
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2001

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-12822

BEAZER HOMES USA, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

58-2086934
(I.R.S. Employer Identification no.)

5775 Peachtree Dunwoody Road, Suite B-200,
Atlanta, Georgia
(Address of principal executive offices)

30342
(Zip Code)

(404) 250-3420
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes No

| <u>Class</u> | <u>Outstanding at May 9, 2001</u> |
|--------------------------------|-----------------------------------|
| Common Stock, \$0.01 par value | 8,559,721 shares |

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BEAZER HOMES USA, INC.
FORM 10-Q

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Part I. Financial Information

BEAZER HOMES USA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

| | March 31, 2001 | September 30, 2000 |
|---|-------------------|-----------------------|
| | (unaudited) | |
| ASSETS | | |
| Cash and cash equivalents | \$ — | \$ — |
| Accounts receivable | 23,673 | 23,087 |
| Inventory | 719,254 | 629,663 |
| Property, plant and equipment, net | 12,053 | 12,206 |
| Goodwill, net | 6,849 | 7,250 |
| Other assets | 25,003 | 26,673 |
| | <u>786,832</u> | <u>698,879</u> |
| Total assets | \$ 786,832 | \$ 698,879 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Trade accounts payable | \$ 49,047 | \$ 72,212 |
| Other payables and accrued liabilities | 93,075 | 101,129 |
| Revolving credit facility | 41,795 | 40,000 |
| Other notes payable | 326 | — |
| Term loan | 85,000 | — |
| Senior notes | 215,000 | 215,000 |
| | <u>484,243</u> | <u>428,341</u> |
| Total liabilities | 484,243 | 428,341 |
| Stockholders' equity: | | |
| Preferred stock (par value \$.01 per share, 5,000,000 shares authorized, no shares issued) | — | — |
| Common stock (par value \$.01 per share, 30,000,000 shares authorized, 12,330,725 and 12,275,851 issued, 8,531,721 and 8,483,824 outstanding) | 123 | 123 |
| Paid in capital | 196,290 | 195,134 |
| Retained earnings | 172,933 | 141,094 |
| Unearned restricted stock | (3,950) | (4,609) |
| Treasury stock (3,799,004, and 3,792,027 shares) | (61,510) | (61,204) |
| Accumulated other comprehensive loss | (1,297) | — |
| | <u>302,589</u> | <u>270,538</u> |
| Total stockholders' equity | 302,589 | 270,538 |
| | <u>\$ 786,832</u> | <u>\$ 698,879</u> |
| Total liabilities and stockholders' equity | \$ 786,832 | \$ 698,879 |

See Notes to Condensed Consolidated Financial Statements

BEAZER HOMES USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|------------|-------------------------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| Total revenue | \$ 374,297 | \$ 332,961 | \$ 739,347 | \$ 641,706 |
| Costs and expenses: | | | | |
| Home construction and land sales | 296,729 | 275,723 | 591,693 | 531,471 |
| Interest | 7,066 | 6,072 | 14,064 | 11,595 |
| Selling, general and administrative | 41,428 | 36,187 | 81,524 | 70,460 |
| Operating income | 29,074 | 14,979 | 52,066 | 28,180 |
| Other income (expense) | (375) | (510) | 129 | (1,388) |
| Income before income taxes | 28,699 | 14,469 | 52,195 | 26,792 |
| Provision for income taxes | 11,192 | 5,643 | 20,356 | 10,449 |
| Net income | \$ 17,507 | \$ 8,826 | \$ 31,839 | \$ 16,343 |
| Weighted average number of shares (in thousands): | | | | |
| Basic | 8,151 | 8,308 | 8,126 | 8,403 |
| Diluted | 9,132 | 8,619 | 9,038 | 8,710 |
| Net income per common share: | | | | |
| Basic | \$ 2.15 | \$ 1.06 | \$ 3.92 | \$ 1.94 |
| Diluted | \$ 1.92 | \$ 1.02 | \$ 3.52 | \$ 1.88 |

