

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 June 30, 2011

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 or other jurisdiction of
incorporation or organization)

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

1000 Abernathy Road, Suite 1200, Atlanta, Georgia
(Address of principal executive offices)

30328
(Zip Code)

(770) 829-3700
(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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

YES ☐ NO ☒

Class
Common Stock, \$0.001 par value

Outstanding at July 29, 2011
75,679,860 shares

References to “we,” “us,” “our,” “Beazer”, “Beazer Homes” and the “Company” in this quarterly report on Form 10-Q refer to Beazer Homes USA, Inc.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements represent our expectations or beliefs concerning future events, and it is possible that the results described in this quarterly report will not be achieved. These forward-looking statements can generally be identified by the use of statements that include words such as “estimate,” “project,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” “goal,” “target” or other similar words or phrases. All forward-looking statements are based upon information available to us on the date of this quarterly report.

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this quarterly report in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A— Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business, but instead are the risks that we currently perceive as potentially being material. Such factors may include:

- the final outcome of various putative class action lawsuits, multi-party suits and similar proceedings as well as the results of any other litigation or government proceedings and fulfillment of the obligations in the Deferred Prosecution Agreement and consent orders with governmental authorities and other settlement agreements;
- additional asset impairment charges or writedowns;
- economic changes nationally or in local markets, including changes in consumer confidence, declines in employment levels, volatility of mortgage interest rates and inflation;
- the effect of changes in lending guidelines and regulations and the uncertain availability of mortgage financing;
- a slower economic rebound than anticipated, coupled with persistently high unemployment and additional foreclosures;
- continued or increased downturn in the homebuilding industry;
- estimates related to homes to be delivered in the future (backlog) are imprecise as they are subject to various cancellation risks which cannot be fully controlled;
- our cost of and ability to access capital and otherwise meet our ongoing liquidity needs including the impact of any downgrades of our credit ratings or reductions in our tangible net worth or liquidity levels;
- potential inability to comply with covenants in our debt agreements, or satisfy such obligations through repayment or refinancing;
- increased competition or delays in reacting to changing consumer preference in home design;
- shortages of or increased prices for labor, land or raw materials used in housing production;
- factors affecting margins such as decreased land values underlying lot option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce production and overhead cost structure;
- the performance of our joint ventures and our joint venture partners;
- the impact of construction defect and home warranty claims including those related to possible installation of drywall imported from China;
- the cost and availability of insurance and surety bonds;
- delays in land development or home construction resulting from adverse weather conditions;
- potential delays or increased costs in obtaining necessary permits and possible penalties for failure to comply with laws, regulations and governmental policies;
- potential exposure related to additional repurchase claims on mortgages and loans originated by Beazer Mortgage Corporation;
- estimates related to the potential recoverability of our deferred tax assets;
- effects of changes in accounting policies, standards, guidelines or principles; or
- terrorist acts, acts of war and other factors over which the Company has little or no control.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all such factors.

BEAZER HOMES USA, INC.
FORM 10-Q

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2011	September 30, 2010
ASSETS		
Cash and cash equivalents	\$ 274,645	\$ 537,121
Restricted cash	284,324	39,200
Accounts receivable (net of allowance of \$3,728 and \$3,567, respectively)	32,185	32,647
Income tax receivable	2,835	7,684
Inventory		
Owned inventory	1,290,786	1,153,703
Land not owned under option agreements	22,571	49,958
Total inventory	1,313,357	1,203,661
Investments in unconsolidated joint ventures	9,535	8,721
Deferred tax assets, net	7,964	7,779
Property, plant and equipment, net	29,239	23,995
Other assets	50,985	42,094
Total assets	<u>\$ 2,005,069</u>	<u>\$ 1,902,902</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$ 69,221	\$ 53,418
Other liabilities	191,515	210,170
Obligations related to land not owned under option agreements	14,360	30,666
Total debt (net of discounts of \$24,208 and \$23,617, respectively)	1,488,965	1,211,547
Total liabilities	<u>1,764,061</u>	<u>1,505,801</u>
Stockholders' equity:		
Preferred stock (par value \$.01 per share, 5,000,000 shares authorized, no shares issued)	—	—
Common stock (par value \$0.001 per share, 180,000,000 shares authorized, 75,687,528 and 75,669,381 issued and outstanding, respectively)	76	76
Paid-in capital	624,202	618,612
Accumulated deficit	(383,270)	(221,587)
Total stockholders' equity	<u>241,008</u>	<u>397,101</u>
Total liabilities and stockholders' equity	<u>\$ 2,005,069</u>	<u>\$ 1,902,902</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Total revenue	\$ 172,829	\$ 321,848	\$ 407,497	\$ 722,407
Home construction and land sales expenses	152,124	280,058	358,413	619,521
Inventory impairments and option contract abandonments	6,870	4,973	25,331	23,303
Gross profit	13,835	36,817	23,753	79,583
Selling, general and administrative expenses	46,414	52,850	125,208	140,874
Depreciation and amortization	2,660	3,353	6,627	9,258
Operating loss	(35,239)	(19,386)	(108,082)	(70,549)
Equity in income (loss) of unconsolidated joint ventures	63	(10)	372	(8,819)
Gain (loss) on extinguishment of debt	95	(9,045)	(2,909)	43,901
Other expense, net	(17,085)	(16,373)	(46,616)	(53,939)
Loss from continuing operations before income taxes	(52,166)	(44,814)	(157,235)	(89,406)
Provision (benefit) from income taxes	3,589	(21,430)	570	(116,955)
(Loss) income from continuing operations	(55,755)	(23,384)	(157,805)	27,549
Loss from discontinued operations, net of tax	(3,365)	(4,432)	(3,878)	(2,068)
Net (loss) income	\$ (59,120)	\$ (27,816)	\$ (161,683)	\$ 25,481
Weighted average number of shares:				
Basic	73,982	68,310	73,930	55,079
Diluted	73,982	68,310	73,930	65,276
(Loss) earnings per share:				
Basic (loss) earnings per share from continuing operations	\$ (0.75)	\$ (0.34)	\$ (2.14)	\$ 0.50
Basic loss per share from discontinued operations	\$ (0.05)	\$ (0.07)	\$ (0.05)	\$ (0.04)
Basic (loss) earnings per share	\$ (0.80)	\$ (0.41)	\$ (2.19)	\$ 0.46
Diluted (loss) earnings per share from continuing operations	\$ (0.75)	\$ (0.34)	\$ (2.14)	\$ 0.44
Diluted loss per share from discontinued operations	\$ (0.05)	\$ (0.07)	\$ (0.05)	\$ (0.03)
Diluted (loss) earnings per share	\$ (0.80)	\$ (0.41)	\$ (2.19)	\$ 0.41

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net (loss) income	\$(161,683)	\$ 25,481
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,033	9,795
Stock-based compensation expense	6,599	8,398
Inventory impairments and option contract abandonments	28,145	24,281
Impairment of future land purchase right	4,036	—
Deferred income tax benefit	(185)	(4,063)
Provision for doubtful accounts	161	(3,972)
Excess tax benefit from equity-based compensation	544	2,057
Equity in loss of unconsolidated joint ventures	141	24,045
Cash distributions of income from unconsolidated joint ventures	38	75
Loss (gain) on extinguishment of debt	2,343	(44,602)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	301	(1,533)
Decrease (increase) in income tax receivable	4,849	(31,014)
(Increase) decrease in inventory	(150,612)	20,442
Decrease in other assets	3,391	6,728
Increase (decrease) in trade accounts payable	15,803	(3,251)
Decrease in other liabilities	(38,012)	(31,626)
Other changes	(510)	(464)
Net cash (used in) provided by operating activities	<u>(277,618)</u>	<u>777</u>
Cash flows from investing activities:		
Capital expenditures	(12,134)	(6,658)
Investments in unconsolidated joint ventures	(1,763)	(5,122)
Increases in restricted cash	(250,074)	(26,250)
Decreases in restricted cash	4,950	33,103
Net cash used in investing activities	<u>(259,021)</u>	<u>(4,927)</u>
Cash flows from financing activities:		
Repayment of debt	(213,755)	(617,133)
Proceeds from issuance of new debt	246,387	373,238
Proceeds from issuance of cash secured loan	247,368	—
Debt issuance costs	(5,130)	(9,296)
Common stock redeemed	(163)	(134)
Common stock issued	—	166,719
Proceeds from the issuance of TEU prepaid stock purchase contracts	—	57,432
Excess tax benefit from equity-based compensation	(544)	(2,057)
Net cash provided by (used in) financing activities	<u>274,163</u>	<u>(31,231)</u>
Decrease in cash and cash equivalents	<u>(262,476)</u>	<u>(35,381)</u>
Cash and cash equivalents at beginning of period	<u>537,121</u>	<u>507,339</u>
Cash and cash equivalents at end of period	<u><u>\$ 274,645</u></u>	<u><u>\$ 471,958</u></u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

BEAZER HOMES USA, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Beazer Homes USA, Inc. (Beazer Homes or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 GAAP 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 financial statements. For further information and a discussion of our significant accounting policies other than as discussed below, refer to our audited consolidated financial statements appearing in the Beazer Homes' Annual Report on Form 10-K for the fiscal year ended September 30, 2010 (the 2010 Annual Report). Results from our mortgage origination business, our title insurance services and our exit markets are reported as discontinued operations in the accompanying unaudited condensed consolidated statements of operations for all periods presented (see Note 13 for further discussion of our Discontinued Operations). We evaluated events that occurred after the balance sheet date but before the financial statements were issued or were available to be issued for accounting treatment and disclosure in accordance with Accounting Standards Codification, *Subsequent Events* (ASC 855).

Inventory Valuation — Held for Development. Our homebuilding inventories that are accounted for as held for development include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We assess these assets not less than quarterly for recoverability. Generally, upon the commencement of land development activities, it may take three to five years (depending on, among other things, the size of the community and its sales pace) to fully develop, sell, construct and close all the homes in a typical community. However, the impact of the recent downturn in our business has significantly lengthened the estimated life of many communities. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If the expected undiscounted cash flows generated are expected to be less than its carrying amount, an impairment charge is recorded to write down the carrying amount of such asset to its estimated fair value based on discounted cash flows.

When conducting our community level review for the recoverability of our homebuilding inventories held for development, we establish a quarterly "watch list" of communities with more than 10 homes remaining that carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability. In our experience, this threshold represents a level of profitability that may be an indicator of conditions which would require an asset impairment but does not guarantee that such impairment will definitively be appropriate. As such, assets on the quarterly watch list are subject to substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to profit margins below our watch list threshold. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information.

Our qualitative competitive market analyses include site visits to competitor new home communities and written community level competitive assessments. A competitive assessment consists of a comparison of our specific community with its competitor communities, considering square footage of homes offered, amenities offered within the homes and the communities, location, transportation availability and school districts, among many factors. In addition, we review the pace of monthly home sales of our competitor communities in relation to our specific community. We also review other factors such as the target buyer and the macro-economic characteristics that impact the performance of our assets, such as unemployment and the availability of mortgage financing, among other things. Based on this qualitative competitive market analysis, adjustments to our sales prices may be required in order to make our communities competitive. We incorporate these adjusted prices in our quantitative analysis for the specific community.

The quantitative analysis compares the projected future undiscounted cash flows for each such community with its current carrying value. This undiscounted cash flow analysis requires important assumptions regarding the location and mix of house plans to be sold, current and future home sale prices and incentives for each plan, current and future construction costs for each plan and, the pace of monthly sales to occur today and into the future.

There is uncertainty associated with preparing the undiscounted cash flow analysis because future market conditions will almost certainly be different, either better or worse, than current conditions. The single most important "input" to the cash flow

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analysis is current and future home sales prices for a specific community. The risk of over or under-stating any of the important cash flow variables, including home prices, is greater with longer-lived communities and within markets that have historically experienced greater home price volatility. In an effort to address these risks, we have assumed modest home price and construction cost appreciation beginning in either fiscal 2012 or fiscal 2013 if the community is expected to be selling for more than three years and/or if the market has typically exhibited high levels of price volatility. Absent these assumptions on cost and sales price appreciation, we believe the long-term cash flow analysis would be unrealistic and would serve to artificially improve future profitability. Finally, we also ensure that the monthly sales absorptions, including historical seasonal differences of our communities and those of our competitors, used in our undiscounted cash flow analyses are realistic, consider our development schedules and relate to those achieved by our competitors for the specific communities.

If the aggregate undiscounted cash flows from our quantitative analysis are in excess of the carrying value, the asset is considered to be recoverable and is not impaired. If the aggregate undiscounted cash flows are less than the carrying or book value, we perform a discounted cash flow analysis to determine the fair value of the community. The fair value of the community is estimated using the present value of the estimated future cash flows using discount rates commensurate with the risk associated with the underlying community assets. The discount rate used may be different for each community and ranged from 14.6% to 16.3% for the communities analyzed in the quarter ended June 30, 2011 and ranged from 14.2% to 18.4% for the quarter ended June 30, 2010. The factors considered when determining an appropriate discount rate for a community include, among others: (1) community specific factors such as the number of lots in the community, the status of land development in the community, the competitive factors influencing the sales performance of the community and (2) overall market factors such as employment levels, consumer confidence and the existing supply of new and used homes for sale. If the determined fair value is less than the carrying value of the specific asset, the asset is considered not recoverable and is written down to its fair value plus the asset's share of capitalized unallocated interest and other costs. The carrying value of assets in communities that were previously impaired and continue to be classified as held for development is not increased for future estimates of increases in fair value in future reporting periods.

In our fiscal 2011 third quarter analyses, we have assumed limited market improvements in some communities beginning in fiscal 2013 and continuing improvement in these communities in subsequent years. For any communities scheduled to close out in fiscal 2012, we did not assume any market improvements. The following tables represent the results, by reportable segment of our community level review of the recoverability of our inventory assets held for development as of June 30, 2011 and 2010 (\$ in thousands). We have elected to aggregate our disclosure at the reportable segment level because we believe this level of disclosure is most meaningful to the readers of our financial statements. As previously discussed, communities included on our "watch list" typically carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability. The aggregate undiscounted cash flow fair value as a percentage of book value for the communities represented above is consistent with our expectations given our "watch list" methodology.

Segment	# of Communities On Watch List	Undiscounted Cash Flow Analyses Prepared		
		# of Communities	Book Value (BV)	Aggregate Undiscounted Cash Flow as a % of BV
Quarter Ended June 30, 2011				
West	8	4	\$ 5,079	86.5%
East	4	2	9,731	96.5%
Southeast	1	1	5,259	44.0%
Unallocated	—	—	1,564	n/a
Total	13	7	\$ 21,633	81.6%
Quarter Ended June 30, 2010				
West	7	7	\$ 32,773	93.4%
East	4	4	8,383	104.6%
Southeast	3	—	—	n/a
Discontinued Operations	2	1	1,326	104.0%
Unallocated	—	—	3,067	n/a
Total	16	12	\$ 45,549	96.2%

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The table below summarizes the results of our discounted cash flow analysis for the three and nine months ended June 30, 2011 and 2010. The impairment charges below include impairments taken as a result of these discounted cash flow analyses and also impairment charges recorded for individual homes sold and in backlog with net contribution margins below a minimum threshold of profitability in communities that were otherwise impaired through our discounted cash flow analyses. The estimated fair value of the impaired inventory is determined immediately after a community's impairment. If a community was impaired in more than one quarter in the same fiscal year, it is only counted once in the number of communities impaired. In addition, the nine month information below only includes the last fiscal impairment information with respect to the number of lots impaired and the estimated fair value at period end for those communities impaired multiple times in the same fiscal year.

Segment	Results of Discounted Cash Flow Analyses Prepared							
	# of Communities Impaired	# of Lots Impaired	Impairment Charge	Estimated Fair Value of Impaired Inventory at Period End	# of Communities Impaired	# of Lots Impaired	Impairment Charge	Estimated Fair Value of Impaired Inventory at Period End
<i>Quarter Ended June 30, 2011</i>					<i>Nine Months Ended June 30, 2011</i>			
West	4	153	\$ 1,571	\$ 4,223	9	831	\$ 17,556	\$ 31,924
East	1	41	759	5,637	1	41	988	5,637
Southeast	1	176	3,435	1,812	1	176	3,557	1,812
Unallocated	—	—	531	—	—	—	2,139	—
Continuing Operations	6	370	6,296	11,672	11	1,048	24,240	39,373
Discontinued Operations	—	—	—	—	—	—	215	—
Total	6	370	\$ 6,296	\$ 11,672	11	1,048	\$ 24,455	\$ 39,373
<i>Quarter Ended June 30, 2010</i>					<i>Nine Months Ended June 30, 2010</i>			
West	3	131	\$ 3,361	\$ 5,427	12	495	\$ 10,306	\$ 24,353
East	—	—	463	—	3	73	2,581	4,376
Southeast	—	—	48	—	5	362	6,770	11,095
Unallocated	—	—	568	—	—	—	2,040	—
Continuing Operations	3	131	4,440	5,427	20	930	21,697	39,824
Discontinued Operations	—	—	74	—	2	40	737	3,279
Total	3	131	\$ 4,514	\$ 5,427	22	970	\$ 22,434	\$ 43,103

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in our impairment analyses. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. During these periods, for certain communities we determined that it was prudent to reduce sales prices or further increase sales incentives in response to factors including competitive market conditions in those specific submarkets for the product and locations of these communities. Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including decreased sales prices, the change in sales prices and changes in absorption estimates based on current market conditions and management's assumptions relative to future results led to additional impairments in certain communities during the three and nine months ended June 30, 2011 and 2010. Market deterioration that exceeds our estimates may lead us to incur additional impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if the market continues to deteriorate.

