002.

Results of Operations

<i>Selected Financial Information (\$ millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenue:				
Housing	\$ 232	\$ 138	\$ 497	\$ 494
Land and other revenues	54	9	121	25
Equity in earnings from housing and land joint ventures	2	2	14	2
Total revenues	288	149	632	521
Cost of sales	208	114	465	409
Gross margin	80	35	167	112
Selling, general and administrative expense	19	11	45	40
Interest expense	7	6	20	23
Operating income	54	18	102	49
Minority interest	7	2	11	4
Net income before taxes	47	16	91	45
Income tax expense	19	6	36	18
Net income	\$ 28	\$ 10	\$ 55	\$ 27

<i>Selected Operating Data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Home closings (units):				
San Francisco Bay Area	79	56	179	155
Southland / Los Angeles	77	51	181	380
San Diego / Riverside	164	70	297	195
Northern Virginia	140	97	286	264
Consolidated total	460	274	943	994
Average selling price:				
San Francisco Bay Area	\$ 723,000	\$ 570,000	\$ 654,000	\$ 594,000
Southland / Los Angeles	848,000	727,000	917,000	590,000
San Diego / Riverside	293,000	357,000	294,000	349,000
Northern Virginia	440,000	457,000	443,000	417,000
Average	\$ 505,000	\$ 505,000	\$ 527,000	\$ 497,000
Net new orders (units):⁽¹⁾				
San Francisco Bay Area	81	67	269	252
Southland / Los Angeles	108	101	267	408
San Diego / Riverside	69	93	400	284

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Northern Virginia	133	107	456	422
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	391	368	1,392	1,366
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Backlog (units at end of period): ⁽²⁾				
San Francisco Bay Area	136	132		
Southland / Los Angeles	209	238		
San Diego / Riverside	222	172		
Northern Virginia	349	271		
	<u> </u>	<u> </u>		
Total	916	813		
	<u> </u>	<u> </u>		

(1) Net new orders for any period represent the aggregate of all homes ordered by customers, net of cancellations for consolidated projects.

(2) Backlog represents the number of new homes subject to pending sales contracts for consolidated projects.

Three and Nine Months Ended September 30, 2003 Compared with the Three and Nine Months Ended September 30, 2002

Net Income

Net income was \$28 million and \$55 million for the three and nine months ended September 30, 2003, an increase of \$18 million and \$28 million, respectively, over the three and nine months ended September 30, 2002. Our increase in earnings for the three and nine months ended September 30, 2003 was primarily due to the sale of lots in southern California, which contributed net income for the periods of \$11 million and \$25 million, respectively and higher home closings during the third quarter of 2003.

Revenues

Housing revenue was \$232 million and \$497 million for the three and nine months ended September 30, 2003, an increase of \$94 million and \$3 million, respectively, from the comparable periods in 2002. The increase in housing revenue during the three months ended September 30, 2003 was primarily due to 186 more home closings during this period than in the comparable period in 2002.

Our average selling price was \$505,000 and \$527,000 for the three and nine months ended September 30, 2003, compared to \$505,000 and \$497,000, respectively, for the same periods in 2002. The increase in average selling prices during the nine months ended September 2003 was due to product mix and price appreciation in the markets in which we operate. The average selling price in our Southland / Los Angeles operation increased to \$917,000 for the nine months ended September 30, 2003, an increase of \$327,000 over the same period in 2002. The increase during the period is primarily due to product mix as over 45% of the closings in 2003 were in Newport Coast where average selling prices are higher.

Land and other revenues totaled \$54 million and \$121 million for the three and nine months ended September 30, 2003, an increase of \$45 million and \$96 million, respectively, over the same periods in 2002. The increase resulted primarily from the bulk sale of 395 and 2,995 lots in the three and nine months ended September 30, 2003 in southern California for net cash proceeds of \$52 million and \$104 million, respectively. 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.

Equity in Earnings from Housing and Land Joint Ventures

Equity in earnings from housing and land joint ventures for the three and nine months ended September 30, 2003 was \$2 million and \$14 million, respectively, compared with \$2 million for the same periods in 2002. Income contributed during the three months ended September 30, 2003 was primarily from our housing operations at the Fullerton joint venture in the Southland / Los Angeles area.

Gross Margin

Gross margin for the three months ended September 30, 2003 increased to \$80 million, an increase of \$45 million or 127% over the same period in 2002. Gross margin for the nine months ended September 30, 2003 increased to \$167 million, an increase of \$55 million or 48% over the same period in 2002. The gross margin percentage on housing revenue was 22.9% and 21.4% for the three and nine months ended September 30, 2003 compared to 22.2% and 21.2%, respectively, for the same periods in 2002. The components of gross margin are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Housing	53	31	106	105
Land and other revenues	25	2	47	5
Equity in earnings from housing and land joint ventures	2	2	14	2
	80	35	167	112

Other Expenses

Selling, general and administrative expenses as a percentage of housing revenue were 8% and 9% for the three and nine months ended September 30, 2003 compared to 8% for the same periods in 2002. Our selling, general and administrative expenses as a percentage of annual housing revenue are targeted to be 7.5%, but the percentage will fluctuate between periods depending on the number of homes closed in any particular period.

Interest expense as a percentage of total revenue was 3% for the three and nine months ended September 30, 2003, consistent with the same periods in 2002. Given that we capitalize interest costs to our projects, our level of interest expense may vary from period to period due to the mix of the projects that have home closings. Interest expense as a percentage of revenue is targeted between 4% and 5%, but we expect these targeted percentages to decrease in the future as our debt levels have decreased in the last two years.