See Notes to Condensed Consolidated Financial Statements

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BEAZER HOMES USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

| | Six Months Ended March 31, | |
|---|-------------------------------|-----------|
| | 2001 | 2000 |
| Cash flows from operating activities: | | |
| Net income | \$ 31,839 | \$ 16,343 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Depreciation and amortization | 4,128 | 3,493 |
| Changes in operating assets and liabilities: | | |
| Increase in inventory | (89,591) | (79,045) |
| (Decrease) increase in trade accounts payable | (10,140) | 9,539 |
| Other changes | (6,679) | (18,384) |
| Net cash used by operating activities | (70,443) | (68,054) |
| Cash flows from investing activities: | | |
| Capital expenditures | (2,842) | (2,296) |
| Net cash used by investing activities | (2,842) | (2,296) |
| Cash flows from financing activities: | | |
| Proceeds from term loan | 85,000 | — |
| Change in revolving credit facility and other debt | 2,121 | 95,000 |
| Changes in book overdraft | (13,025) | (8,876) |
| Common share repurchases | (306) | (9,221) |
| Debt issuance costs | (505) | (248) |
| Net cash provided by financing activities | 73,285 | 76,655 |

| | | |
|--|------|----------|
| Increase in cash and cash equivalents | — | 6,305 |
| Cash and cash equivalents at beginning of period | — | — |
| Cash and cash equivalents at end of period | \$ — | \$ 6,305 |

See Notes to Condensed Consolidated Financial Statements

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BEAZER HOMES USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME
(in thousands)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|----------|-------------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| Net income | \$ 17,507 | \$ 8,826 | \$ 31,839 | \$ 16,343 |
| Other Comprehensive Income/(Loss): | | | | |
| Loss on cash flow hedges, net of related taxes | (1,225) | — | (1,297) | — |
| Comprehensive income | \$ 16,282 | \$ 8,826 | \$ 30,542 | \$ 16,343 |

See Notes to Condensed Consolidated Financial Statements

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BEAZER HOMES USA, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Beazer Homes USA, Inc. ("Beazer") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all adjustments (consisting solely of normal recurring accruals) necessary for a fair presentation have been included in the accompanying condensed financial statements. Certain items in prior period financial statements have been reclassified to conform to the current presentation. For further information, refer to our audited consolidated financial statements incorporated by reference in our Annual Report on Form 10-K for the year ended September 30, 2000.

(2) Derivative Instruments and Hedging Activities

Effective October 1, 2000 we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities by requiring that all derivatives be recognized in the balance sheet and measured at fair value. Gains or losses resulting from changes in the fair value of derivatives are recognized in earnings or recorded in other comprehensive income, and recognized in the income statement when the hedged item affects earnings, depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment.

Our policy is to designate at inception that derivatives hedge risks associated with specific assets, liabilities, or future commitments and to monitor the derivatives to determine if they remain effective hedges. The effectiveness of a derivative as a hedge is based on high correlation between changes in its value and changes in the value of the underlying hedged item. We recognize gains or losses for amounts received or paid when the underlying transaction settles. We enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates with respect to our \$85 million term loan maturing in December 2004. We do not enter into or hold derivatives for trading or speculative purposes.

On an ongoing basis, we will adjust the balance sheet to reflect the current fair market value of our hedge contracts. The related gains or losses on these contracts are deferred in stockholders' equity as a component of comprehensive income. However, to the extent that the change in the value of the interest rate swap does not perfectly offset the change in the value of the fixed rate debt being hedged, that ineffective portion of the hedge is immediately recognized in income. There was no ineffectiveness associated with these hedges for the three and six month periods ended March 31, 2001.