Asset Valuation — Land Held for Future Development. For those communities for which construction and development activities are expected to occur in the future or have been idled (land held for future development), all applicable interest and real estate taxes are expensed as incurred and the inventory is stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. The future enactment of a development plan or the occurrence of events and circumstances may indicate that the carrying amount of an asset may not be recoverable. We evaluate the potential development plans of each community in land held for

future development if changes in facts and circumstances occur which would give rise to a more detailed analysis for a change in the status of a community to active status or held for development.

Asset Valuation — Land Held for Sale. We record assets held for sale at the lower of the carrying value or fair value less costs to sell. The following criteria are used to determine if land is held for sale:

- management has the authority and commits to a plan to sell the land;
- the land is available for immediate sale in its present condition; · there is an active program to locate a buyer and the plan to sell the property has been initiated;
- the sale of the land is probable within one year;
- the property is being actively marketed at a reasonable sale price relative to its current fair value; and
- it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

Additionally, in certain circumstances, management will re-evaluate the best use of an asset that is currently being accounted for as held for development. In such instances, management will review, among other things, the current and projected competitive circumstances of the community, including the level of supply of new and used inventory, the level of sales absorptions by us and our competition, the level of sales incentives required and the number of owned lots remaining in the community. If, based on this review and the foregoing criteria have been met at the end of the applicable reporting period, we believe that the best use of the asset is the sale of all or a portion of the asset in its current condition, then all or portions of the community are accounted for as held for sale.

In determining the fair value of the assets less cost to sell, we considered factors including current sales prices for comparable assets in the area, recent market analysis studies, appraisals, any recent legitimate offers, and listing prices of similar properties. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell.

The following table sets forth by reportable segment inventory impairments related to land held for sale (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Land Held for Sale				
West	\$—	\$—	\$ (51)	\$1,061
East	—	—	—	—
Southeast	—	—	169	—
Continuing Operations	\$—	\$—	\$118	\$1,061
Discontinued Operations	17	73	74	232
Total Company	\$17	\$73	\$192	\$1,293

The impairments on land held for sale above represent further write downs of these properties to net realizable value, less estimated costs to sell and are as a result of challenging market conditions and our review of recent comparable transactions. The negative impairments for the nine months ended June 30, 2011 are due to adjustments to accruals for estimated selling costs related to either our strategic decision to develop a previously held-for-sale land position or revised estimates based on pending sales transactions.

Due to uncertainties in the estimation process, it is reasonably possible that actual results could differ from the estimates used in our historical analyses. Our assumptions about land sales prices require significant judgment because the current market is highly sensitive to changes in economic conditions. We calculated the estimated fair values of land held for sale based on current market conditions and assumptions made by management, which may differ materially from actual results and may result in additional impairments if market conditions continue to deteriorate.

Land Not Owned Under Option Agreements. In addition to purchasing land directly, we utilize lot option agreements which generally enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our lot option. A majority of our lot option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land for the right to acquire lots during a specified period of time at a certain price. Under lot option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers.

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Under lot option contracts our liability is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred.

Under ASC 810 *Consolidation*, if the entity holding the land under option is a variable interest entity (VIE), the Company's deposit represents a variable interest in that entity. If the Company is determined to be the primary beneficiary of the VIE, then we are required to consolidate the VIE, though creditors of the VIE have no recourse against the Company. In recent years, the Company has canceled a significant number of lot option agreements, which has resulted in significant write-offs of the related deposits and pre-acquisition costs but has not exposed the Company to the overall risks or losses of the applicable VIEs.

In June 2009, the FASB revised its guidance regarding the determination of a primary beneficiary of a VIE. The revisions to ASC 810 were effective for the Company as of October 1, 2010. The amendments to ASC 810 replace the prior quantitative computations for determining which entity, if any, is the primary beneficiary of the VIE. The revision also increased the disclosures required about a reporting entity's involvement with VIEs.

Under the revised provision of ASC 810, to determine whether we are the primary beneficiary of the VIE we are first required to evaluate whether we have the ability to control the activities of the VIE that most significantly impact its economic performance. Such activities include, but are not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract with Beazer; and the ability to change or amend the existing option contract with the VIE. If we are not determined to control such activities, we are not considered the primary beneficiary of the VIE and thus do not consolidate the VIE under ASC 810. If we do have the ability to control such activities, we will continue our analysis by determining if we are expected to absorb a potentially significant amount of the VIE's losses or, if no party absorbs the majority of such losses, if we will benefit from potentially a significant amount of the VIE's expected gains. If we are the primary beneficiary of the VIE, we will consolidate the VIE and reflect such assets and liabilities as land not owned under option agreements in our balance sheets. For VIEs we are required to consolidate, we record the remaining contractual purchase price under the applicable lot option agreement to land not owned under option agreements with an offsetting increase to obligations related to land not owned under option agreements. Also, to reflect the purchase price of this inventory consolidated, we reclassified the related option deposits from land under development to land not owned under option agreement in the accompanying consolidated balance sheets. Consolidation of these VIEs has no impact on the Company's results of operations or cash flows.

We adopted the revised provisions of ASC 810 on October 1, 2010. For certain VIEs we determined that under the revised provisions, we do not control the activities of the VIE that most significantly impact its economic performance and, therefore, we are not the primary beneficiary of the VIE. In addition, we reviewed our non-VIE lot option agreements pursuant to ASC 470-40, *Product Financing Arrangements*. As a result, we deconsolidated land under four lot option agreements which reduced Land Not Owned Under Option Agreements and Obligations Related to Land Not Owned Under Options Agreements by \$12.9 million.

The following provides a summary of our interests in lot option agreements as of June 30, 2011 (in thousands):

	Deposits & Non-refundable Preacquisition Costs Incurred	Remaining Obligation	Land Not Owned - Under Option Agreements
Consolidated VIEs	\$ 6,406	\$ 9,414	\$ 15,820
Other consolidated lot option agreements (a)	1,805	4,946	6,751
Unconsolidated lot option agreements	17,135	210,467	—
Total lot option agreements	<u>\$ 25,346</u>	<u>\$ 224,827</u>	<u>\$ 22,571</u>

(a) Represents lot option agreements with non-VIE entities that we have deemed to be "financing arrangements" pursuant to ASC 470-40, *Product Financing Arrangements*.

Stock-Based Compensation. Compensation cost arising from nonvested stock awards granted to employees is recognized as an expense using the straight-line method over the vesting period. As of June 30, 2011 and September 30, 2010, there was \$5.3 million and \$10.0 million, respectively, of total unrecognized compensation cost related to nonvested stock awards included in paid-in capital. The cost remaining at June 30, 2011 is expected to be recognized over a weighted average period of 2.0 years. For the three months ended June 30, 2011, our total stock-based compensation, included in selling, general and administrative expenses (SG&A), was

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approximately \$1.3 million (\$0.9 million net of tax). For the nine months ended June 30, 2011, our total stock-based compensation expense was approximately \$6.6 million (\$4.4 million net of tax).

Activity relating to nonvested stock awards for the three and nine months ended June 30, 2011 is as follows:

	Three Months Ended June 30, 2011		Nine Months Ended June 30, 2011	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of period	2,334,360	\$ 7.11	1,839,987	\$ 14.41
Granted	25,000	3.60	754,265	4.69
Vested	(257,491)	5.93	(381,547)	22.36
Returned (a)	—	0.00	(52,509)	68.56
Forfeited	(574,107)	6.11	(632,434)	9.93
End of period	1,527,762	\$ 7.62	1,527,762	\$ 7.62

- (a) Our Former Chief Executive Officer returned 52,509 shares of unvested restricted stock due to his agreement with the Securities and Exchange Commission during the second quarter of fiscal 2011.

In addition, during the nine months ended June 30, 2011 and 2010, employees surrendered 39,861 and 27,310 shares, respectively, to us in payment of minimum tax obligations upon the vesting of stock awards under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of approximately \$163,145 and \$134,000 for the nine months ended June 30, 2011 and 2010, respectively.

The fair value of each option/stock-based stock appreciation right (SSAR) grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following table summarizes stock options and SSARs outstanding as of June 30, 2011, as well as activity during the three and nine months then ended:

	Three Months Ended June 30, 2011		Nine Months Ended June 30, 2011	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	3,285,834	\$ 18.80	2,578,354	\$ 22.69
Granted	25,000	3.60	754,265	4.69
Expired	—	—	(1,614)	32.96
Forfeited	(667,748)	5.08	(687,919)	5.09
Outstanding at end of period	2,643,086	\$ 22.13	2,643,086	\$ 22.13
Exercisable at end of period	1,279,473	\$ 36.60	1,279,473	\$ 36.60
Vested or expected to vest in the future	2,600,028	\$ 22.41	2,600,028	\$ 22.41

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. We used the following assumptions for our options granted during the nine months ended June 30, 2011:

Expected life of options	4.8 years
Expected volatility	51.7%
Expected discrete dividends	—
Weighted average risk-free interest rate	1.22%
Weighted average fair value	\$ 2.10

The expected volatility is based on the historic returns of our stock and the implied volatility of our publicly-traded options. We assumed no dividends would be paid since our Board of Directors has suspended payment of dividends indefinitely. The risk-free interest rate is based on the term structure of interest rates at the time of the option grant and we have relied upon a combination of the observed exercise behavior of our prior grants with similar characteristics, the vesting schedule of the current grants, and an index of peer companies with similar grant characteristics to determine the expected life of the options.

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The intrinsic value of a stock option/SSAR is the amount by which the market value of the underlying stock exceeds the exercise price of the option/SSAR. At June 30, 2011, our SSAR/stock options outstanding had no intrinsic value. There was also no intrinsic value of SSARs/stock options vested and expected to vest in the future. The SSARs/stock options vested and expected to vest in the future had a weighted average expected life of 2.5 years. There was no aggregate intrinsic value of exercisable SSARs/stock options as of June 30, 2011.

Other Liabilities. Other liabilities include the following:

(In thousands)	June 30, 2011	September 30, 2010
Income tax liabilities	\$ 55,412	\$ 53,508
Accrued warranty expenses	17,254	25,821
Accrued interest	18,798	35,477
Accrued and deferred compensation (a)	27,431	31,474
Customer deposits	8,671	3,678
Other	63,949	60,212
Total	\$ 191,515	\$ 210,170

- (a) The June 30, 2011 liability includes approximately \$7 million of severance-related obligations, of which \$5.9 million relates to contractual obligations associated with the June 2011 departure of our former Chief Executive Officer.

(2) Supplemental Cash Flow Information

(In thousands)	Nine Months Ended June 30,	
	2011	2010
Supplemental disclosure of non-cash activity:		
Decrease in obligations related to land not owned under option agreements	\$ (16,306)	\$ (9,730)
Increase in repayment guarantee obligation	17,220	—
Non-cash land acquisitions	770	515
Issuance of stock under deferred bonus stock plans	65	2,337
Supplemental disclosure of cash activity:		
Interest payments	106,609	103,300
Income tax payments	521	299
Tax refunds received	3,982	102,086

(3) Investments in Unconsolidated Joint Ventures

As of June 30, 2011, we participated in certain land development joint ventures in which Beazer Homes had less than a controlling interest. The following table presents our investment in our unconsolidated joint ventures, the total equity and outstanding borrowings of these joint ventures, and our guarantees of these borrowings, as of June 30, 2011 and September 30, 2010:

(In thousands)	June 30, 2011	September 30, 2010
Beazer's investment in joint ventures	\$ 9,535	\$ 8,721
Total equity of joint ventures	302,919	298,418
Total outstanding borrowings of joint ventures	394,978	394,301
Beazer's estimate of its maximum exposure to our repayment guarantees	17,916	15,789

The increase in our investment in unconsolidated joint ventures from September 30, 2010 to June 30, 2011 relates primarily to additional investments of \$1.8 million offset by distributions of earnings in cash and lots totaling \$0.8 million. For the three and nine

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months ended June 30, 2011 and 2010, our income (loss) from joint venture activities, the impairments of our investments in certain of our unconsolidated joint ventures, and the overall equity in income (loss) of unconsolidated joint ventures is as follows:

(In thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Continuing operations:				
Income (loss) from joint venture activity	\$ 63	\$ 18	\$ 464	\$ (38)
Impairment of joint venture investment	—	(28)	(92)	(8,781)
Equity in income (loss) of unconsolidated joint ventures	<u>\$ 63</u>	<u>\$ (10)</u>	<u>\$ 372</u>	<u>\$ (8,819)</u>
Reported in loss from discontinued operations, net of tax:				
Loss from joint venture activity	\$ (1)	\$ —	\$ (18)	\$ —
Impairment of joint venture investment	(163)	(12,482)	(495)	(15,226)
Equity in loss of unconsolidated joint ventures - discontinued operations	<u>\$ (164)</u>	<u>\$ (12,482)</u>	<u>\$ (513)</u>	<u>\$ (15,226)</u>

The aggregate debt of the unconsolidated joint ventures was \$395.0 million and \$394.3 million at June 30, 2011 and September 30, 2010, respectively. At June 30, 2011, total borrowings outstanding include \$327.9 million related to our South Edge LLC (“South Edge”) joint venture in which we are a 2.58% partner.

South Edge is in default under its debt obligations. During fiscal 2008, the administrative agent for the lenders to this joint venture notified the joint venture members that it believed the joint venture was in default of certain joint venture loan agreements, in particular, the failure of the joint venture members to acquire specified parcels of land, resulting in a payment default. In December 2008, the lenders filed individual lawsuits against some of the joint venture members and certain of those members’ parent companies (including the Company), seeking to recover damages under completion guarantees, among other claims. Due to discussions with our other joint venture members and based on the Company’s revised estimates regarding the realizability of our investment, the Company impaired our equity interest of \$8.8 million in this joint venture during the second quarter of fiscal 2010. In addition, one member of the joint venture filed an arbitration proceeding against the remaining members related to the plaintiff-member’s allegations that the other members failed to perform under the applicable membership agreements. The arbitration panel issued its decision on July 6, 2010. The arbitration award was confirmed by the United States District Court and is now on appeal to the United States Court of Appeals for the Ninth Circuit. The Company does not believe that its proportional share of the arbitration proceeding award is considered material to our consolidated financial position or results of operations (see Note 9 for additional information regarding these legal actions). The Company has recorded an accrual for such matter.

On December 9, 2010, three lenders filed an involuntary bankruptcy petition against the joint venture. On February 3, 2011, the bankruptcy court granted this petition and the motion for appointment of a trustee. As a result of this ruling, we expected the lenders to the joint venture to attempt to enforce the repayment guaranty under the debt agreement. Any payments pursuant to the repayment guaranty would reduce the amount of the debt owed by South Edge and would give each payor lien rights against or title to its share of the property currently owned by the joint venture. In addition to the repayment guaranty to the lenders, we, as a member of the joint venture, continue to have obligations for infrastructure and other development costs as provided for in the joint venture agreement. At this time, these costs cannot be quantified due to, among other things, uncertainty over the future development configuration of the project and the related costs, market conditions, uncertainty over the remaining infrastructure deposits and previously filed bankruptcies of other joint venture members.

Effective June 10, 2011, the Company and certain other joint venture members (the Participating Members) have entered into a settlement agreement with the lenders. Under this agreement, the parties have agreed to develop a plan of reorganization for the joint venture by November 10, 2011, unless extended. Based on the terms of the agreement, the Company will pay the lenders an amount between approximately \$15.7 million and \$17.2 million depending on the resolution of certain contingencies in the agreement. As a result, during the second quarter of fiscal 2011, we had accrued an additional \$2.1 million for a total accrual of \$17.2 million related to our estimated obligation under the repayment guaranty. In accordance with the final agreement, we paid \$1.5 million into an escrow fund in June 2011, reducing our outstanding liability at June 30, 2011 to \$15.7 million. As previously discussed, the Company will ultimately obtain land in exchange for satisfaction of our repayment guarantee obligations. At the current time, there are uncertainties with respect to the location and density of the land we would receive, the products we would build on such land and the estimated

selling prices of such homes. Considering the various potential scenarios and the current and expected market conditions in the Las Vegas area, we determined that the value of our future land purchase rights was approximately \$13.2 million and recognized a \$4.0 million impairment on such future land purchase rights during the nine months ended June 30, 2011. We have recorded \$13.2 million to Other Assets as of June 30, 2011 representing our future land purchase rights from the ultimate payment of this repayment guaranty. Because there are uncertainties with respect to the value of the lien rights or title to our share of the underlying property, we may be required to record adjustments to the carrying value of these recognized Other Assets in future periods as better information becomes available.