Sales Activity

Net new orders increased by 23 units for the three months ended September 30, 2003 compared to the same period in 2002. Strong market conditions contributed to sales increases, however sales in the San Diego / Riverside area were down during the quarter as a result of fewer homes available for sale. Sales backlog at September 30, 2003 includes 309 units for closings in 2004 or 18% of our planned 1,750 home closings for 2004.

Liquidity and Capital Resources*Financial Position*

Our total assets as of September 30, 2003 were \$877 million, \$33 million or 4% higher than December 31, 2002 as a result of higher cash balances offset by a lower deferred tax asset.

Our total debt as of September 30, 2003 was \$387 million, a decrease of \$37 million from December 31, 2002. Total debt as of September 30, 2003 consisted mainly of project specific financings. Project specific financings 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 lenders on a project specific basis are Bank of America, Housing Capital Corporation and Wells Fargo. Other debt comprises deferred compensation on which interest is paid at prime. As of September 30, 2003, the average interest rate on our debt was 4.4% with maturity as follows:

(\$ millions)	Maturities					Total
	2003	2004	2005	2006	Post 2006	
San Francisco Bay Area	\$ 29	\$ 51	\$	\$	\$	\$ 80
Southland / Los Angeles	12	51	1			64
San Diego / Riverside	36	109	1			146
Northern Virginia	16	9	5	30		60
Other	6	6	6	4	15	37
Total	\$ 99	\$ 226	\$ 13	\$ 34	\$ 15	\$ 387

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.

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Cash provided by our operating activities totaled \$126 million during the nine months ended September 30, 2003 compared with cash provided of \$48 million for the same period in 2002. The increase in our cash generated in the first nine months of 2003 was due primarily to the sale of lots in southern California offset by significant expenditures on the construction of our homes in backlog.

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Cash provided by our investing activities for the nine months ended September 30, 2003 was \$1 million, compared with cash used of \$15 million for the same period in 2002.

Cash used in our financing activities for the nine months ended September 30, 2003 was \$68 million compared with cash used of \$31 million in 2002. Cash used in our financing activities through the first nine months of 2003 was primarily the result of the repayment of subordinated debt of \$98 million and the repurchase of 1,192,733 common shares, offset by borrowings of \$62 million on construction and other loans.

Contractual Obligations and Other Commitments

We generally fund the development of our communities through the use of project specific financing. As of September 30, 2003, we had project specific debt lines of \$143 million that were available to complete land development and construction activities.

A total of \$325 million of our project specific and other financings mature prior to the end of 2004. The high level of maturities in 2003 and 2004 is due to our expected project completions over this period. Although the level of our maturing debt is high, we expect to generate cash flow from our assets in 2003 and 2004 to repay these obligations. Our net debt to total capitalization ratio as of September 30, 2003, 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 44%. It is our goal to continue to reduce this ratio by the end of 2003. 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 2002 Annual Report on Form 10-K entitled "Risk Factors - Our Debt and Leverage Could Adversely Affect our Financial Condition."

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, 2003, we had for these purposes \$21 million in letters of credit outstanding and \$258 million in performance bonds. We do not believe that any of these letters of credit or bonds are likely to be drawn upon.

Stock Repurchase Program

In February 2003, our board of directors approved a share repurchase program which allows us to repurchase up to \$40 million of our outstanding common shares. As of September 30, 2003, we had repurchased 100,000 of our shares at an average cost of \$14.79. Separately, during the third quarter of 2003, we repurchased 1,092,733 of our shares through a Dutch auction tender offer at a purchase price of \$18.50 per share.

Forward-Looking Statements

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

expected home closings and project completions;

estimates of revenues, cash flows, debt levels and debt to capitalization ratio;

the effect of interest rate changes;

targeted selling, general and administrative expenses as a percentage of annual housing revenue;

targeted interest expense as a percentage of revenue;

the effect on our business of existing lawsuits; and

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

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 and ability to obtain surety bonds;

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

additional risks and uncertainties referred to in our Form 10-K for the year ended December 31, 2002 and our other SEC filings, many of which are beyond our control.

We undertake no obligation to publicly update any forward-looking statements, 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. Based on our debt levels as of September 30, 2003, a 1% change up or down in interest rates would have either a positive or negative effect of approximately \$4 million on our cash flows.

Item 4. Controls and Procedures

- (a) *Evaluation of Disclosure Controls and Procedures.* As of the end of our fiscal quarter ended September 30, 2003, an evaluation of the effectiveness of our disclosure controls and procedures (as such term is 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 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 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 Securities and Exchange Commission rules and forms.

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, they do not expect that our disclosure controls and procedures or internal controls will prevent all error and

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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.

- (b) *Changes in Internal Control over Financial Reporting.* There was no change in our internal control over financial reporting during the quarter ended September 30, 2003, 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 2. Changes in Securities and Use of Proceeds

None.

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 and Reports on Form 8-K

(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, Chief Financial Officer and Treasurer.

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

(b) Reports on Form 8-K:

During the quarter ended September 30, 2003, we filed the following Current Reports on Form 8-K:

- (1) On July 7, 2003, we filed a Current Report on Form 8-K for the purpose of filing a press release announcing our net new orders and active selling communities for the quarterly periods ended June 30, 2003 and 2002.
- (2) On August 15, 2003, we filed a Current Report on Form 8-K for the purpose of filing a press release announcing our earnings and results of operations for the quarterly periods ended June 30, 2003 and 2002.

EXHIBIT INDEX

Exhibit	Description
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, Chief Financial Officer and Treasurer.
32.1	Section 1350 certification of the Chief Executive Officer and Chief Financial Officer.