During the six months ended March 31, 2001 we entered into interest rate swap agreements (the "Swap Agreements") to effectively fix the variable interest rate on our \$85 million four-year term loan (Note 6). The Swap Agreements mature on December 20, 2004, the same day as our \$85 million term loan. The Swap Agreements have been designated as cash flow hedges and accordingly, are reflected at fair value in our consolidated balance sheet and the related losses are deferred in stockholders' equity as a component of comprehensive income. Amounts to be received or paid as a result of the Swap Agreements are accrued and recognized as adjustments to interest related to the designated debt. The net effect of this accounting on our operating results is that interest on the portion of variable-rate

debt being hedged is generally recorded based on fixed interest rates. The effect of the Swap Agreements as of March 31, 2001 was to record an after-tax other comprehensive loss of \$1.3 million.

(3) Inventory

A summary of inventory is as follows (in thousands):

| | March 31, 2001 | September 30, 2000 |
|---|-------------------|-----------------------|
| Homes under construction | \$ 341,653 | \$ 290,277 |
| Development projects in progress | 317,965 | 283,563 |
| Unimproved land held for future development | 16,155 | 12,325 |
| Model homes | 43,481 | 43,498 |
| | <u>\$ 719,254</u> | <u>\$ 629,663</u> |

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 221 completed homes (\$35.7 million) and 296 completed homes (\$41.8 million) at March 31, 2001 and September 30, 2000, respectively, that were not subject to a sales contract, excluding model homes.

Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a deposit or sales contract.

(4) Interest

The following table sets forth certain information regarding interest:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|-----------|-------------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| During the period: | | | | |
| Interest incurred | \$ 8,619 | \$ 7,659 | \$ 16,272 | \$ 14,290 |
| Previously capitalized interest amortized to costs and expenses | \$ 7,066 | \$ 6,072 | \$ 14,064 | \$ 11,595 |
| At the end of the period: | | | | |
| Capitalized interest in ending inventory | \$ 15,889 | \$ 13,183 | \$ 15,889 | \$ 13,183 |

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(5) Earnings Per Share

Basic and diluted earnings per share were calculated as follows (in thousands, except per share amounts):

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|----------------|-------------------------------|----------------|
| | 2001 | 2000 | 2001 | 2000 |
| Basic: | | | | |
| Net income | \$ 17,507 | \$ 8,826 | \$ 31,839 | \$ 16,343 |
| Weighted average number of common shares outstanding | 8,151 | 8,308 | 8,126 | 8,403 |
| Basic earnings per share | <u>\$ 2.15</u> | <u>\$ 1.06</u> | <u>\$ 3.92</u> | <u>\$ 1.94</u> |
| Diluted: | | | | |
| Net income | \$ 17,507 | \$ 8,826 | \$ 31,839 | \$ 16,343 |
| Weighted average number of common shares outstanding | 8,151 | 8,308 | 8,126 | 8,403 |
| Effect of dilutive securities— | | | | |
| Restricted stock | 490 | 262 | 478 | 262 |
| Options to acquire common stock | 491 | 49 | 434 | 45 |
| Diluted weighted common shares outstanding | <u>9,132</u> | <u>8,619</u> | <u>9,038</u> | <u>8,710</u> |
| Diluted earnings per share | <u>\$ 1.92</u> | <u>\$ 1.02</u> | <u>\$ 3.52</u> | <u>\$ 1.88</u> |

(6) Long Term Debt

In December 2000 we entered into a \$75 million four-year term loan with a group of banks (the "Term Loan"); in March 2001 the Term Loan was increased to \$85 million. The Term Loan matures in December 2004 and bears interest at a fluctuating rate based on LIBOR or the lead bank's corporate base rate of interest. The Term Loan contains various operating and financial covenants. Each of our significant subsidiaries is a guarantor under the Term Loan. All proceeds from the Term Loan were used to pay down then outstanding borrowings under our \$250 million revolving credit facility.

As discussed in Note 2, we entered into Swap Agreements to manage interest costs and hedge against risks associated with fluctuating interest rates related to the Term Loan.

All of our significant subsidiaries are full and unconditional guarantors of the Senior Notes and are jointly and severally liable for obligations under the Senior Notes. Separate financial statements and other disclosures concerning each of the significant subsidiaries are not included, as the aggregate assets, liabilities, earnings and equity of the subsidiaries equal such consolidated amounts and separate subsidiary financial statements are not considered material to investors. The total assets, revenues and operating profit of the non-guarantor subsidiaries are in the aggregate immaterial on a consolidated basis.