Our joint ventures typically obtain secured acquisition, development and construction financing. Generally Beazer and our joint venture partners provide varying levels of guarantees of debt and other obligations for our unconsolidated joint ventures. At June 30, 2011, these guarantees included, for certain joint ventures, construction completion guarantees, repayment guarantees and environmental indemnities.

In assessing the need to record a liability for the contingent aspect of these guarantees, we consider our historical experience in being required to perform under the guarantees, the fair value of the collateral underlying these guarantees and the financial condition of the applicable unconsolidated joint ventures. In addition, we monitor the fair value of the collateral of these unconsolidated joint ventures to ensure that the related borrowings do not exceed the specified percentage of the value of the property securing the borrowings. As of June 30, 2011, we have estimated that the Company's exposure for the contingent aspect of the guarantees related to our unconsolidated joint ventures was from \$0 to \$17.9 million. We have recorded a liability for guarantees we determined were probable and reasonably estimable, but we have not recorded a liability for the contingent aspects of any guarantees that we determined were reasonably possible but not probable.

Construction Completion Guarantees

We and our joint venture partners may be obligated to the project lenders to complete land development improvements and the construction of planned homes if the joint venture does not perform the required development. Provided the joint venture and the partners are not in default under any loan provisions, the project lenders typically are obligated to fund these improvements through any financing commitments available under the applicable loans. A majority of these construction completion guarantees are joint and several with our partners. In those cases, we generally have a reimbursement arrangement with our partner which provides that neither party is responsible for more than its proportionate share of the guarantee. However, if our joint venture partner does not have adequate financial resources to meet its obligations under such reimbursement arrangement, we may be liable for more than our proportionate share, up to our maximum exposure, which is the full amount covered by the relevant joint and several guarantee. The guarantees cover a specific scope of work, which may range from an individual development phase to the completion of the entire project. As of June 30, 2011, we have a completion guarantee related to one joint venture loan which also has a repayment guarantee associated with it. No accrual has been recorded, as losses, if any, related to construction completion guarantees are both not probable and not reasonably estimable.

Loan-to-Value Maintenance Agreements

As of June 30, 2011 and September 30, 2010, we do not have any obligations related to LTV guarantees. We and our joint venture partners may provide credit enhancements to acquisition, development and construction borrowings in the form of loan-to-value maintenance agreements, which can limit the amount of additional funding provided by the lenders or require repayment of the borrowings to the extent such borrowings plus construction completion costs exceed a specified percentage of the value of the property securing the borrowings. The agreements generally require periodic reappraisals of the underlying property value. To the extent that the underlying property gets reappraised, the amount of the exposure under the loan-to value-maintenance (LTV) guarantee would be adjusted accordingly and any such change could be significant. In certain cases, we may be required to make a re-balancing payment following a reappraisal in order to reduce the applicable loan-to-value ratio to the required level. During the first quarter of fiscal 2010, the Company and its joint venture partner reached an agreement with the lender of a joint venture to release the LTV guarantee and extend the related loan maturity up to two years in exchange for a loan repayment of \$7.4 million. The Company invested an additional \$3.9 million in the joint venture to facilitate this repayment during fiscal 2010.

Repayment Guarantees

We and our joint venture partners have repayment guarantees related to certain joint ventures' borrowings. These repayment guarantees require the repayment of all or a portion of the debt of the unconsolidated joint venture only in the event the joint venture defaults on its obligations under the borrowing or in some cases only in the event the joint venture files for bankruptcy. Our estimate of Beazer's maximum exposure to our repayment guarantees related to the outstanding debt of its unconsolidated joint ventures was \$17.9 million and \$15.8 million at June 30, 2011 and September 30, 2010, respectively. As of June 30, 2011, \$15.7 million has been recorded in Other Liabilities which is net of the \$1.5 million we paid and is currently held in escrow related to our South Edge joint venture.

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Environmental Indemnities

Additionally, we and our joint venture partners generally provide unsecured environmental indemnities to joint venture project lenders. In each case, we have performed due diligence on potential environmental risks. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. For the three and nine months ended June 30, 2011 and 2010, we were not required to make any payments related to environmental indemnities. No accrual has been recorded, as losses, if any, related to environmental indemnities are both not probable and not reasonably estimable

(4) Inventory

(In thousands)	June 30, 2011	September 30, 2010
Homes under construction	\$ 328,067	\$ 210,104
Development projects in progress	445,567	444,062
Land held for future development	384,658	382,889
Land held for sale	36,965	36,259
Capitalized interest	51,230	36,884
Model homes	44,299	43,505
Total owned inventory	<u>\$1,290,786</u>	<u>\$1,153,703</u>

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 252 (\$43.3 million) and 423 (\$71.5 million) completed homes that were not subject to a sales contract (spec homes) at June 30, 2011 and September 30, 2010, respectively. 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. Land held for future development consists of communities for which construction and development activities are expected to occur in the future or have been idled and are stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. All applicable interest and real estate taxes on land held for future development are expensed as incurred. Land held for sale as of June 30, 2011 principally included land held for sale in the markets we have decided to exit including Colorado, Jacksonville, Florida and Charlotte, North Carolina.

The value related to previously owned homes acquired by our Pre-Owned Homes Division is reported as property, plant and equipment, excluded from the inventory information provided, and depreciated over the asset's estimated remaining useful life. These homes are within select communities in markets in which the Company currently operates and will be repaired, rented to consumers and eventually resold.

Total owned inventory, by reportable segment, is set forth in the table below (in thousands):

	June 30, 2011				September 30, 2010			
	Projects in Progress	Held for Future Development	Land Held for Sale	Total Owned Inventory	Projects in Progress	Held for Future Development	Land Held for Sale	Total Owned Inventory
West Segment	\$ 318,839	\$ 318,692	\$ 5,243	\$ 642,774	\$ 281,912	\$ 311,472	\$ 5,273	\$ 598,657
East Segment	323,621	41,930	4,947	370,498	269,210	47,381	1,376	317,967
Southeast Segment	143,162	24,036	75	167,273	121,509	24,036	—	145,545
Unallocated	73,495	—	—	73,495	53,157	—	—	53,157
Discontinued Operations	10,046	—	26,700	36,746	8,767	—	29,610	38,377
Total	\$ 869,163	\$ 384,658	\$ 36,965	\$ 1,290,786	\$ 734,555	\$ 382,889	\$ 36,259	\$ 1,153,703

Lot Option Contract Abandonments. We have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as pre-acquisition costs. In determining whether to abandon a lot option contract, we evaluate the lot option primarily based upon the expected cash flows from the property that is the subject of the option. If we intend to abandon or walk-away from a lot option contract, we record a charge to earnings in the period such decision is made for the deposit amount and any related capitalized costs associated with the lot option contract. We recorded lot option abandonment charges during the three and nine months ended June 30, 2011 and 2010 as indicated in the table below (in thousands). The abandonment charges relate to our decision to abandon certain option contracts that no longer fit in our long-term strategic plan.

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Lot Option Abandonments				
West	\$ 32	\$ 526	\$ 116	\$ 533
East	462	7	595	8
Southeast	80	—	262	4
Continuing Operations	\$ 574	\$ 533	\$ 973	\$ 545
Discontinued Operations	2,477	5	2,525	9
Total Company	<u>\$ 3,051</u>	<u>\$ 538</u>	<u>\$ 3,498</u>	<u>\$ 554</u>

We expect to exercise, subject to market conditions, most of our remaining option contracts. Various factors, some of which are beyond our control, such as market conditions, weather conditions and the timing of the completion of development activities, will have a significant impact on the timing of option exercises or whether lot options will be exercised.

(5) Interest

Our ability to capitalize all interest incurred during the three and nine months ended June 30, 2011 and 2010 has been limited by our inventory eligible for capitalization. The following table sets forth certain information regarding interest (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Capitalized interest in inventory, beginning of period	\$ 47,624	\$ 41,107	\$ 36,884	\$ 38,338
Interest incurred	32,872	31,561	98,175	96,977
Capitalized interest impaired	(380)	(196)	(1,789)	(1,292)
Interest expense not qualified for capitalization and included as other expense	(17,707)	(17,381)	(55,688)	(57,478)
Capitalized interest amortized to house construction and land sales expenses	(11,179)	(16,444)	(26,352)	(37,898)
Capitalized interest in inventory, end of period	<u>\$ 51,230</u>	<u>\$ 38,647</u>	<u>\$ 51,230</u>	<u>\$ 38,647</u>

(6) Earnings Per Share

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
(Loss) income from continuing operations	\$ (55,755)	\$ (23,384)	\$ (157,805)	\$ 27,549
Loss from discontinued operations, net of tax	(3,365)	(4,432)	(3,878)	(2,068)
Net (loss) income	<u>\$ (59,120)</u>	<u>\$ (27,816)</u>	<u>\$ (161,683)</u>	<u>\$ 25,481</u>
Weighted average number of shares outstanding — basic	73,982	68,310	73,930	55,079
Basic (loss) earnings per share from continuing operations	\$ (0.75)	\$ (0.34)	\$ (2.14)	\$ 0.50
Basic loss per share from discontinued operations	\$ (0.05)	\$ (0.07)	\$ (0.05)	\$ (0.04)
Basic (loss) earnings per share	<u>\$ (0.80)</u>	<u>\$ (0.41)</u>	<u>\$ (2.19)</u>	<u>\$ 0.46</u>

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Diluted:				
(Loss) income from continuing operations	\$ (55,755)	\$ (23,384)	\$ (157,805)	\$ 27,549
Interest on convertible debt -net of taxes	—	—	—	1,434
(Loss) income from continuing operations for diluted EPS	\$ (55,755)	\$ (23,384)	\$ (157,805)	\$ 28,983
Loss from discontinued operations, net of tax for diluted EPS	(3,365)	(4,432)	(3,878)	(2,068)
(Loss) income for diluted EPS	<u>\$ (59,120)</u>	<u>\$ (27,816)</u>	<u>\$ (161,683)</u>	<u>\$ 26,915</u>
Weighted average number of shares outstanding — basic	73,982	68,310	73,930	55,079
Effect of dilutive securities:				
Shares issuable upon conversion of convertible debt	—	—	—	7,738
Shares issuable upon conversion of TEU prepaid stock purchase contracts	—	—	—	2,459
Weighted average number of shares outstanding — diluted	<u>73,982</u>	<u>68,310</u>	<u>73,930</u>	<u>65,276</u>
Diluted (loss) earnings per share from continuing operations	\$ (0.75)	\$ (0.34)	\$ (2.14)	\$ 0.44
Diluted loss per share from discontinued operations	\$ (0.05)	\$ (0.07)	\$ (0.05)	\$ (0.03)
Diluted (loss) earnings per share	<u>\$ (0.80)</u>	<u>\$ (0.41)</u>	<u>\$ (2.19)</u>	<u>\$ 0.41</u>

In computing diluted loss per share for the three and nine months ended June 30, 2011 and three months ended June 30, 2010, 25.4 million common shares issuable upon conversion of our Mandatory Convertible Subordinated Notes and Tangible Equity Unit prepaid stock purchase contracts were excluded from the computation of diluted loss per share as a result of their anti-dilutive effect. Also, in computing diluted loss per share for the three and nine months ended June 30, 2011 and the three months ended June 30, 2010, all common stock equivalents from employee compensation awards were excluded from the computation of diluted loss per share as a result of their anti-dilutive effect. In computing diluted earnings per share for the nine months ended June 30 2010, options/SSARs to purchase 1.9 million shares of common stock were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

(7) Borrowings

At June 30, 2011 and September 30, 2010, we had the following long-term debt (in thousands):

	Maturity Date	June 30, 2011	September 30, 2010
Secured Revolving Credit Facility	August 2012	\$ —	\$ —
6 1/2% Senior Notes	November 2013	—	164,473
6 7/8% Senior Notes	July 2015	172,454	209,454
8 1/8% Senior Notes	June 2016	172,879	180,879
12% Senior Secured Notes	October 2017	250,000	250,000
9 1/8% Senior Notes	June 2018	300,000	300,000
9 1/8% Senior Notes	May 2019	250,000	—
TEU Senior Amortizing Notes	August 2013	11,226	14,594
Unamortized debt discounts		(24,208)	(23,617)
Total Senior Notes, net		<u>1,132,351</u>	<u>1,095,783</u>
Mandatory Convertible Subordinated Notes	January 2013	57,500	57,500
Junior subordinated notes	July 2036	49,020	47,470
Cash Secured Loan	November 2017	247,368	—
Other secured notes payable	Various Dates	2,726	10,794
Total debt, net		<u>\$ 1,488,965</u>	<u>\$ 1,211,547</u>

Secured Revolving Credit Facility — On August 5, 2009, we entered into an amendment to our Secured Revolving Credit Facility that reduced the size of the facility to \$22 million. The Secured Revolving Credit Facility is provided by one lender. The Secured Revolving Credit Facility provides for future working capital and letter of credit needs collateralized by either cash or assets of the Company at our option, based on certain conditions and covenant compliance. As of June 30, 2011, we have elected to cash collateralize all letters of credit; however, we have pledged approximately \$1.1 billion of inventory assets to our Senior Secured Revolving Credit Facility to collateralize potential future borrowings or letters of credit. The Secured Revolving Credit Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. Subject to our option to cash collateralize our obligations under the Secured Revolving Credit Facility upon certain conditions, our obligations under the Secured Revolving Credit Facility are secured by liens on substantially all of our personal property and a significant portion of our owned real properties. There were no outstanding borrowings under the Secured Revolving Credit Facility as of June 30, 2011 or September 30, 2010. In July 2011, we further amended our Secured Revolving Credit Facility to extend its maturity to August 2012.

We have entered into stand-alone, cash-secured letter of credit agreements with banks to maintain our pre-existing letters of credit and to provide for the issuance of new letters of credit. The letter of credit arrangements combined with our Senior Secured Revolving Credit Facility provide a total letter of credit capacity of approximately \$92.1 million. As of June 30, 2011 and September 30, 2010, we have secured letters of credit using cash collateral in restricted accounts totaling \$36.7 million and \$38.8 million, respectively. The Company may enter into additional arrangements to provide additional letter of credit capacity.

Senior Notes — The majority of our Senior Notes are unsecured or secured obligations ranking pari passu with all other existing and future senior indebtedness. Substantially 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 and the Secured Revolving Credit Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes.

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At June 30, 2011, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. The indentures provide that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes. Specifically, certain indentures require us to offer to purchase 10% of the original amount of the Senior Notes at par if our consolidated tangible net worth (defined as stockholders' equity less intangible assets) is less than \$85 million at the end of any two consecutive fiscal quarters. If triggered and fully subscribed, this could result in our having to purchase \$62.5 million of notes, based on the original amounts of the applicable notes; however, this amount may be reduced by certain Senior Note repurchases (potentially at less than par) made after the triggering date. As of June 30, 2011, our consolidated tangible net worth was \$193.1 million.

On January 8, 2010, we redeemed our 8 5/8% Senior Notes due 2011 at par totaling \$127.3 million. This redemption resulted in a loss on debt extinguishment of \$0.9 million due primarily to the acceleration of debt discount and issuance costs. In May 2010, we redeemed our 8 3/8% Senior Notes due 2012 at par for a total of \$303.6 million. This redemption resulted in a loss on debt extinguishment of \$2.9 million, which included the acceleration of debt issuance cost amortization. In addition, during the fiscal year ended September 30, 2010, we redeemed for cash all of the outstanding Convertible Senior Notes for a total of \$155.5 million. The redemption resulted in a loss on debt extinguishment of \$6.2 million, which included the acceleration of debt issuance cost amortization.

On September 11, 2009, we issued and sold \$250 million aggregate principal amount of our 12% Senior Secured Notes due 2017 (Senior Secured Notes) through a private placement. The Senior Secured Notes were issued at a price of 89.5% of their face amount (before underwriting and other issuance costs). Interest on the Senior Secured Notes is payable semi-annually in cash in arrears. During the quarter ended March 31, 2010, we completed an offer to exchange substantially all of the \$250 million Senior Secured Notes, which were registered under the Securities Act of 1933. The Senior Secured Notes were issued under an indenture, dated as of September 11, 2009. The indenture contains covenants which, subject to certain exceptions, limit the ability of the Company and its restricted subsidiaries to, among other things, incur additional indebtedness, engage in certain asset sales, make certain types of restricted payments, engage in transactions with affiliates and create liens on assets of the Company. Upon a change of control, as defined, the indenture requires us to make an offer to repurchase the Senior Secured Notes at 101% of their principal amount, plus accrued and unpaid interest. If we sell certain assets and do not reinvest the net proceeds in compliance with the indenture, then we must use the net proceeds to offer to repurchase the Senior Secured Notes at 100% of their principal amount, plus accrued and unpaid interest. After October 15, 2012, we may redeem some or all of the Senior Secured Notes at redemption prices set forth in the indenture. The Senior Secured Notes are secured on a second priority basis by, subject to exceptions specified in the related agreements, substantially all of the tangible and intangible assets of the Company as defined.