BEAZER HOMES USA, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW:

Homebuilding: We design, build and sell single-family homes in the following regions and states:

| Southeast | Southwest | Central | Mid-Atlantic |
|----------------|------------|---------|--------------|
| Florida | Arizona | Texas | Maryland |
| Georgia | California | | New Jersey |
| North Carolina | Nevada | | Pennsylvania |
| South Carolina | | | Virginia |
| Tennessee | | | |

We intend, subject to market conditions, to expand in our current markets and to consider entering new markets either through expansion from existing markets or through acquisitions of established regional homebuilders. We seek to be one of the five largest builders in each of the markets that we serve.

Most of our homes are designed to appeal to entry-level and first time move-up homebuyers, and are generally offered for sale in advance of their construction. Once a sales contract has been signed, we classify the transaction as a "new order." Such sales contracts are usually subject to certain contingencies such as the buyer's ability to qualify for financing. Homes covered by these sales contracts are considered "backlog." We do not recognize revenue on homes in backlog until the sales are closed and the risk of ownership has been transferred to the buyer.

Ancillary Businesses: We have established several businesses to support our core homebuilding operations. We operate design centers in the majority of our markets. Through design centers, homebuyers can choose non-structural upgrades and options for their new home. We also provide mortgage origination services for our homebuyers through Beazer Mortgage Corp. Beazer Mortgage originates, processes and sells mortgages to third party investors. Beazer Mortgage does not retain or service the mortgages that it originates. We also provide title services and homeowners' and other insurance in many of our markets. We will continue to evaluate opportunities to provide other ancillary services to our homebuyers.

Value Created: We evaluate our financial performance using *Value Created*, a variation of economic profit or economic value added. *Value Created* measures the extent to which we exceed our cost of capital. Most of our employees receive incentive compensation based upon a combination of *Value Created* and the change in *Value Created*. We believe that our *Value Created* system encourages managers to act like owners, rewards profitable growth and focuses attention on long-term loyalty and performance.

The following presents certain operating and financial data for Beazer (dollars in thousands):

| | Three Months Ended March 31, | | Six Months Ended March 31, | | |
|--|---------------------------------|-------------|-------------------------------|--------|--------|
| | 2001 | 2000 | 2001 | 2000 | |
| | Amount | % Change | Amount | Amount | Amount |
| Number of new orders, net of cancellations: | | | | | |
| Southeast region | 1,271 | 28.4% | 990 | 1,908 | 1,527 |
| Southwest region | 1,035 | 5.5 | 981 | 1,739 | 1,601 |
| Central region | 305 | 52.5 | 200 | 449 | 288 |
| Mid-Atlantic region | 417 | 13.3 | 368 | 730 | 628 |

| | | | | | | |
|---|------------|--------|------------|----------|--------|------------|
| Total | 3,028 | 19.3 | 2,539 | 4,826 | 19.3 | 4,044 |
| Number of closings: | | | | | | |
| Southeast region | 705 | 6.2% | 664 | 1,280 | 5.3% | 1,215 |
| Southwest region | 751 | 6.4 | 706 | 1,517 | 9.1 | 1,391 |
| Central region | 148 | 14.7 | 129 | 308 | 22.7 | 251 |
| Mid-Atlantic region | 270 | 8.0 | 250 | 611 | 21.5 | 503 |
| Total | 1,874 | 7.1 | 1,749 | 3,716 | 10.6 | 3,360 |
| Total homebuilding revenue: | | | | | | |
| Southeast region | \$ 120,920 | 12.3% | \$ 107,690 | 225,597 | 11.2% | \$ 202,943 |
| Southwest region | 150,731 | 8.2 | 139,325 | 304,274 | 11.8 | 272,222 |
| Central region | 22,644 | (8.9) | 24,849 | 47,082 | 0.3 | 46,945 |
| Mid-Atlantic region | 64,762 | 20.5 | 53,748 | 143,223 | 33.7 | 107,086 |
| Total | \$ 359,057 | 10.3 | \$ 325,612 | 720,176 | 14.5 | \$ 629,196 |
| Average sales price per home closed: | | | | | | |
| Southeast region | \$ 171.5 | 5.7% | \$ 162.2 | \$ 176.2 | 5.5% | \$ 167.0 |
| Southwest region | 200.7 | 1.7 | 197.3 | 200.6 | 2.5 | 195.7 |
| Central region | 153.0 | (20.6) | 192.6 | 152.9 | (18.2) | 187.0 |
| Mid-Atlantic region | 239.9 | 11.6 | 215.0 | 234.4 | 10.1 | 212.9 |
| Consolidated | 191.6 | 2.9 | 186.2 | 193.8 | 3.5 | 187.3 |

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| | March 31, | | |
|--|------------|----------|------------|
| | 2001 | | 2000 |
| | Amount | % Change | Amount |
| Backlog units at end of period: | | | |
| Southeast region | 1,503 | 14.6% | 1,311 |
| Southwest region | 1,371 | 37.7 | 996 |
| Central region | 400 | 64.6 | 243 |
| Mid-Atlantic region | 765 | 10.5 | 692 |
| Total | 4,039 | 24.6 | 3,242 |
| Aggregate sales value of homes in backlog at end of period: | \$ 802,212 | 26.3% | \$ 635,328 |
| Number of active subdivisions at end of period: | | | |
| Southeast region | 127 | 11.4% | 114 |
| Southwest region | 68 | 0.0 | 68 |
| Central region | 30 | 20.0 | 25 |
| Mid-Atlantic region | 39 | (7.1) | 42 |
| Total | 264 | 6.0 | 249 |

New Orders and Backlog: New orders increased by 19% during both the three and six month periods ended March 31, 2001, with only a 6% increase in the number of active subdivisions at March 31, 2001. The increase reflects order strength in all four of our regions. We believe that the increase in new orders in our markets benefited from the reduction of mortgage interest rates and three other significant factors. These factors are strong population growth fueling demand in the first-time buyer segment, gains in market share by large, public homebuilders and the benefits of the internet, which increasing numbers of homebuyers are actively using in their home purchase process. Demand was especially strong in our Central region where we have increased our presence in the first-time buyer segment. As a result of our increased focus on the first-time buyer segment in the Central region, we have brought down the average price per home closed from \$192,600 for the three months ended March 31, 2000 to \$153,000 for the three months ended March 31, 2001 and from \$187,000 for the six months ended March 31, 2000 to \$152,900 for the six months ended March 31, 2001.

The aggregate dollar value of homes in backlog at March 31, 2001 increased 26% from March 31, 2000, reflecting a 25% increase in the number of homes in backlog and a 1% increase in the average price of homes in backlog, from \$196,000 at March 31, 2000 to \$198,600 at March 31, 2001.

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The following table provides additional details of revenues and certain expenses and shows certain items expressed as a percentage of certain components of revenues (dollars in thousands):