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In May 2010, we issued \$300 million aggregate principal amount of 9 1/8% Senior Notes due June 15, 2018. Interest on these notes is payable semi-annually in cash in arrears, commencing on June 15, 2010. These notes are unsecured and rank equally with our unsecured indebtedness. We may, at our option, redeem the 9 1/8% Senior Notes in whole or in part at any time at specified redemption prices which include a “make whole” provision through June 15, 2014.

Also in May 2010, we issued 3 million 7.25% tangible equity units (TEUs) which were comprised of prepaid stock purchase contracts and senior amortizing notes. As these two components of the TEUs are legally separate and detachable, we have accounted for the two components as separate items for financial reporting purposes and valued them based on their relative fair value at the date of issuance. The amortizing notes are unsecured senior obligations and rank equally with all of our other unsecured indebtedness and had an aggregate initial principal amount of \$15.7 million as determined under the relative fair value method. These notes pay quarterly installments of principal and interest aggregating approximately \$1.4 million per quarter through August 15, 2013, and in the aggregate, these installments will be equivalent to a 7.25% cash payment per year with respect to each \$25 stated amount of the TEUs. If we elect to settle the prepaid stock purchase contracts early, we may be required to repurchase certain amortizing notes, plus accrued and unpaid interest as provided for in the TEU agreement. The related prepaid stock purchase contracts will be settled in Beazer Homes’ common stock on August 15, 2013 and have been accounted for as equity in the accompanying unaudited condensed consolidated balance sheets.

In November 2010, we issued \$250 million aggregate principal amount of 9 1/8% Senior Notes due May 15, 2019 in a private placement. Interest on these notes is payable semi-annually in cash in arrears, commencing on May 15, 2011. These notes are unsecured and rank equally with our unsecured indebtedness. We may, at our option, redeem the 9 1/8% Senior Notes in whole or in part at any time at specified redemption prices which include a “make whole” provision through May 15, 2014. During the quarter ended June 30, 2011, we offered to exchange substantially all of the \$250 million 9 1/8% Senior Notes due 2019 for notes that were publically traded and registered under the Securities Act of 1933. As of July 19, 2011, the expiration date of the exchange offer, approximately 94% of \$234.6 million of the 9 1/8% Senior Notes were exchanged for the publically traded and registered 9 1/8% Senior Notes.

During the nine months ended June 30, 2011, we redeemed or repurchased in open market transactions \$209.5 million principal amount of our Senior Notes (\$164.5 million of 6 1/2% Senior Notes due 2013, \$37.0 million of 6 7/8% Senior Notes due 2015 and \$8.0 million of 8 1/8% Senior Notes due 2016). The aggregate purchase price was \$210.0 million, plus accrued and unpaid interest as of the purchase date. The redemption/repurchase of the notes resulted in a \$2.9 million pre-tax loss on extinguishment of debt, net of unamortized discounts and debt issuance costs related to these notes. All Senior Notes redeemed/repurchased by the Company were cancelled.

Mandatory Convertible Subordinated Notes — On January 12, 2010, we issued \$57.5 million aggregate principal amount of 7 1/2% Mandatory Convertible Subordinated Notes due 2013 (the Mandatory Convertible Subordinated Notes). Interest on the Mandatory Convertible Subordinated Notes is payable quarterly in cash in arrears. Holders of the Mandatory Convertible Subordinated Notes have the right to convert their notes, in whole or in part, at any time prior to maturity, into shares of our common stock at a fixed conversion rate of 5.4348 shares per \$25 principal amount of notes. At maturity, the remaining notes will automatically convert into the Company’s common stock at a defined conversion rate which will range from 4.4547 to 5.4348 (the initial conversion rate) shares per \$25 principal amount of notes based on the then current price of the common stock. The securities are subordinated to nonconvertible debt, the conversion feature is non-detachable and there are no beneficial conversion features associated with this debt. If our consolidated tangible net worth is less than \$85 million as of the last day of a fiscal quarter, the Company has the right to require holders to convert all of the notes then outstanding for shares of our common stock at the maximum conversion rate.

Junior Subordinated Notes — On June 15, 2006, we completed a private placement of \$103.1 million of unsecured junior subordinated notes which mature on July 30, 2036 and are redeemable at par on or after July 30, 2011 and pay a fixed rate of 7.987% for the first ten years ending July 30, 2016. Thereafter, the securities have a floating interest rate equal to three-month LIBOR plus 2.45% per annum, resetting quarterly. These notes were issued to Beazer Capital Trust I, which simultaneously issued, in a private transaction, trust preferred securities and common securities with an aggregate value of \$103.1 million to fund its purchase of these notes. The transaction is treated as debt in accordance with GAAP. The obligations relating to these notes and the related securities are subordinated to the Secured Revolving Credit Facility and the Senior Notes.

On January 15, 2010, we completed an exchange of \$75 million of our trust preferred securities issued by Beazer Capital Trust I for a new issue of \$75 million of junior subordinated notes due July 30, 2036 issued by the Company (the New Junior Notes). The exchanged trust preferred securities and the related junior subordinated notes issued in 2006 were cancelled effective January 15, 2010. The material terms of the New Junior Notes are identical to the terms of the original trust securities except that when the New Junior Notes change from a fixed rate to a variable rate in August 2016, the variable rate is subject to a floor of 4.25% and a cap of 9.25%. In addition, the Company now has the option to redeem the New Junior Notes beginning on June 1, 2012 at 75% of par value and beginning on June 1, 2022, the redemption price of 75% of par value will increase by 1.785% per year.

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The aforementioned exchange has been accounted for as an extinguishment of debt as there has been a significant modification of cash flows and, as such, the New Junior Notes were recorded at their estimated fair value at the exchange date. Over the remaining life of the New Junior Notes, we will increase their carrying value until this carrying value equals the face value of the notes. During the nine months ended June 30, 2010, we recorded a pre-tax gain on extinguishment of \$53.6 million in connection with this exchange. As of June 30, 2011, the unamortized accretion was \$51.8 million and will be amortized over the remaining life of the notes.

As of June 30, 2011, we were in compliance with all covenants under our Senior Notes.

Cash Secured Loans — In November 2010, we entered into two separate loan facilities for a combined total of \$275 million. Borrowing under the cash secured loan facilities will replenish cash used to repay or repurchase the Company's debt and would be considered "refinancing indebtedness" under certain of the Company's existing indentures and debt covenants. However, because the loans are fully collateralized by cash equal to the loan amount, the loans do not provide liquidity to the Company.

The lenders of these facilities may put the outstanding loan balances to the Company at the two or four year anniversaries of the loan. The loan matures in seven years. Borrowings under the facilities are fully secured by cash held by the lender or its affiliates. This secured cash is reflected as restricted cash on our unaudited condensed consolidated balance sheet as of June 30, 2011. We borrowed \$32.6 million at inception of the loans. As previously indicated and in order to protect financing capacity available under our covenant refinancing basket related to previous or future debt repayments, we borrowed an additional \$214.8 million under the cash secured loan facilities in the quarter ended June 30, 2011. The cash secured loan has an interest rate equivalent to LIBOR plus 0.4% per annum which is paid every three months following the effective date of each borrowing.

Other Secured Notes Payable — We periodically acquire land through the issuance of notes payable. As of June 30, 2011 and September 30, 2010, we had outstanding notes payable of \$2.7 million and \$10.8 million, respectively, primarily related to land acquisitions. These notes payable expire at various times through 2012 and had a weighted average fixed rate of 7.4% at June 30, 2011. These notes are secured by the real estate to which they relate.

The agreements governing these secured notes payable contain various affirmative and negative covenants. There can be no assurance that we will be able to obtain any future waivers or amendments that may become necessary without significant additional cost or at all. In each instance, however, a covenant default can be cured by repayment of the indebtedness.

(8) Income Taxes

For the three and nine months ended June 30, 2011, our tax expense from continuing operations was \$3.6 million and \$0.6 million, respectively. The principal difference between our effective rate and the U.S. federal statutory rate for the three and nine months ended June 30, 2011 relates to our valuation allowance.

During fiscal 2008, we determined that we did not meet the more likely than not standard that substantially all of our deferred tax assets would be realized and therefore, we established a valuation allowance for substantially all of our deferred tax assets.

Given the prolonged economic downturn affecting the homebuilding industry and the continued uncertainty regarding the recoverability of the remaining deferred tax assets, we continue to believe that a valuation allowance is needed for substantially all of our deferred tax assets. In future periods, the allowance could be modified based on sufficient evidence indicating that more likely than not a portion of our deferred tax assets will be realized. Changes in existing tax laws could also affect actual tax results and the valuation of deferred tax assets over time.

Further, we experienced an "ownership change" as defined in Section 382 of the Internal Revenue Code (Section 382) as of January 12, 2010. Section 382 contains rules that limit the ability of a company that undergoes an "ownership change" to utilize its net operating loss carryforwards (NOLs) and certain built-in losses or deductions recognized during the five-year period after the ownership change to offset future taxable income. Therefore, our ability to utilize our pre-ownership change net operating loss carryforwards and recognize certain built-in losses or deductions is limited by Section 382 to an estimated maximum amount of approximately \$11.4 million (\$4 million tax-effected) annually. Certain deferred tax assets are not subject to any limitation imposed by Section 382.

As of June 30, 2011, our valuation allowance was \$505.8 million and we expect to continue to add to our gross deferred tax assets for anticipated NOLs that will not be limited by Section 382.

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In the normal course of business, we are subject to audits by federal and state tax authorities regarding various tax liabilities. The IRS is currently conducting a routine examination of our federal income tax returns for fiscal years 2007 through 2010, and certain state taxing authorities are examining various fiscal years. The final outcome of these examinations is not yet determinable. The statute of limitations for our major tax jurisdictions remains open for examination for fiscal 2006 and subsequent years.

During the nine months ended June 30, 2011, there have been no material changes to the components of the Company's total unrecognized tax benefits, including any amount which, if recognized, would affect our effective tax rate.

(9) Contingencies

Beazer Homes and certain of its subsidiaries have been and continue to be named as defendants in various construction defect claims, complaints and other legal actions. The Company is subject to the possibility of loss contingencies arising in its business. In determining loss contingencies, we consider the likelihood of loss as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is considered probable that a liability has been incurred and when the amount of loss can be reasonably estimated.

Warranty Reserves. We currently provide a limited warranty (ranging from one to two years) covering workmanship and materials per our defined performance quality standards. In addition, we provide a limited warranty (generally ranging from a minimum of five years up to the period covered by the applicable statute of repose) covering only certain defined construction defects. We also provide a defined structural element warranty with single-family homes and townhomes in certain states.

Since we subcontract our homebuilding work to subcontractors who generally provide us with an indemnity and a certificate of insurance prior to receiving payments for their work, many claims relating to workmanship and materials are the primary responsibility of the subcontractors.

Warranty reserves are included in other liabilities and the provision for warranty accruals is included in home construction and land sales expenses in the unaudited condensed consolidated financial statements. We record reserves covering anticipated warranty expense for each home closed. Management reviews the adequacy of warranty reserves each reporting period based on historical experience and management's estimate of the costs to remediate the claims and adjusts these provisions accordingly. Our review includes a quarterly analysis of the historical data and trends in warranty expense by operating segment. An analysis by operating segment allows us to consider market specific factors such as our warranty experience, the number of home closings, the prices of homes, product mix and other data in estimating our warranty reserves. In addition, our analysis also contemplates the existence of any non-recurring or community-specific warranty related matters that might not be contemplated in our historical data and trends.

As of June 30, 2011, our warranty reserves include an estimate for the repair of less than 60 homes in Florida where certain of our subcontractors installed defective Chinese drywall in homes that were delivered during our 2006 and 2007 fiscal years. As of June 30, 2011, we have completed repairs on approximately 88% of these homes and we are in the process of repairing all of the remaining homes that we have been given permission to repair. We continue to inspect additional homes in order to determine whether they also contain the defective Chinese drywall. Like most major homebuilders, we contract for many of our construction activities on a turnkey basis, including the purchase and installation of drywall. Therefore, with few exceptions, our contractors purchased the drywall from independent suppliers, and delivered and installed this drywall into Beazer's homes. Much of this data is unavailable or inconclusive. Accordingly, it is difficult for the Company to determine which suppliers were used by these contractors, which suppliers provided defective Chinese drywall during the time period at issue or what amounts may have been purchased from such suppliers. As a result, it is difficult for the Company to determine which Beazer communities or particular homes had Chinese drywall installed without inspections and, the amount of additional liability, if any, is not reasonably estimable. Therefore, the outcome of inspections in process and potential future inspections or an unexpected increase in repair costs may require us to increase our warranty reserve in the future. In addition, the Company has been named as a defendant in a number of legal actions related to defective Chinese drywall (see other Litigation below).

As a result of our analyses, we adjust our estimated warranty liabilities. While we believe that our warranty reserves are adequate as of June 30, 2011, historical data and trends may not accurately predict actual warranty costs or future developments could lead to a significant change in the reserve. Our warranty reserves are as follows (in thousands):

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 18,699	\$ 26,666	\$ 25,821	\$ 30,100
Accruals for warranties issued	1,344	2,349	3,158	5,112
Changes in liability related to warranties existing in prior periods	(504)	779	(3,187)	731
Payments made	(2,285)	(4,421)	(8,538)	(10,570)
Balance at end of period	<u>\$ 17,254</u>	<u>\$ 25,373</u>	<u>\$ 17,254</u>	<u>\$ 25,373</u>

South Edge Litigation

During fiscal 2008, the administrative agent for the lenders of one of our unconsolidated joint ventures, South Edge, LLC, (South Edge), filed individual lawsuits against some of the joint venture members and certain of those members' parent companies (including the Company), seeking to recover damages under completion guarantees, among other claims. Effective June 10, 2011, the Company and one of its subsidiaries became parties to a settlement among the administrative agent for the lenders to South Edge (the Administrative Agent), certain of the lenders to South Edge, and certain of the other South Edge members and their respective parent companies (together with the Company and its subsidiary, the Participating Members). The Chapter 11 trustee for South Edge has expressed its consent to the agreement. Under the agreement, each of the parties will use commercially reasonable efforts to support confirmation of a consensual plan of reorganization for South Edge (the "Plan"), and to obtain bankruptcy court approval of a disclosure statement that will accompany the Plan, to obtain the requisite support of the South Edge lenders to the Plan, and to consummate the Plan promptly after confirmation, in each case by certain specified dates. Under the agreement, the effective date of the Plan following its confirmation is to occur on or before November 30, 2011, though it may be extended depending on the date of Plan confirmation.

No disclosure statement for the Plan has been approved by the bankruptcy court at this time, and nothing herein should be construed as a solicitation of any vote on the Plan by creditors of or equity holders in South Edge.

Pursuant to the agreement, on the effective date of the Plan, the Company would pay to the lenders an amount between approximately \$15.7 million and \$17.2 million, depending on certain contingencies including the extent to which infrastructure development funds already pledged to the Administrative Agent can be applied to the Participating Members' obligations as set forth under the proposed Plan. In addition, the Company would be responsible for its pro rata share of various fees, expenses and charges of the administrative agent for the lenders, the lenders and the Chapter 11 trustee, and to pay its share of certain allowed general unsecured claims in the South Edge bankruptcy case. The Company will also be responsible for a portion of certain administrative expenses that arise as part of the Plan confirmation process. As previously disclosed in Note 3, as of June 30, 2011, \$15.7 million has been recorded in Other Liabilities which is net of the \$1.5 million we paid and is currently held in escrow related to our South Edge joint venture.

If the Plan as proposed under the agreement becomes effective, the Company anticipates that one of its subsidiaries would acquire its share of the land owned by South Edge as a result of a bankruptcy court-approved disposition of the land to a newly created entity in which such subsidiary would expect to be a part owner and which would satisfy or assume the respective liens of the Administrative Agent and the lenders on the land. In addition, if the Plan becomes effective, the Company anticipates that current litigation between the Agent and the Participating Members would be resolved, although lenders who do not consent to the Plan may assert certain claims against the Company (which claims the Company vigorously disputes).

The agreement is subject to bankruptcy court approval and may be terminated by the Administrative Agent or the Participating Members upon the occurrence of certain specified events, including a failure to meet the specified dates on which the above-described activities in support of the Plan are to occur.

Other Litigation

A putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation (BMC). The Complaint alleges that Beazer violated the Real Estate Settlement Practices Act (RESPA) and North Carolina Gen. Stat. § 75-1.1 by (1) improperly requiring homebuyers to use Beazer-owned mortgage and settlement services as part of a down payment assistance program, and (2) illegally increasing the cost of homes and settlement services sold by Beazer Homes Corp. The purported class consists of all residents of North Carolina who purchased a home from Beazer, using mortgage financing provided by and through Beazer that included seller-funded down payment assistance, between January 1, 2000 and October 11, 2007. The parties have reached an agreement to settle the lawsuit, which will be partially funded by insurance proceeds. The settlement has been preliminarily approved by the court, but remains subject to final court approval. Under the terms of the settlement, the action will be dismissed with prejudice,

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and the Company and all other defendants will not admit any liability. A fairness hearing has been set for August 30, 2011. The Company has accrued a liability for such matter which is not material to the Company's financial position or results of operations and is included in the total litigation accrual discussed below.