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|------------|-------------------------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| Details of revenues and certain expenses: | | | | |
| Revenues: | | | | |
| Home sales | \$ 359,057 | \$ 325,612 | \$ 720,176 | \$ 629,196 |
| Land and lot sales | 11,618 | 5,151 | 11,948 | 8,456 |
| Mortgage origination revenue | 5,458 | 3,627 | 10,778 | 6,734 |
| Intercompany elimination—mortgage | (1,836) | (1,429) | (3,555) | (2,680) |
| Total revenue | \$ 374,297 | \$ 332,961 | \$ 739,347 | \$ 641,706 |
| Cost of home construction and land sales: | | | | |
| Home sales | \$ 290,039 | \$ 273,336 | \$ 586,459 | \$ 526,074 |
| Land and lot sales | 8,526 | 3,816 | 8,789 | 8,077 |
| Intercompany elimination—mortgage | (1,836) | (1,429) | (3,555) | (2,680) |
| Total cost of home construction and land sales | \$ 296,729 | \$ 275,723 | \$ 591,693 | \$ 531,471 |
| Selling, general and administrative: | | | | |
| Homebuilding operations | \$ 38,329 | \$ 33,767 | \$ 75,446 | \$ 66,175 |
| Mortgage origination operations | 3,099 | 2,420 | 6,078 | 4,285 |
| Total selling, general and administrative | \$ 41,428 | \$ 36,187 | \$ 81,524 | \$ 70,460 |
| Certain items as a percentage of revenues: | | | | |
| As a percentage of total revenue: | | | | |
| Costs of home construction and land sales | 79.3% | 82.8% | 80.0% | 82.8% |
| Amortization of perviously capitalized interest | 1.9% | 1.8% | 1.9% | 1.8% |
| Selling, general and administrative | | | | |
| Homebuilding operations | 10.2% | 10.1% | 10.2% | 10.3% |
| Mortgage operations | 0.8% | 0.7% | 0.8% | 0.7% |
| As a percentage of home sales revenue: | | | | |
| Costs of home construction | 80.8% | 83.9% | 81.4% | 83.6% |

Revenues: Revenues increased by 12% for the three months ended March 31, 2001 compared to the same period in the prior year, reflecting a 3% increase in the average sales price of homes closed and a 7% increase in the number of homes closed. During the March quarter, we recorded land sales of \$11.6 million, recognizing a profit of \$3.1 million. Revenues increased 15% for the six months ended March 31, 2001 compared to the same period in prior year, reflecting a 3% increase in the average sales price of homes closed and an 11% increase in the number of homes closed. During the six months ended March 31, 2001, we recorded land sales of \$11.9 million, recognizing a profit of \$3.2 million. We also experienced an increase in mortgage origination revenue for both the three and six month periods ended March 31, 2001, compared to the same periods of the prior year.

Cost of Home Construction: The cost of home construction as a percentage of home sales decreased for both the three and six month periods ended March 31, 2001, compared to the same periods of the prior year, as a result of our ability to both increase prices in most of our markets and the reduced costs for some raw materials. In addition, the increase in our sales of options and upgrades has

contributed to the improvement in gross profit margin. Such options and upgrades generally have gross margins approximately double that of our base homes.

Selling, General and Administrative Expense: Our selling, general and administrative ("SG&A") expense increased slightly as a percentage of total revenues for the three and six months ended March 31, 2001, compared to the same periods of the prior year.

Mortgage Origination Operations: Revenues increased for Beazer Mortgage during the three and six months ended March 31, 2001, compared to the same periods of the prior year, primarily as a result of the increase in homebuilding revenues.

Investment in Unconsolidated Joint Venture: We have a non-controlling 49% interest in Premier Communities, a joint venture with Corporacion GEO S.A. de C.V., a Mexican homebuilder, to build affordable housing in the United States. The joint venture has experienced losses since its inception in 1997 and is now in the process of winding down. During the third quarter of fiscal 2000 we recognized charges to write-off four remaining, impaired investment in the joint venture and to record our expected obligation to fund certain of the letters of credit we have issued to guarantee our share of the outstanding indebtedness of the joint venture. Other expense includes our share of the joint venture's operating losses of \$0.5 million and \$1.8 million, respectively, for the three and six months ended March 31, 2000. At March 31, 2001 we had \$0.4 million accrued for the winding down of the joint venture. We currently do not expect to record further charges relating to the winding down of the joint venture in the future.

Income Taxes: Our effective income tax rate was 39.0% for both the three and six month periods ended March 31, 2001 and March 31, 2000.

Derivative Instruments and Hedging Activities: Effective October 1, 2000 we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities by requiring that all derivatives be recognized in the balance sheet and measured at fair value. Gains or losses resulting from changes in

the fair value of derivatives are recognized in earnings or recorded in other comprehensive income, and recognized in the income statement when the hedged item affects earnings, depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment.