On June 3, 2009, a purported class action complaint was filed by the owners of one of our homes in our Magnolia Lakes' community in Ft. Myers, Florida. The complaint names the Company and certain distributors and suppliers of drywall and was filed in the Circuit Court for Lee County, Florida on behalf of the named plaintiffs and other similarly situated owners of homes in Magnolia Lakes or alternatively in the State of Florida. The plaintiffs allege that the Company built their homes with defective drywall, manufactured in China, that contains sulfur compounds that allegedly corrode certain metals and that are allegedly capable of harming the health of individuals. Plaintiffs allege physical and economic damages and seek legal and equitable relief, medical monitoring and attorney's fees. This case has been transferred to the Eastern District of Louisiana pursuant to an order from the United States Judicial Panel on Multidistrict Litigation. In addition, the Company has been named in other multi-plaintiff complaints filed in the multidistrict litigation. We believe that the claims asserted in these actions are governed by home warranties or are without merit. Accordingly, the Company intends to vigorously defend against these actions. Furthermore, the Company has offered to repair all Beazer homes affected by defective Chinese drywall pursuant to a repair protocol that has been adopted by the multidistrict litigation court, including those homes involved in litigation. To date, nearly all of affected Beazer homeowners have accepted the Company's offer to repair. The Company also continues to pursue recovery against responsible subcontractors, drywall suppliers and drywall manufacturers for its repair costs.

On December 10, 2010, a shareholder derivative suit was filed by Milton Pfeiffer in the United States District Court for the District of Delaware against certain officers and directors of the Company. The complaint alleges that the defendants made false and misleading statements in the Company's 2010 proxy regarding the tax deductibility of the Company's 2010 Equity Incentive Plan. Plaintiff also alleges that defendants breached their fiduciary duties. This matter has been settled and the court granted preliminary approval of the settlement. The Company admitted no liability and will pay plaintiff's legal fees. A final hearing was held on August 3, 2011. There were no timely filed objections and the court approved settlement of this matter.

On March 14, 2011, the Company and several subsidiaries were named as defendants in a lawsuit filed by Flagstar Bank, FSB in the Circuit Court for the County of Oakland, State of Michigan. The complaint demands approximately \$5 million to recover purported losses in connection with 57 residential mortgage loan transactions under theories of breach of contract, fraud/intentional misrepresentation and other similar theories of recovery. We believe we have strong defenses to the claims on these individual loans and intend to vigorously defend the action. In addition, BMC has received notices from other investors demanding that BMC indemnify them for losses suffered with respect to ten mortgage loan transactions largely alleging misrepresentations during the loan origination process. We are currently investigating these claims. As previously disclosed, we operated BMC from 1998 through February 2008 to offer mortgage financing to the buyers of our homes. BMC entered into various agreements with mortgage investors for the origination of mortgage loans. Underwriting decisions were not made by BMC but by the investors or third-party service providers. To date, including the mortgage loans that are the subject of the lawsuit, we have received requests to repurchase fewer than 100 mortgage loans from various investors. While we have not been required to repurchase any mortgage loans, we have established an immaterial amount as a reserve for the repurchase of mortgage loans originated by BMC. We cannot rule out the potential for additional mortgage loan repurchase claims in the future, although, at this time, we do not believe that the exposure related to any such additional claims would be material to our consolidated financial position or results of operation. As of June 30, 2011, no liability has been recorded for any such additional claims as such exposure is not both probable and reasonably estimable.

On March 15, 2011, a shareholder derivative suit was filed by certain funds affiliated with Teamster Local 237 in the Superior Court of Fulton County, State of Georgia against certain officers and directors of the Company and the Company's compensation consultants. The complaint alleges breach of fiduciary duties involving decisions regarding executive compensation; specifically that compensation awarded to certain Company executives for the 2010 fiscal year were improper in light of the negative subsequent advisory "say on pay" vote by shareholders at the Company's 2011 stockholders meeting. The defendants have filed motions to dismiss this case, which were heard on August 3, 2011. The court dismissed all counts of the complaint and requested submission of a proposed order of dismissal.

We cannot predict or determine the timing or final outcome of the lawsuits or the effect that any adverse findings or adverse determinations in the pending lawsuits may have on us. In addition, an estimate of possible loss or range of loss, if any, cannot presently be made with respect to certain of the above pending matters. An unfavorable determination in any of the pending lawsuits could result in the payment by us of substantial monetary damages which may not be fully covered by insurance. Further, the legal costs associated with the lawsuits and the amount of time required to be spent by management and the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our business, financial condition and results of operations.

Other Matters

As disclosed in our 2009 Form 10-K, on July 1, 2009, the Company announced that it has resolved the criminal and civil investigations by the United States Attorney's Office in the Western District of North Carolina (the U.S. Attorney) and other state and federal agencies

concerning matters that were the subject of the independent investigation, initiated in April 2007 by the Audit Committee of the Board of Directors (the Investigation) and concluded in May 2008. Under the terms of a deferred prosecution agreement (DPA), the Company's liability for fiscal 2011 and each of the fiscal years after 2010 through a portion of fiscal 2014 (unless extended as previously described in our 2009 Form 10-K) will also be equal to 4% of the Company's adjusted EBITDA (as defined in the DPA). The total amount of such obligations will be dependent on several factors; however, the maximum liability under the DPA and other settlement agreements discussed above will not exceed \$55.0 million of which \$16 million has been paid as of June 30, 2011. As of September 30, 2010, we had accrued approximately \$1 million for future obligations under the DPA and HUD agreements which was paid in November 2010. Based on our projections of adjusted EBITDA for the remainder of fiscal 2011, we have no accrual related to these future obligations as of June 30, 2011. We believe that our absence of an accrual for this liability is appropriate as of June 30, 2011, however, positive adjusted EBITDA in future years will require us to incur additional expense in the future.

In November 2003, Beazer Homes received a request for information from the EPA pursuant to Section 308 of the Clean Water Act seeking information concerning the nature and extent of storm water discharge practices relating to certain of our communities completed or under construction. The EPA or the equivalent state agency has issued Administrative Orders identifying alleged instances of noncompliance and requiring corrective action to address the alleged deficiencies in storm water management practices. The parties have agreed to settle this matter and have executed a Consent Decree which received court approval on February 10, 2011. The terms of the Consent Decree constitute a final judgment and the Company did not admit any liability. Pursuant to the terms of the Consent Decree, the Company paid a civil penalty during the quarter which is not material to the Company's financial position or results of operations. The Company has established and implemented a comprehensive stormwater management program to ensure compliance with the Clean Water Act, similar state regulations and the terms of the Consent Decree itself.

In 2006, we received two Administrative Orders issued by the New Jersey Department of Environmental Protection. The Orders allege certain violations of wetlands disturbance permits. The two Orders assess proposed fines of \$630,000 and \$678,000, respectively. We have met with the Department to discuss their concerns on the two affected communities and have requested hearings on both matters. We believe that we have significant defenses to the alleged violations and intend to contest the agency's findings and the proposed fines. We are currently pursuing settlement discussions with the Department.

We and certain of our subsidiaries have been named as defendants in various claims, complaints and other legal actions, most relating to construction defects, moisture intrusion and product liability. Certain of the liabilities resulting from these actions are covered in whole or part by insurance. In our opinion, based on our current assessment, the ultimate resolution of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

We have accrued \$29.9 million and \$18.0 million in other liabilities related to all of the above matters including South Edge as of June 30, 2011 and September 30, 2010, respectively.

We had outstanding letters of credit and performance bonds of approximately \$34.4 million and \$175.8 million, respectively, at June 30, 2011 related principally to our obligations to local governments to construct roads and other improvements in various developments. Our outstanding letters of credit at June 30, 2011 include \$3.4 million relating to our lot option contracts discussed in Note 1.

(10) Fair Value Measurements

As of June 30, 2011, we had no assets or liabilities in our unaudited condensed consolidated balance sheets that were required to be measured at fair value on a recurring basis. Certain of our assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value may not be recovered. We use a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value as follows: Level 1 — Quoted prices in active markets for identical assets or liabilities; Level 2 — Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly through corroboration with market data; Level 3 — Unobservable inputs that reflect our own estimates about the assumptions market participants would use in pricing the asset or liability.

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The following table presents our assets measured at fair value on a non-recurring basis for each hierarchy level and represents only those assets whose carrying values were adjusted to fair value during the nine months ended June 30, 2011 and 2010 (in thousands):

	Level 1	Level 2	Level 3	Total
Nine Months Ended June 30, 2011:				
Development projects in progress	—	—	39,373	39,373
Land held for sale	—	—	—	—
Right to purchase land	—	—	13,184	13,184
Joint venture investments	—	—	—	—
Nine Months Ended June 30, 2010:				
Development projects in progress	—	—	43,103	43,103
Land held for sale	—	—	2,039	2,039
Joint venture investments	—	—	4,060	4,060

As previously disclosed, we review our long-lived assets, including inventory for recoverability when factors that indicate an impairment may exist, but no less than quarterly. Fair value is based on estimated cash flows discounted for market risks associated with the long-lived assets. The fair values of our investments in unconsolidated joint ventures are determined primarily using a discounted cash flow model to value the underlying net assets of the respective entities. During the nine months ended June 30, 2011, we recorded total impairments, including discontinued operations, of \$24.5 million, \$0.2 million and \$0.6 million for development projects in progress, land held for sale and joint venture investments, respectively. During the nine months ended June 30, 2010, we recorded total impairments, including discontinued operations, of \$22.4 million, \$1.3 million and \$24.0 million for development projects in progress, land held for sale, and joint venture investments, respectively. See Notes 1 and 3 for additional information related to the fair value accounting for the assets listed above. Determining which hierarchical level an asset or liability falls within requires significant judgment. We evaluate our hierarchy disclosures each quarter.

The fair value of our cash and cash equivalents, restricted cash, accounts receivable, trade accounts payable, other liabilities, cash secured loan and other secured notes payable approximate their carrying amounts due to the short maturity of these assets and liabilities. Obligations related to land not owned under option agreements are recorded at estimated fair value. The carrying values and estimated fair values of other financial assets and liabilities were as follows:

	As of June 30, 2011		As of September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior Notes	\$ 1,132,351	\$ 1,069,390	\$ 1,095,783	\$ 1,093,855
Mandatory Convertible Subordinated Notes	57,500	42,895	57,500	61,525
Junior Subordinated Notes	49,020	49,020	47,470	47,470
	<u>\$ 1,238,871</u>	<u>\$ 1,161,305</u>	<u>\$ 1,200,753</u>	<u>\$ 1,202,850</u>

The estimated fair values shown above for our publicly held Senior Notes and Mandatory Convertible Subordinated Notes have been determined using quoted market rates. The fair value of our publicly held junior subordinated notes is estimated by discounting scheduled cash flows through maturity. The discount rate is estimated using market rates currently being offered on loans with similar terms and credit quality. Judgment is required in interpreting market data to develop these estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange.

(11) Segment Information

We have three homebuilding segments operating in 16 states and beginning in the second quarter of fiscal 2011, we have introduced our Pre-Owned Homes division in Arizona and Nevada. Revenues in our homebuilding segments are derived from the sale of homes which we construct and from land and lot sales. Revenues from our Pre-Owned segment are derived from the rental and ultimate sale of previously owned homes purchased and improved by the Company. Our reportable segments have been determined on a basis that is used internally by management for evaluating segment performance and resource allocations. In alignment therewith, during the fourth quarter of fiscal year 2010, we moved our Raleigh, North Carolina market from our East segment to our Southeast segment. During the third quarter of fiscal 2011, in order to further optimize capital and resource allocations and based on our evaluation of both external market factors and our position in each market, we decided to discontinue our homebuilding operations in Northwest Florida. As a result, the information below for continuing operations and the Southeast segment, excludes results from our Northwest Florida market.

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The reportable homebuilding segments and all other homebuilding operations, not required to be reported separately, include operations conducting business in the following states:

West: Arizona, California, Nevada and Texas

East: Delaware, Indiana, Maryland, New Jersey, New York, Pennsylvania, Tennessee (Nashville) and Virginia

Southeast: Florida, Georgia, North Carolina (Raleigh), and South Carolina

Management's evaluation of segment performance is based on segment operating income. Operating income for our homebuilding segments is defined as homebuilding, land sale and other revenues less home construction, land development and land sales expense, depreciation and amortization and certain selling, general and administrative expenses which are incurred by or allocated to our homebuilding segments. Operating income for our Pre-Owned segment is defined as rental and home sale revenues less home repairs and operating expenses, home sales expense, depreciation and amortization and certain selling, general and administrative expenses which are incurred by or allocated to the segment. The accounting policies of our segments are those described in Note 1 and Note 1 to our 2010 Annual Report. The following information is in thousands:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Revenue				
West	\$ 55,502	\$ 117,764	\$ 131,841	\$ 284,327
East	77,895	143,855	186,527	312,823
Southeast	39,288	60,229	88,985	125,257
Pre-Owned	144	—	144	—
Continuing Operations	<u>\$ 172,829</u>	<u>\$ 321,848</u>	<u>\$ 407,497</u>	<u>\$ 722,407</u>
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Operating income/(loss)				
West	\$ (2,542)	\$ 2,486	\$ (28,567)	\$ 6,128
East	1,905	9,687	1,462	19,996
Southeast	(3,381)	4,700	(4,194)	(947)
Pre-Owned	(75)	—	(318)	—
Segment total	(4,093)	16,873	(31,617)	25,177
Corporate and unallocated (a)	(31,146)	(36,259)	(76,465)	(95,726)
Total operating loss	(35,239)	(19,386)	(108,082)	(70,549)
Equity in income (loss) of unconsolidated joint ventures	63	(10)	372	(8,819)
Gain (loss) on extinguishment of debt	95	(9,045)	(2,909)	43,901
Other expense, net	(17,085)	(16,373)	(46,616)	(53,939)
Loss from continuing operations before income taxes	<u>\$ (52,166)</u>	<u>\$ (44,814)</u>	<u>\$ (157,235)</u>	<u>\$ (89,406)</u>

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Depreciation and amortization				
West	\$ 1,160	\$ 1,425	\$ 2,282	\$ 3,869
East	544	839	1,517	2,439
Southeast	222	559	473	1,258
Pre-Owned	12	—	13	—
Segment total	1,938	2,823	4,285	7,566
Corporate and unallocated (a)	722	530	2,342	1,692
Continuing Operations	<u>\$ 2,660</u>	<u>\$ 3,353</u>	<u>\$ 6,627</u>	<u>\$ 9,258</u>
			Nine Months Ended June 30,	
			2011	2010
Capital Expenditures				
West			\$ 3,197	\$ 2,558
East			1,720	1,076
Southeast			1,189	917
Pre-Owned			4,801	—
Corporate and unallocated			1,200	2,002
Discontinued operations			27	105
Consolidated total			<u>\$ 12,134</u>	<u>\$ 6,658</u>
			June 30, 2011	September 30, 2010
Assets				
West			\$ 679,101	\$ 630,376
East			383,981	333,648
Southeast			181,661	161,392
Pre-Owned			4,843	—
Corporate and unallocated (b)			717,766	727,681
Discontinued operations			37,717	49,805
Consolidated total			<u>\$ 2,005,069</u>	<u>\$ 1,902,902</u>

- (a) Corporate and unallocated includes amortization of capitalized interest and numerous shared services functions that benefit all segments, the costs of which are not allocated to the operating segments reported above including information technology, national sourcing and purchasing, treasury, corporate finance, legal, branding and other national marketing costs.
- (b) Primarily consists of cash and cash equivalents, consolidated inventory not owned, deferred taxes, capitalized interest and other corporate items that are not allocated to the segments.

(12) Supplemental Guarantor Information

As discussed in Note 7, our obligations to pay principal, premium, if any, and interest under certain debt are guaranteed on a joint and several basis by substantially all of our subsidiaries. Certain of our immaterial subsidiaries do not guarantee our Senior Notes or our Secured Revolving Credit Facility. The guarantees are full and unconditional and the guarantor subsidiaries are 100% owned by Beazer Homes USA, Inc. We have determined that separate, full financial statements of the guarantors would not be material to investors and, accordingly, supplemental financial information for the guarantors is presented.