Our policy is to designate at inception that derivatives hedge risks associated with specific assets, liabilities, or future commitments and to monitor the derivatives to determine if they remain effective hedges. The effectiveness of a derivative as a hedge is based on high correlation between changes in its value and changes in the value of the underlying hedged item. We recognize gains or losses for amounts received or paid when the underlying transaction settles. We enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates with respect to our \$85 million term loan maturing in December 2004. We do not enter or hold derivatives for trading or speculative purposes.

On an ongoing basis, we will adjust the balance sheet to reflect the current fair market value of our hedge contracts. The related gains or losses on these contracts are deferred in stockholders' equity as a component of comprehensive income. However, to the extent that the change in the value of the interest rate swap does not perfectly offset the change in the value of the fixed rate debt being hedged, that ineffective portion of the hedge is immediately recognized in income. There was no ineffectiveness associated with these hedges for the three and six month periods ended March 31, 2001.

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During the six months ended March 31, 2001 we entered into interest rate swap agreements (the "Swap Agreements") to effectively fix the variable interest rate on our four-year term loan (Note 6). The Swap Agreements mature on December 20, 2004, the same day as our \$85 million term loan. The Swap Agreements have been designated as cash flow hedges and accordingly, are reflected at fair value in our consolidated balance sheet and the related loss is deferred in stockholders' equity as a component of comprehensive income. Amounts to be received or paid as a result of the Swap Agreements are accrued and recognized as adjustments to interest related to the designated debt. The net effect of this accounting on our operating results is that interest on the portion of variable-rate debt being hedged is generally recorded based on fixed interest rates. The effect of the Swap Agreements as of March 31, 2001 was to record an after-tax other comprehensive loss of \$1.3 million.

FINANCIAL CONDITION AND LIQUIDITY:

We fulfill our short-term cash requirements with cash generated from operations and unused funds available from our \$250 million unsecured revolving credit facility (the "Credit Facility") with a group of banks. Available borrowings under the facility are limited to certain percentages of homes under contract, unsold homes, substantially improved lots, raw land and accounts receivable. At March 31, 2001, we had \$41.8 million outstanding and additional available borrowings of \$156.7 million under the Credit Facility.

In December 2000 we entered into a \$75 million four-year term loan with a group of banks (the "Term Loan"); in March 2001 the Term Loan was increased to \$85 million. The Term Loan matures in December 2004 and bears interest at a fluctuating rate based on LIBOR or the lead bank's corporate base rate of interest. The Term Loan contains various operating and financial covenants. Each of our significant subsidiaries is a guarantor under the Term Loan. All proceeds from the Term Loan were used to pay down then outstanding borrowings under our \$250 million revolving credit facility.

We have \$215 million of outstanding senior debt, which is comprised of \$100 million of 8⁷/₈% Senior Notes due in April 2008 and \$115 million of 9% Senior Notes due in March 2004 (collectively, the "Senior Notes"). Neither the Credit Facility, Term Loan nor the Senior Notes restrict distributions to Beazer Homes USA, Inc. by its subsidiaries.

We have utilized, and will continue to utilize, land options as a method of controlling and subsequently acquiring land. At March 31, 2001, we had 14,509 lots under option. At March 31, 2001, we had commitments with respect to option contracts with specific performance obligations of approximately \$28 million. We expect to exercise all of our option contracts with specific performance obligations and, subject to market conditions, substantially all of our options contracts without specific performance obligations.

In November 1999, our Board of Directors approved a stock repurchase plan authorizing the purchase of up to 500,000 shares of our outstanding common stock. During the first two quarters of fiscal 2000, we completed the plan and repurchased 500,000 shares on the open market for an aggregate purchase price of \$9.2 million (average price of \$18.38 per share).

During the quarter ended March 31, 2001 we purchased from certain officers and employees 6,977 shares of common stock at prevailing market prices. The common stock repurchases related to the tax impact to employees of certain Stock Incentive Plans.

In January 2000, we filed a \$300 million universal shelf registration statement on Form S-3 with the Securities and Exchange Commission. Pursuant to the filing, the Company may, from time to time over an extended period, offer new debt and/or equity securities. This shelf registration will allow the

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Company to expediently access capital markets periodically in the future. The timing and amount of offerings, if any, will depend on market and general business conditions.