Beazer Homes USA, Inc.
Consolidating Balance Sheet Information
June 30, 2011
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	\$ 277,985	\$ 324	\$ 1,159	\$ (4,823)	\$ 274,645
Restricted cash	284,043	281	—	—	284,324
Accounts receivable	—	32,177	8	—	32,185
Income tax receivable	2,835	—	—	—	2,835
Owned inventory	—	1,290,786	—	—	1,290,786
Land not owned under option agreements	—	22,571	—	—	22,571
Investments in unconsolidated joint ventures	773	8,762	—	—	9,535
Deferred tax assets, net	7,964	—	—	—	7,964
Property, plant and equipment, net	—	29,239	—	—	29,239
Investments in subsidiaries	119,948	—	—	(119,948)	—
Intercompany	1,108,288	(1,116,863)	3,752	4,823	—
Other assets	19,547	28,408	3,030	—	50,985
Total assets	\$ 1,821,383	\$ 295,685	\$ 7,949	\$ (119,948)	\$ 2,005,069
LIABILITIES AND STOCKHOLDERS' EQUITY					
Trade accounts payable	\$ —	\$ 69,221	\$ —	\$ —	\$ 69,221
Other liabilities	93,069	95,200	3,246	—	191,515
Intercompany	1,067	—	(1,067)	—	—
Obligations related to land not owned under option agreements	—	14,360	—	—	14,360
Total debt	1,486,239	2,726	—	—	1,488,965
Total liabilities	1,580,375	181,507	2,179	—	1,764,061
Stockholders' equity	241,008	114,178	5,770	(119,948)	241,008
Total liabilities and stockholders' equity	\$ 1,821,383	\$ 295,685	\$ 7,949	\$ (119,948)	\$ 2,005,069

Beazer Homes USA, Inc.
Consolidating Balance Sheet Information
September 30, 2010
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	\$ 530,847	\$ 8,343	\$ 200	\$ (2,269)	\$ 537,121
Restricted cash	38,781	419	—	—	39,200
Accounts receivable	—	32,632	15	—	32,647
Income tax receivable	7,684	—	—	—	7,684
Owned inventory	—	1,153,703	—	—	1,153,703
Land not owned under option agreements	—	49,958	—	—	49,958
Investments in unconsolidated joint ventures	773	7,948	—	—	8,721
Deferred tax assets, net	7,779	—	—	—	7,779
Property, plant and equipment, net	—	23,995	—	—	23,995
Investments in subsidiaries	233,507	—	—	(233,507)	—
Intercompany	846,471	(857,409)	8,669	2,269	—
Other assets	20,434	17,163	4,497	—	42,094
Total assets	<u>\$ 1,686,276</u>	<u>\$ 436,752</u>	<u>\$ 13,381</u>	<u>\$ (233,507)</u>	<u>\$ 1,902,902</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Trade accounts payable	\$ —	\$ 53,418	\$ —	\$ —	\$ 53,418
Other liabilities	87,354	118,534	4,282	—	210,170
Intercompany	1,068	—	(1,068)	—	—
Obligations related to land not owned under option agreements	—	30,666	—	—	30,666
Total debt	<u>1,200,753</u>	<u>10,794</u>	<u>—</u>	<u>—</u>	<u>1,211,547</u>
Total liabilities	<u>1,289,175</u>	<u>213,412</u>	<u>3,214</u>	<u>—</u>	<u>1,505,801</u>
Stockholders' equity	<u>397,101</u>	<u>223,340</u>	<u>10,167</u>	<u>(233,507)</u>	<u>397,101</u>
Total liabilities and stockholders' equity	<u>\$ 1,686,276</u>	<u>\$ 436,752</u>	<u>\$ 13,381</u>	<u>\$ (233,507)</u>	<u>\$ 1,902,902</u>

Beazer Homes USA, Inc.
Unaudited Consolidating Statement of Operations Information
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended June 30, 2011					
Total revenue	\$ —	\$ 172,829	\$ 286	\$ (286)	\$ 172,829
Home construction and land sales expenses	11,179	141,231	—	(286)	152,124
Inventory impairments and option contract abandonments	380	6,490	—	—	6,870
Gross (loss) profit	(11,559)	25,108	286	—	13,835
Selling, general and administrative expenses	—	46,388	26	—	46,414
Depreciation and amortization	—	2,660	—	—	2,660
Operating (loss) income	(11,559)	(23,940)	260	—	(35,239)
Equity in income of unconsolidated joint ventures	—	63	—	—	63
Gain on extinguishment of debt	95	—	—	—	95
Other (expense) income, net	(17,707)	609	13	—	(17,085)
(Loss) income before income taxes	(29,171)	(23,268)	273	—	(52,166)
(Benefit from) provision for income taxes	(11,339)	14,832	96	—	3,589
Equity in (loss) income of subsidiaries	(37,923)	—	—	37,923	—
(Loss) income from continuing operations	(55,755)	(38,100)	177	37,923	(55,755)
Loss from discontinued operations	—	(3,362)	(3)	—	(3,365)
Equity in (loss) of subsidiaries	(3,365)	—	—	3,365	—
Net (loss) income	\$ (59,120)	\$ (41,462)	\$ 174	\$ 41,288	\$ (59,120)

Beazer Homes USA, Inc.
Unaudited Consolidating Statement of Operations Information
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Nine Months Ended June 30, 2011					
Total revenue	\$ —	\$ 407,497	\$ 819	\$ (819)	\$ 407,497
Home construction and land sales expenses	26,352	332,880	—	(819)	358,413
Inventory impairments and option contract abandonments	1,789	23,542	—	—	25,331
Gross (loss) profit	(28,141)	51,075	819	—	23,753
Selling, general and administrative expenses	—	125,118	90	—	125,208
Depreciation and amortization	—	6,627	—	—	6,627
Operating (loss) income	(28,141)	(80,670)	729	—	(108,082)
Equity in income of unconsolidated joint ventures	—	372	—	—	372
Loss on extinguishment of debt	(2,909)	—	—	—	(2,909)
Other (expense) income, net	(55,688)	9,015	57	—	(46,616)
(Loss) income before income taxes	(86,738)	(71,283)	786	—	(157,235)
(Benefit from) provision for income taxes	(33,715)	34,010	275	—	570
Equity in (loss) income of subsidiaries	(104,782)	—	—	104,782	—
(Loss) income from continuing operations	(157,805)	(105,293)	511	104,782	(157,805)
Loss from discontinued operations	—	(3,870)	(8)	—	(3,878)
Equity in loss of subsidiaries	(3,878)	—	—	3,878	—
Net (loss) income	\$ (161,683)	\$ (109,163)	\$ 503	\$ 108,660	\$ (161,683)

Beazer Homes USA, Inc.
Unaudited Consolidating Statement of Operations Information
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended June 30, 2010					
Total revenue	\$ —	\$ 321,566	\$ 282	\$ —	\$ 321,848
Home construction and land sales expenses	16,444	263,614	—	—	280,058
Inventory impairments and option contract abandonments	196	4,777	—	—	4,973
Gross (loss) profit	(16,640)	53,175	282	—	36,817
Selling, general and administrative expenses	—	52,824	26	—	52,850
Depreciation and amortization	—	3,353	—	—	3,353
Operating (loss) income	(16,640)	(3,002)	256	—	(19,386)
Equity in loss of unconsolidated joint ventures	—	(10)	—	—	(10)
Gain on extinguishment of debt	(9,045)	—	—	—	(9,045)
Other (expense) income, net	(17,381)	997	11	—	(16,373)
Income (loss) before income taxes	(43,066)	(2,015)	267	—	(44,814)
(Benefit from) provision for income taxes	(16,258)	(5,265)	93	—	(21,430)
Equity in (loss) income of subsidiaries	3,424	—	—	(3,424)	—
Income (loss) from continuing operations	(23,384)	3,250	174	(3,424)	(23,384)
Loss from discontinued operations	—	(4,425)	(7)	—	(4,432)
Equity in loss of subsidiaries	(4,432)	—	—	4,432	—
Net income (loss)	\$ (27,816)	\$ (1,175)	\$ 167	\$ 1,008	\$ (27,816)

Beazer Homes USA, Inc.
Unaudited Consolidating Statement of Operations Information
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Nine Months Ended June 30, 2010					
Total revenue	\$ —	\$ 720,888	\$ 1,519	\$ —	\$ 722,407
Home construction and land sales expenses	37,898	581,623	—	—	619,521
Inventory impairments and option contract abandonments	1,292	22,011	—	—	23,303
Gross (loss) profit	(39,190)	117,254	1,519	—	79,583
Selling, general and administrative expenses	—	140,788	86	—	140,874
Depreciation and amortization	—	9,258	—	—	9,258
Operating (loss) income	(39,190)	(32,792)	1,433	—	(70,549)
Equity in loss of unconsolidated joint ventures	—	(8,819)	—	—	(8,819)
Gain on extinguishment of debt	43,625	276	—	—	43,901
Other (expense) income, net	(57,478)	3,487	52	—	(53,939)
(Loss) income before income taxes	(53,043)	(37,848)	1,485	—	(89,406)
(Benefit from) provision for income taxes	(20,024)	(97,451)	520	—	(116,955)
Equity in (loss) income of subsidiaries	60,568	—	—	(60,568)	—
Income from continuing operations	27,549	59,603	965	(60,568)	27,549
Loss from discontinued operations	—	(2,057)	(11)	—	(2,068)
Equity in loss of subsidiaries	(2,068)	—	—	2,068	—
Net income	\$ 25,481	\$ 57,546	\$ 954	\$ (58,500)	\$ 25,481

Beazer Homes USA, Inc.
Unaudited Consolidating Statements of Cash Flow Information
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
For the nine months ended June 30, 2011					
Net cash (used in) provided by operating activities	\$ (33,549)	\$ (245,010)	\$ 941	\$ —	\$ (277,618)
Cash flows from investing activities:					
Capital expenditures	—	(12,134)	—	—	(12,134)
Investments in unconsolidated joint ventures	—	(1,763)	—	—	(1,763)
Increases in restricted cash	(250,526)	452	—	—	(250,074)
Decreases in restricted cash	5,539	(589)	—	—	4,950
Net cash used in investing activities	(244,987)	(14,034)	—	—	(259,021)
Cash flows from financing activities:					
Repayment of debt	(212,841)	(914)	—	—	(213,755)
Proceeds from issuance of new debt	246,387	—	—	—	246,387
Proceeds from issuance of cash secured loan	247,368	—	—	—	247,368
Debt issuance costs	(5,130)	—	—	—	(5,130)
Common stock redeemed	(163)	—	—	—	(163)
Excess tax benefit from equity-based compensation	(544)	—	—	—	(544)
Advances to/from subsidiaries	(249,403)	251,939	18	(2,554)	—
Net cash provided by (used in) by financing activities	25,674	251,025	18	(2,554)	274,163
(Decrease) increase in cash and cash equivalents	(252,862)	(8,019)	959	(2,554)	(262,476)
Cash and cash equivalents at beginning of period	530,847	8,343	200	(2,269)	537,121
Cash and cash equivalents at end of period	\$ 277,985	\$ 324	\$ 1,159	\$ (4,823)	\$ 274,645
	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
For the nine months ended June 30, 2010					
Net cash (used in) provided by operating activities	\$ (108,436)	\$ 111,653	\$ (2,440)	\$ —	\$ 777
Cash flows from investing activities:					
Capital expenditures	—	(6,658)	—	—	(6,658)
Investments in unconsolidated joint ventures	—	(5,122)	—	—	(5,122)
Increases in restricted cash	(25,156)	(1,094)	—	—	(26,250)
Decreases in restricted cash	31,880	1,223	—	—	33,103
Net cash provided by (used in) investing activities	6,724	(11,651)	—	—	(4,927)
Cash flows from financing activities:					
Repayment of debt	(615,008)	(2,125)	—	—	(617,133)
Proceeds from issuance of new debt	373,238	—	—	—	373,238
Debt issuance costs	(9,296)	—	—	—	(9,296)
Common stock redeemed	(134)	—	—	—	(134)
Common stock issued	166,719	—	—	—	166,719
Proceeds from the issuance of TEU prepaid stock purchase contracts	57,432	—	—	—	57,432
Excess tax benefit from equity-based compensation	(2,057)	—	—	—	(2,057)
Advances to/from subsidiaries	105,413	(104,898)	(82)	(433)	—
Net cash provided by (used in) financing activities	76,307	(107,023)	(82)	(433)	(31,231)
Decrease in cash and cash equivalents	(25,405)	(7,021)	(2,522)	(433)	(35,381)
Cash and cash equivalents at beginning of period	495,692	11,482	2,915	(2,750)	507,339
Cash and cash equivalents at end of period	\$ 470,287	\$ 4,461	\$ 393	\$ (3,183)	\$ 471,958

(13) Discontinued Operations

We continually review each of our markets in order to refine our overall investment strategy and to optimize capital and resource allocations in an effort to enhance our financial position and to increase shareholder value. This review entails an evaluation of both external market factors and our position in each market and over time, has resulted in the decision to discontinue certain of our homebuilding operations. During fiscal 2008 and 2009, we discontinued our homebuilding operations in Charlotte, NC, Cincinnati/Dayton, OH, Columbia, SC, Columbus, OH, Lexington, KY, Denver, CO and Fresno, CA. During the fourth quarter of fiscal 2010, we substantially completed our homebuilding operations in Jacksonville, Florida and Albuquerque, New Mexico, which were historically reported in our Southeast and West segments, respectively. During the third quarter of fiscal 2011, we decided to discontinue our homebuilding operations in Northwest Florida which have historically been reported in our Southeast segment.

Up until September 30, 2010, we offered title services to our homebuyers in several of our markets. Effective September 30, 2010, we had sold or discontinued all of our title services operations. The operating results of our title services operations were previously reported in our Financial Services segment.

We have classified the results of operations of our mortgage origination services, title services and our exit markets as discontinued operations in the accompanying consolidated statements of operations for all periods presented. Discontinued operations were not segregated in the consolidated balance sheets or statements of cash flows. Therefore, amounts for certain captions in the consolidated statements of cash flows will not agree with the respective data in the consolidated statements of operations. The results of our discontinued operations in the Consolidated Statements of Operations for the three and nine months ended June 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Total revenue	\$ 4,717	\$ 18,280	\$ 14,627	\$ 35,390
Home construction and land sales expenses	4,002	14,629	11,236	28,929
Inventory impairments and lot option abandonments	2,494	152	2,814	978
Gross (loss) profit	(1,779)	3,499	577	5,483
Selling, general and administrative expenses	1,137	2,442	3,553	6,666
Depreciation and amortization	282	271	406	537
Operating income (loss)	(3,198)	786	(3,382)	(1,720)
Equity in loss of unconsolidated joint ventures	(164)	(12,482)	(513)	(15,226)
Other income, net	—	33	26	105
Loss from discontinued operations before income taxes	(3,362)	(11,663)	(3,869)	(16,841)
Provision (benefit) from income taxes	3	(7,231)	9	(14,773)
Loss from discontinued operations, net of tax	\$ (3,365)	\$ (4,432)	\$ (3,878)	\$ (2,068)

Assets and liabilities from discontinued operations at June 30, 2011 and September 30, 2010, consist of the following (in thousands):

	June 30, 2011	September 30, 2010
ASSETS		
Cash and cash equivalents	\$ —	\$ 411
Accounts receivable	358	2,214
Inventory	36,746	46,280
Other assets	613	900
Assets of discontinued operations	\$ 37,717	\$ 49,805
LIABILITIES		
Trade accounts payable and other liabilities	\$ 3,983	\$ 8,727
Accrued warranty expenses	4,568	6,279
Other secured notes payable	—	857
Liabilities of discontinued operations	\$ 8,551	\$ 15,863

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Overview and Outlook

The national economic environment continues to be characterized by high unemployment levels and consumer and business uncertainty regarding the health of the economy. Against this backdrop, prospective home buyers have been further challenged by evidence of falling home prices, a significant current and anticipated future inventory of distressed homes for sale, and limited availability of mortgage credit. Although home prices and home ownership costs are very low compared to historical levels, and despite the fact that for many consumers it is less expensive to be a home owner than an apartment renter, demand for new homes has been exceptionally weak for several years.

Throughout the homebuilding recession we have remained disciplined in our approach to the business. Among other actions we have:

- Exited numerous markets that we determined were not core to our long-term profitability objectives, including Northwest Florida this quarter;
- Reduced overhead expenses by eliminating headcount and centralizing or regionalizing various functional activities;
- Value-engineered our homes to reduce direct construction costs;
- Limited our construction of unsold homes to align our inventory with anticipated near-term demand; and
- Scaled back our land and land development spending.

Each of these efforts has been undertaken to allow the company to generate or conserve liquidity while maintaining a substantial homebuilding presence in large markets to participate in the eventual housing recovery. We expect to continue this disciplined approach to managing our business during these uncertain times as we strive toward returning to profitability.

During the quarter ending March 31, 2011, the Company launched a Pre-Owned Homes Division which we charged with acquiring, improving and renting out recently built, previously owned homes within select communities in markets in which the Company currently operates. By augmenting the sale of newly constructed homes with rental options of previously owned homes, we expect to appeal to a broader range of consumers. Because the primary source of Pre-Owned Homes will be distressed sales, typically foreclosures or short sales, we anticipate acquiring homes at a discount to their replacement cost. This Division leverages our strengths as a homebuilder and knowledge of our markets, and offers an attractive investment proposition for a portion of the Company's cash reserve. Since the formation of this division, we have determined that the business opportunity is substantial and that the Company is well positioned to significantly increase the scale of operations with rental homes. As such, we are in the process of identifying additional third-party sources of capital to augment the Company's resources. We expect to limit the Company's investment in this division to no more than \$20 million. Pre-Owned Homes is presented as a reportable segment in the management discussions and analysis that follow.

Despite our confidence in the eventual growth prospects for our business, we expect to maintain a significant liquidity position. This may limit the speed and scale of our investments, which could in turn result in a slower recovery of profitability. Additionally, from time to time we may take steps to refine our capitalization, which could increase or decrease liquidity. These steps could include the

retirement or purchase of our outstanding debt, through cash purchases or exchange offers for other debt or equity instruments, in open market or privately negotiated transactions or otherwise. There can be no assurances that we will be able to complete any of these transactions in the future on favorable terms or at all.

While our visibility into the economic conditions for the remainder of fiscal 2011 and into fiscal 2012 is limited, we believe that we will benefit from increases in housing starts in the coming years. In the meantime, we are taking the steps necessary to drive improvement in homebuilding revenues, while maintaining an efficient cost structure, looking for new opportunities to generate profits and investing for future growth, all with the intention to accelerate our return to profitability.

Critical Accounting Policies: Some of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters. Although our accounting policies are in compliance with accounting principles generally accepted in the United States of America, a change in the facts and circumstances of the underlying transactions could significantly change the application of the accounting policies and the resulting financial statement impact. As disclosed in our annual report on Form 10-K for the fiscal year ended September 30, 2010, our most critical accounting policies relate to inventory valuation (inventory held for development and land held for sale), homebuilding revenues and costs, warranty reserves, investments in unconsolidated joint ventures and income tax valuation allowances. Since September 30, 2010, there have been no significant changes to those critical accounting policies.

Seasonal and Quarterly Variability: Our homebuilding operating cycle generally reflects escalating new order activity in the second and third fiscal quarters and increased closings in the third and fourth fiscal quarters. However, we continue to experience challenging conditions in most of our markets which contribute to decreased revenues and closings as compared to prior periods including prior quarters, thereby reducing typical seasonal variations. In addition, the expiration of the \$8,000 First Time Homebuyer Tax Credit as of April 2010 appears to have incentivized certain homebuyers to purchase homes during the first half of fiscal 2010 and accelerated closings into the third quarter of fiscal 2010, further impacting prior period comparisons to the first, second and third quarters of fiscal 2011.

RESULTS OF CONTINUING OPERATIONS:

(\$ in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Homebuilding	\$ 168,444	\$ 321,387	\$ 398,887	\$ 717,077
Land sales and other	4,385	461	8,610	5,330
Total	<u>\$ 172,829</u>	<u>\$ 321,848</u>	<u>\$ 407,497</u>	<u>\$ 722,407</u>
Gross profit:				
Homebuilding	\$ 11,877	\$ 36,369	\$ 20,127	\$ 76,899
Land sales and other	1,958	448	3,626	2,684
Total	<u>\$ 13,835</u>	<u>\$ 36,817</u>	<u>\$ 23,753</u>	<u>\$ 79,583</u>
Gross margin:				
Homebuilding	7.1%	11.3%	5.0%	10.7%
Land sales and other	44.7%	97.2%	42.1%	50.4%
Total	8.0%	11.4%	5.8%	11.0%
Selling, general and administrative (SG&A) expenses:	<u>\$ 46,414</u>	<u>\$ 52,850</u>	<u>\$ 125,208</u>	<u>\$ 140,874</u>
SG&A as a percentage of total revenue	26.9%	16.4%	30.7%	19.5%
Depreciation and amortization	<u>\$ 2,660</u>	<u>\$ 3,353</u>	<u>\$ 6,627</u>	<u>\$ 9,258</u>
Equity in income (loss) of unconsolidated joint ventures from:				
Income (loss) from joint venture activity	\$ 63	\$ 18	\$ 464	\$ (38)
Impairment of joint venture investments	—	(28)	(92)	(8,781)
Equity in income (loss) of unconsolidated joint ventures	<u>\$ 63</u>	<u>\$ (10)</u>	<u>\$ 372</u>	<u>\$ (8,819)</u>
Gain (loss) on extinguishment of debt	<u>\$ 95</u>	<u>\$ (9,045)</u>	<u>\$ (2,909)</u>	<u>\$ 43,901</u>

Items impacting comparability between periods

The following items impact the comparability of our results of operations between the three and nine months ended June 30, 2011 and 2010: inventory impairments and abandonments, certain selling, general and administrative costs and gain (loss) on extinguishment of debt. In addition, during the third quarter of fiscal 2011, we decided to discontinue homebuilding operations in our Northwest Florida market and during the fourth quarter of fiscal 2010, we exited or discontinued our title services operations and our New Mexico and Jacksonville, Florida homebuilding operations. We have reclassified the previously reported operating results of these operations for all periods presented to discontinued operations. We have also reclassified the June 30, 2010 three and nine-month operating results of our Raleigh market from the East to the Southeast segment in alignment with the basis that is used by management for evaluating segment performance and resource allocations.

Inventory Impairments and Abandonments. The decrease in gross margin over the prior year was impacted by an increase in non-cash pre-tax inventory impairments and option contract abandonments from \$5.0 million in the third quarter of fiscal 2010 to \$6.9 million in fiscal 2011. The projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including decreased sales prices, the change in sales prices and changes in absorption estimates. The impairments recorded on our held for development inventory primarily resulted from the continued decline in the homebuilding environment across our submarkets. During the third quarter of fiscal 2011, although certain markets showed limited improvement from the prior years, for certain other communities we determined it was prudent to reduce sales prices or further increase sales incentives in response to factors including competitive market conditions. Specifically, during the third quarter of fiscal 2011, in certain of our markets our competitors further reduced prices or increased sales incentives to drive absorption in response to overall market conditions and the desire to capture prospective homebuyers who, absent the price reductions, appear to lack an urgency to buy and have lengthened their decision-making processes. In future periods, we may again determine that it is prudent to reduce sales prices, further increase sales incentives or reduce absorption rates which may lead to additional impairments, which could be material.

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The impairments on land held for sale below represent further write downs of these properties to net realizable value, less estimated costs to sell and are as a result of challenging market conditions and our review of recent comparable transactions. The negative impairments for the nine months ended June 30, 2011 are due to adjustments to accruals for estimated selling costs related to either our strategic decision to develop a previously held-for-sale land position or revised estimates based on pending sales transactions.

In addition, over the past few years, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as pre-acquisition costs. The abandonment charges below relate to our decision to abandon certain option contracts that no longer fit in our long-term strategic plan.

The following tables set forth, by reportable homebuilding segment, the inventory impairments and lot option abandonment charges recorded (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Development projects and homes in process (Held for Development)				
West	\$ 1,571	\$ 3,361	\$ 17,556	\$ 10,306
East	759	463	988	2,581
Southeast	3,435	48	3,557	6,770
Unallocated	531	568	2,139	2,040
Subtotal	\$ 6,296	\$ 4,440	\$ 24,240	\$ 21,697
Land Held for Sale				
West	\$ —	\$ —	\$ (51)	\$ 1,061
East	—	—	—	—
Southeast	—	—	169	—
Subtotal	\$ —	\$ —	\$ 118	\$ 1,061
Lot Option Abandonments				
West	\$ 32	\$ 526	\$ 116	\$ 533
East	462	7	595	8
Southeast	80	—	262	4
Subtotal	\$ 574	\$ 533	\$ 973	\$ 545
Continuing Operations	\$ 6,870	\$ 4,973	\$ 25,331	\$ 23,303

The estimated fair value of our impaired inventory at each period end, the number of lots and number of communities impaired in each period are set forth in the table below as follows (\$ in thousands). Individual communities impaired multiple times will be included in each period of impairment:

Quarter Ended	Estimated Fair Value of Impaired Inventory at Period End		Lots Impaired		Communities Impaired	
	2011	2010	2011	2010	2011	2010
June 30	\$ 11,672	\$ 5,427	370	131	6	3
March 31	\$ 29,244	\$ 24,528	730	497	7	12
December 31	\$ —	\$ 13,997	—	379	—	7

Selling, General and Administrative Expense Items. The decrease in SG&A expense for the three and nine months ended June 30, 2011 as compared to the comparable periods of the prior year is primarily due to reductions in selling expenses directly related to the 49.2% and 43.3% decrease in home closings and continued cost reductions realized as a result of our comprehensive review of SG&A costs in an effort to further streamline our operations, offset partially by \$7.3 million in severance-related costs in association with the elimination of approximately 120 full time positions this quarter and contractual obligations related to the departure of our former Chief Executive Officer. SG&A expense for the nine months ended June 30, 2011 is also impacted by a \$4.0 million charge related to our impairment of our future land purchase rights (see Note 3 to the unaudited condensed consolidated financial statements for additional information).

Gain (Loss) on Extinguishment of Debt. During the nine months ended June 30, 2011, we redeemed or repurchased in open market transactions an aggregate of \$209.5 million of our outstanding Senior Notes for an aggregate purchase price of \$210.0 million, plus

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accrued and unpaid interest as of the purchase date. These transactions resulted in a loss on extinguishment of debt of \$2.9 million, net of unamortized discounts and debt issuance costs related to these notes. During the nine months ended June 30, 2010, we recognized a \$43.9 million net gain related to a gain on the partial exchange and substantial modification of terms of \$75 million of our Junior Subordinated Notes due 2036 offset partially by a loss on extinguishment on the repurchase of \$585.4 million of Senior Notes.

Other expense, net. For the three and nine months ended June 30, 2011, other expense, net includes \$17.7 million and \$55.7 million of interest expense not qualified for capitalization respectively. Other expense for the nine months ended June 30, 2011 is net of the \$6.8 million benefit recognized related to Mr. McCarthy's settlement with the SEC in the second quarter. For the three and nine months ended June 30, 2010, other expense, net includes \$17.4 million and \$57.5 million of interest expense not qualified for capitalization respectively.

Income taxes. Our income tax assets and liabilities and related effective tax rate are affected by various factors, the most significant of which is the valuation allowance recorded against substantially all of our deferred tax assets. Due to the effect of our valuation allowance adjustments beginning in fiscal 2008, a comparison of our annual effective tax rates must consider the changes in our valuation allowance.

Our overall effective tax rates from continuing operations were 6.9%, and 0.4% for three and nine months ended June 30, 2011, respectively compared to -47.8% and -130.8% for the three and nine months ended June 30, 2010. The change in our effective tax rates for the three and nine months ended June 30, 2011 were primarily attributable to changes in our valuation allowance and our net deferred tax asset. The -130.8% effective tax rate for nine months ended June 30, 2010 was primarily attributable to the five-year carryback of federal tax losses due to the expanded NOL carryback provisions contained in the Worker, Homeownership, and Business Assistance Act of 2009, enacted on November 9, 2009. These expanded NOL carryback provisions allowed us to carry back our fiscal 2009 tax losses to prior years. Absent the new legislation, the fiscal 2009 federal tax loss would have been carried forward to be available to offset future taxable income and the Company would have maintained a valuation allowance against the resulting deferred tax asset. Any losses that the Company was not able to carry back to earlier years were offset by a valuation allowance.

Discontinued Operations. We have classified the results of operations of our mortgage origination services, title services and our exit markets as discontinued operations in the accompanying unaudited condensed consolidated statements of operations for the periods presented. All statement of operations information in the table above and the management discussion and analysis that follow exclude the results of discontinued operations. Discontinued operations were not segregated in the unaudited condensed consolidated statements of cash flows or the unaudited condensed consolidated balance sheets. See Note 13 to the unaudited condensed consolidated financial statements for additional information related to our discontinued operations.

Additional operating data related to discontinued operations is as follows:

(dollars in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Closings	23	85	73	154
New Orders	31	55	77	150
Homebuilding revenues	\$ 4,717	\$ 17,421	\$ 14,186	\$ 33,083
Land and lot sale revenues	—	186	435	886
Mortgage & title revenues	—	673	6	1,421
Total revenue	<u>\$ 4,717</u>	<u>\$ 18,280</u>	<u>\$ 14,627</u>	<u>\$ 35,390</u>

Three and Nine Month Periods Ended June 30, 2011 Compared to the Three and Nine Month Periods Ended June 30, 2010

Segment Results — Continuing Operations

Unit Data by Segment

	Three Months Ended June 30,							
	New Orders, net			Cancellation Rates		Backlog		
	2011	2010	11 v 10	2011	2010	2011	2010	11 v 10
West	447	354	26.3%	26.5%	35.6%	637	406	56.9%
East	466	398	17.1%	26.8%	28.5%	837	508	64.8%
Southeast	302	230	31.3%	15.9%	18.4%	346	220	57.3%
Total	1,215	982	23.7%	24.3%	29.3%	1,820	1,134	60.5%

	Nine Months Ended June 30,							
	New Orders, net			Cancellation Rates		Backlog		
	2011	2010	11 v 10	2011	2010	2011	2010	11 v 10
West	1,038	1,353	-23.3%	27.0%	26.4%	637	406	56.9%
East	1,203	1,250	-3.8%	26.0%	23.8%	837	508	64.8%
Southeast	680	685	-0.7%	14.9%	14.9%	346	220	57.3%
Total	2,921	3,288	-11.2%	24.1%	23.2%	1,820	1,134	60.5%

Backlog above reflects the number of homes for which the Company has entered into a sales contract with a customer but has not yet delivered the home. The aggregate dollar value of homes in backlog as of June 30, 2011 and 2010 was \$431.2 million and \$279.3 million, respectively.

As we expected, market conditions in the homebuilding industry became challenging after the expiration of the tax credit at the end of April 2010, contributing to our 11.2% decrease in net new orders year-to-date compared to the prior year. However, due primarily to the acceleration of new orders into the first and second quarters of fiscal 2010 and the opening of new communities during the fiscal 2011, we recognized a 23.7% increase in net new orders for third quarter of fiscal 2011 as compared to the prior year. This quarter's 1,215 net new orders is also a modest increase from our second quarter of fiscal 2011. Fiscal year-to-date, our Houston and Southern California markets in our West segment and Virginia in our East segment have been impacted by the closeout of communities that were performing at higher than average absorption rates in the prior year and by the timing of new communities opening for sales. In addition, despite historically low interest rates and increased affordability which usually entice more prospective buyers to purchase a new home, low consumer confidence, high unemployment rates and a high number of existing and projected foreclosures continue to have a damaging impact on the market. As a result, potential buyers still appear to lack an urgency to buy and have lengthened their decision-making processes. In many of our markets, appraisals continue to be negatively impacted by foreclosure comparables which put additional pricing pressures on all home sales and limit financing availability.

The increase in total units in backlog and the aggregate dollar value of homes in backlog for our continuing operations at June 30, 2011 compared to the prior year, related directly to our increase in net new orders and the impact of the June 30, 2010 closing deadline for the prior year tax credits which accelerated typical fourth quarter closings into the third quarter of fiscal 2010. If we are unable to sustain or increase this level of backlog, we will experience less revenue in the future which could also result in additional asset impairment charges and lower levels of liquidity. However, we currently expect new orders and backlog to increase as the availability of mortgage loans further stabilizes, the inventory of new and used homes decreases and consumer confidence in the economic recovery increases.

Homebuilding Revenues and Average Selling Price. The table below summarizes homebuilding revenues, the average selling prices of our homes and closings by reportable segment (in thousands):

	Three Months Ended June 30,								
	Homebuilding Revenues			Average Selling Price			Closings		
	2011	2010	11 v 10	2011	2010	11 v 10	2011	2010	11 v 10
West	\$ 53,549	\$ 117,764	-54.5%	\$ 196.2	\$ 192.1	2.1%	273	613	-55.5%
East	76,226	143,855	-47.0%	245.1	230.9	6.1%	311	623	-50.1%
Southeast	38,669	59,768	-35.3%	186.8	185.6	0.6%	207	322	-35.7%
Total	<u>\$ 168,444</u>	<u>\$ 321,387</u>	<u>-47.6%</u>	<u>\$ 213.0</u>	<u>\$ 206.3</u>	<u>3.2%</u>	<u>791</u>	<u>1,558</u>	<u>-49.2%</u>

	Nine Months Ended June 30,								
	Homebuilding Revenues			Average Selling Price			Closings		
	2011	2010	11 v 10	2011	2010	11 v 10	2011	2010	11 v 10
West	\$ 128,885	\$ 280,933	-54.1%	\$ 192.4	\$ 203.9	-5.6%	670	1,378	-51.4%
East	182,367	311,362	-41.4%	249.1	244.4	1.9%	732	1,274	-42.5%
Southeast	87,635	124,782	-29.8%	186.1	192.0	-3.1%	471	650	-27.5%
Total	<u>\$ 398,887</u>	<u>\$ 717,077</u>	<u>-44.4%</u>	<u>\$ 213.0</u>	<u>\$ 217.2</u>	<u>-1.9%</u>	<u>1,873</u>	<u>3,302</u>	<u>-43.3%</u>

Homebuilding revenues decreased for the three and nine months ended June 30, 2011 compared to the comparable period of the prior year due to a decrease in closings. The decrease in closings is attributable to the seasonally unusually high closings in the fiscal 2010 third quarter related to the expiration of the homebuyer tax credit in June 2010 and the current market conditions in which potential buyers appear to lack an urgency to buy and have lengthened their decision-making processes. The change in average selling prices (ASP) was primarily attributable to the mix in closings between products and among communities as compared to the prior year. The fiscal year-to-date ASP was also impacted by our efforts to market our homes competitively with local competition and to reduce spec inventory with discounted sales prices and incentives in certain markets in the first half of the year.