We believe that our current borrowing capacity, together with anticipated cash flows from operations, is sufficient to meet liquidity needs for the foreseeable future. There can be no assurance, however, that amounts available in the future from our sources of liquidity will be sufficient to meet future capital needs. The amount and types of indebtedness that we may incur may be limited by the terms of the Indenture governing our Senior Notes, Term Loan and Credit Facility. We continually evaluate expansion opportunities through acquisition of established regional homebuilders and such opportunities may require us to seek additional capital in the form of equity or debt financing from a variety of potential sources, including additional bank financing and/or securities offerings.

OUTLOOK:

We are optimistic about our prospects for fiscal 2001 and confident about our long-term prospects. We understand the uncertainties surrounding the economy may reduce this optimism in the future. At this time, our increased earnings for the six months ended March 31, 2001 and our current higher level of backlog give us strong indications of increased earnings in fiscal 2001 compared to fiscal 2000. We believe that our earnings per share for fiscal 2001 are likely to be in the

\$7.00 to \$7.25 range, up 39% to 44% over fiscal 2000. In addition, we believe that the factors we discussed earlier (positive demographic trends, gains in market share by larger public homebuilders and the benefits of the internet) will allow us to continue to report increased earnings in fiscal 2002 and beyond. Our five-year plan, introduced in fiscal 1999, targets earning \$9.00 per diluted share by fiscal 2004.

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements include, among others, statements concerning the Company's outlook for future quarters including projected earnings per share for fiscal 2001, overall and market specific volume trends, pricing trends and forces in the industry, cost reduction strategies and their results, the Company's expectations as to funding its capital expenditures and operations during 2001, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this report are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements. The most significant factors that could cause actual results to differ materially from those expressed in the forward-looking statements include, but are not limited to, the following:

- Economic changes nationally or in one or more of the Company's local markets
- Volatility of mortgage interest rates
- Increased competition
- Changes in the costs of winding down Premier Communities
- Shortages of skilled labor or raw materials used in the production of houses
- Increased prices for labor, land and raw materials used in the production of houses
- Increased land development costs on projects under development

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- Any delays in reacting to changing consumer preference in home design
 - Delays or difficulties in implementing the Company's initiatives to reduce its production and overhead cost structure
 - Delays in land development or home construction resulting from adverse weather conditions
 - Potential delays or increased costs in obtaining necessary permits as a result of changes to laws, regulations or governmental policies.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to fluctuations in interest rates. We do not believe our exposure in this area is material to cash flows or earnings. We entered into Swap Agreements during the six months ended March 31, 2001, to manage interest costs and hedge against risks associated with fluctuating interest rates with respect to our \$85 million term loan maturing in December 2004. We do not enter into or hold derivatives for trading or speculative purposes.

Pursuant to the interest rate swap agreements, we have exchanged floating interest rate obligations on an aggregate of \$85 million in notional principal amount. Concurrent with the adoption of SFAS 133 in October 2000, we have formally designated these agreements as cash flow hedges as discussed in Note 2 of the condensed consolidated financial statements.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

23.1—Consent of Deloitte & Touche LLP

(b) Reports on Form 8-K:

We did not file any reports on Form 8-K during the quarter ended March 31, 2001.

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SIGNATURES

Pursuant to the requirements 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.

Beazer Homes USA, Inc.

Date: May 9, 2001

By: /s/ DAVID S. WEISS

Name: David S. Weiss
Executive Vice President and
Chief Financial Officer

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Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Registration Statement No. 333-94843 of Beazer Homes USA, Inc. on Form S-3 of our report dated November 1, 2000, incorporated by reference in the Annual Report on Form 10-K of Beazer Homes USA, Inc. for the year ended September 30, 2000.

DELOITTE & TOUCHE LLP

Atlanta, Georgia

May 8, 2001

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[INDEPENDENT AUDITORS' CONSENT](#)