Homebuilding Gross Profit. Homebuilding gross profit is defined as homebuilding revenues less home cost of sales (which includes land and land development costs, home construction costs, capitalized interest, indirect costs of construction, estimated warranty costs, closing costs and inventory impairment and lot option abandonment charges). Corporate and unallocated costs include the amortization of capitalized interest and indirect construction costs. The following table sets forth our homebuilding gross profit and gross margin by reportable segment and total homebuilding gross profit and gross margin, and such amounts excluding inventory impairments and abandonments and interest amortized to cost of sales for the three and nine months ended June 30, 2011, and 2010. Total homebuilding gross profit and gross margin excluding inventory impairments and abandonments and interest amortized to cost of sales are not GAAP financial measures. These measures should not be considered alternatives to homebuilding gross profit determined in accordance with GAAP as an indicator of operating performance. The magnitude and volatility of non-cash inventory impairment and abandonment charges for the Company, and for other home builders, have been significant in recent periods and, as such, have made financial analysis of our industry more difficult. Homebuilding metrics excluding these charges, and other similar presentations by analysts and other companies, is frequently used to assist investors in understanding and comparing the operating characteristics of home building activities by eliminating many of the differences in companies' respective level of impairments and levels of debt. Management believes these non-GAAP measures enable holders of our securities to better understand the cash implications of our operating performance and our ability to service our debt obligations as they currently exist and as additional indebtedness is incurred in the future. These measures are also useful internally, helping management compare operating results and as a measure of the level of cash which may be available for discretionary spending.

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(In thousands)	Three Months Ended June 30, 2011							
	HB Gross Profit (Loss)	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit w/o I&A	HB Gross Margin w/o I&A	Interest Amortized to COS	HB Gross Profit w/o I&A and Interest	HB Gross Margin w/o I&A and Interest
West	\$ 7,023	13.1%	\$ 1,603	\$ 8,626	16.1%	\$ —	\$ 8,626	16.1%
East	10,645	14.0%	1,221	11,866	15.6%	—	11,866	15.6%
Southeast	3,141	8.1%	3,515	6,656	17.2%	—	6,656	17.2%
Corporate & unallocated	(8,932)		531	(8,401)		11,179	2,778	
Total homebuilding	<u>\$ 11,877</u>	<u>7.1%</u>	<u>\$ 6,870</u>	<u>\$ 18,747</u>	<u>11.1%</u>	<u>\$ 11,179</u>	<u>\$ 29,926</u>	<u>17.8%</u>

(In thousands)	Three Months Ended June 30, 2010							
	HB Gross Profit	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit w/o I&A	HB Gross Margin w/o I&A	Interest Amortized to COS	HB Gross Profit w/o I&A and Interest	HB Gross Margin w/o I&A and Interest
West	\$ 18,052	15.3%	\$ 3,887	\$ 21,939	18.6%	\$ —	\$ 21,939	18.6%
East	23,083	16.0%	470	23,553	16.4%	—	23,553	16.4%
Southeast	10,858	18.2%	48	10,906	18.2%	—	10,906	18.2%
Corporate & unallocated	(15,624)		568	(15,056)		16,444	1,388	
Total homebuilding	<u>\$ 36,369</u>	<u>11.3%</u>	<u>\$ 4,973</u>	<u>\$ 41,342</u>	<u>12.9%</u>	<u>\$ 16,444</u>	<u>\$ 57,786</u>	<u>18.0%</u>

(In thousands)	Nine Months Ended June 30, 2011							
	HB Gross Profit	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit w/o I&A	HB Gross Margin w/o I&A	Interest Amortized to COS	HB Gross Profit w/o I&A and Interest	HB Gross Margin w/o I&A and Interest
West	\$ 2,609	2.0%	\$ 17,621	\$ 20,230	15.7%	\$ —	\$ 20,230	15.7%
East	26,479	14.5%	1,583	28,062	15.4%	—	28,062	15.4%
Southeast	10,520	12.0%	3,988	14,508	16.6%	—	14,508	16.6%
Corporate & unallocated	(19,481)		2,139	(17,342)		26,352	9,010	
Total homebuilding	<u>\$ 20,127</u>	<u>5.0%</u>	<u>\$ 25,331</u>	<u>\$ 45,458</u>	<u>11.4%</u>	<u>\$ 26,352</u>	<u>\$ 71,810</u>	<u>18.0%</u>

(In thousands)	Nine Months Ended June 30, 2010							
	HB Gross Profit	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit w/o I&A	HB Gross Margin w/o I&A	Interest Amortized to COS	HB Gross Profit w/o I&A and Interest	HB Gross Margin w/o I&A and Interest
West	\$ 44,985	16.0%	\$ 11,900	\$ 56,885	20.2%	\$ —	\$ 56,885	20.2%
East	49,622	15.9%	2,589	52,211	16.8%	—	52,211	16.8%
Southeast	11,938	9.6%	6,774	18,712	15.0%	—	18,712	15.0%
Corporate & unallocated	(29,646)		2,040	(27,606)		37,898	10,292	
Total homebuilding	<u>\$ 76,899</u>	<u>10.7%</u>	<u>\$ 23,303</u>	<u>\$ 100,202</u>	<u>14.0%</u>	<u>\$ 37,898</u>	<u>\$ 138,100</u>	<u>19.3%</u>

For the three and nine months ended June 30, 2011 as compared to the prior year, the slight decrease in gross margins without I&A and interest across all segments is primarily due to decreased revenues and the impact of those reduced revenues on indirect construction costs which are relatively fixed in the short-term. The nine months ended June 30, 2010 also benefited from \$4.6 million of non-recurring warranty recoveries.

In a given quarter, our reported gross margins arise from both communities previously impaired and communities not previously impaired. In addition as indicated above, certain gross margin amounts arise from recoveries of prior period costs, including warranty items that are not directly tied to communities generating revenue in the period. Home closings from communities previously impaired would, in most instances, generate very low or negative gross margins prior to the impact of the previously recognized impairment. Gross margins at each home closing are higher for a particular community after an impairment because the carrying value of the

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underlying land was previously reduced to the present value of future cash flows as a result of the impairment, leading to lower cost of sales at the home closing. This improvement in gross margin resulting from one or more prior impairments is frequently referred to in the aggregate as the “impairment turn” or “flow-back” of impairments within the reporting period. The amount of this impairment turn may exceed the gross margin for an individual impaired asset if the gross margin for that asset prior to the impairment would have been negative. The extent to which this impairment turn is greater than the reported gross margin for the individual asset is related to the specific historical cost basis of that individual asset.

The asset valuations which result from our impairment calculations are based on discounted cash flow analyses and are not derived by simply applying prospective gross margins to individual communities. As such, impaired communities may have gross margins that are somewhat higher or lower than the gross margin for unimpaired communities. The mix of home closings in any particular quarter varies to such an extent that comparisons between previously impaired and never impaired communities would not be a reliable way to ascertain profitability trends or to assess the accuracy of previous valuation estimates. In addition, since any amount of impairment turn is tied to individual lots in specific communities it will vary considerably from period to period. As a result of these factors, we review the impairment turn impact on gross margins on a trailing twelve-month basis rather than a quarterly basis as a way of considering whether our impairment calculations are resulting in gross margins for impaired communities that are comparable to our unimpaired communities. For the trailing 12-month period, the homebuilding gross margin from our continuing operations was 3.4% and excluding interest and inventory impairments, it was 17.3%. For the same trailing 12-month period, homebuilding gross margins were as follows in those communities that have previously been impaired:

Homebuilding Gross Margin from previously impaired communities:

Pre-impairment turn gross margin	-12.6%
Impact of interest amortized to COS related to these communities	6.8%
Pre-impairment turn gross margin, excluding interest amortization	-5.8%
Impact of impairment turns	21.3%
Gross margin (post impairment turns), excluding interest	15.5%

Land Sales and Other Revenues. Land sales and other revenues relate to land and lots sold that did not fit within our homebuilding programs and strategic plans in these markets, net fees we received for general contractor services we performed on behalf of a third party and broker fees and rental revenues earned by our Pre-Owned operations. The table below summarizes land sales and other revenues and gross profit by reportable segment for the three and nine months ended June 30, 2011 and 2010 (in thousands) — n/m in the table below indicates the percentage is “not meaningful”:

	Land Sales & Other Revenues Three Months Ended June 30,			Land Sales and Other Gross Profit Three Months Ended June 30,		
	2011	2010	11 v 10	2011	2010	11 v 10
West	\$ 1,953	\$ —	n/m	\$ 640	\$ (13)	n/m
East	1,669	—	n/m	577	—	n/m
Southeast	619	461	34.3%	620	461	34.5%
Pre-Owned	144	—	n/m	121	—	n/m
Total	\$ 4,385	\$ 461	851.2%	\$ 1,958	\$ 448	337.1%

	Land Sales & Other Revenues Nine Months Ended June 30,			Land Sales and Other Gross Profit Nine Months Ended June 30,		
	2011	2010	11 v 10	2011	2010	11 v 10
West	\$ 2,956	\$ 3,394	-12.9%	\$ 1,034	\$ 356	190.4%
East	4,160	1,461	184.7%	1,241	1,853	-33.0%
Southeast	1,350	475	184.2%	1,238	475	160.6%
Pre-Owned	144	—	n/m	113	—	n/m
Total	\$ 8,610	\$ 5,330	61.5%	\$ 3,626	\$ 2,684	35.1%

Our fiscal 2011 land sales and other revenue and gross profit in our Southeast segment include net fees received for general contractor services we performed on behalf of a third party.

Derivative Instruments and Hedging Activities. We are exposed to fluctuations in interest rates. From time to time, we enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates. As of June 30, 2011, we were not a party to any such derivative agreements. We do not enter into or hold derivatives for trading or speculative purposes.

Liquidity and Capital Resources. Our sources of liquidity include, but are not limited to, cash from operations, proceeds from Senior Notes and other bank borrowings, the issuance of equity and equity-linked securities and other external sources of funds. Our short-term and long-term liquidity depend primarily upon our level of net income, working capital management (cash, accounts receivable, accounts payable and other liabilities) and available credit facilities.

Our liquidity position consisted of \$274.6 million in cash and cash equivalents plus \$284.3 million of restricted cash as of June 30, 2011. We expect to maintain a significant liquidity position during the remainder of fiscal 2011 and during fiscal 2012, subject to changes in market conditions that would alter our expectations for land and land development expenditures or capital market transactions which could increase or decrease our cash balance on a quarterly basis.

During the nine months ended June 30, 2011, our net cash used in operating activities was \$277.6 million compared to net cash provided by operating activities of \$0.8 million during the comparable period of the prior year. Our net cash provided by operating activities in the prior year was due to the receipt of federal income tax refunds totaling \$102.1 million which offset cash used purchase inventory and maintain our operations. Our net cash from operating activities was also impacted by an increase in inventory (excluding inventory impairments and abandonment charges and decreases in consolidated inventory not owned) of \$150.6 million in fiscal 2011 compared to a decrease of \$20.4 million in fiscal 2010 related primarily to our strategic investments in land as we closed out older communities and positioned the Company to open new communities. Cash flow from operations was also impacted by \$3.4 million and \$6.7 million decreases in other assets primarily related to collection of amounts due from land sales and the cash release of utility deposits for the nine months ended June 30, 2011 and 2010, respectively. Also impacting our cash (used in) provided by operations was a \$15.8 million increase in trade accounts payables this fiscal year primarily related to the timing of development expenditures as of period end as compared to a \$3.3 million decrease in trade accounts payable in the prior year related to the timing of home development expenditures related to homes sold and spec homes completed in anticipation of the closing deadline of the First-time Homebuyer Tax Credit on June 30, 2010.

Net cash used in investing activities was \$259.0 million for the nine months ended June 30, 2011 which was primarily related to the \$247.4 million funding of collateral (restricted cash) for the Company's new Cash Secured Loan. Net cash provided by financing activities was \$274.2 million for the nine months ended June 30, 2011 as compared to a use of cash of \$31.2 million for the nine months ended June 30, 2010. During the nine months ended June 30, 2011 we completed a \$250 million senior unsecured debt offering, redeemed our outstanding 2013 Senior Notes and repurchased a portion of our 2015 and 2016 Senior Notes. As a result of our 2013 Senior Note repayment, our next scheduled Senior Note principal repayment is not until July 2015. During the prior year, the proceeds received from the issuance of equity securities and new debt was offset by the repurchase of outstanding debt with nearer term maturities.

During our fiscal 2010, we received upgrades from S&P in our corporate credit rating to B-. Also during the fiscal year, Moody's raised its corporate credit rating of the Company to Caa1 and Fitch raised its corporate credit rating of the Company to B-. These ratings and our current credit condition affect, among other things, our ability to access new capital. Negative changes to these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. Our credit ratings could be lowered or rating agencies could issue adverse commentaries in the future, which could have a material adverse effect on our business, results of operations, financial condition and liquidity. In particular, a weakening of our financial condition, including any further increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, could result in a credit rating downgrade or change in outlook, or could otherwise increase our cost of borrowing.

We fulfill our short-term cash requirements with cash generated from our operations. As a result, there were no amounts outstanding under the Secured Revolving Credit Facility at June 30, 2011. In addition, we have entered into a number of stand-alone, cash secured letter of credit agreements with banks. These facilities will continue to provide for future working capital and letter of credit needs collateralized by either cash or assets of the Company at our option, based on certain conditions and covenant compliance. We currently have \$34.4 million outstanding letters of credit under these facilities. As of June 30, 2011, we have secured our letters of credit under these facilities using cash collateral which is maintained in restricted accounts totaling \$36.7 million. In addition, we have elected to pledge approximately \$1.1 billion of inventory assets to our revolving credit facility. We believe that our \$559.0 million of

cash and cash equivalents and restricted cash at June 30, 2011, cash generated from our operations and the availability of new debt and equity financing, if any, will be adequate to meet our liquidity needs during the remainder of fiscal 2011 and into fiscal 2012.

Stock Repurchases and Dividends Paid — The Company did not repurchase any shares in the open market during the nine months ended June 30, 2011 or 2010. Any future stock repurchases, as allowed by our debt covenants, must be approved by the Company's Board of Directors or its Finance Committee.

On November 2, 2007, our Board of Directors suspended payment of quarterly dividends. The Board concluded at that time and continues to believe that suspending dividends to be prudent in light of the continued housing market recession. In addition, the indentures under which our Senior Notes were issued contain certain restrictive covenants, including limitations on the payment of dividends. At June 30, 2011, under the most restrictive covenants of each indenture, none of our retained earnings was available for cash dividends. Hence, there were no dividends paid during the nine months ended June 30, 2011 or 2010.

Off-Balance Sheet Arrangements and Aggregate Contractual Commitments. At June 30, 2011, we controlled 29,800 lots (a 9.5-year supply based on our trailing twelve months of closings). We owned 83.9%, or 24,986 lots, and 4,814 lots, 16.1%, were under option contracts which generally require the payment of cash or the posting of a letter of credit for the right to acquire lots during a specified period of time at a certain price. We historically have attempted to control a portion of our land supply through options. As a result of the flexibility that these options provide us, upon a change in market conditions we may renegotiate the terms of the options prior to exercise or terminate the agreement. Under option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers and our liability is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which aggregated approximately \$28.1 million at June 30, 2011. This amount includes non-refundable letters of credit of approximately \$3.4 million. The total remaining purchase price, net of cash deposits, committed under all options was \$224.8 million as of June 30, 2011. When market conditions improve, we may expand our use of option agreements to supplement our owned inventory supply.

We expect to exercise, subject to market conditions, most of our option contracts. Various factors, some of which are beyond our control, such as market conditions, weather conditions and the timing of the completion of development activities, will have a significant impact on the timing of option exercises or whether lot options will be exercised.

We have historically funded the exercise of lot options through a combination of operating cash flows. We expect these sources to continue to be adequate to fund anticipated future option exercises. Therefore, we do not anticipate that the exercise of our lot options will have a material adverse effect on our liquidity.

We participate in a number of land development joint ventures in which we have less than a controlling interest. We enter into joint ventures in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture's members and other third parties. We account for our interest in these joint ventures under the equity method. Our consolidated balance sheets include investments in joint ventures totaling \$9.5 million and \$8.7 million at June 30, 2011 and September 30, 2010, respectively.

Our joint ventures typically obtain secured acquisition and development financing. At June 30, 2011, our unconsolidated joint ventures had borrowings outstanding totaling \$395.0 million, of which \$327.9 million related to our South Edge joint venture in which we are a 2.58% partner. Generally, we and our joint venture partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated joint ventures. At June 30, 2011, we had repayment guarantees of \$17.9 million. See Note 3 to the unaudited condensed Consolidated Financial Statements for further information.

We had outstanding performance bonds of approximately \$175.8 million, at June 30, 2011 related principally to our obligations to local governments to construct roads and other improvements in various developments.

Recently Adopted Accounting Pronouncements

See Note 1 to the Unaudited Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a number of market risks in the ordinary course of business. Our primary market risk exposure relates to fluctuations in interest rates. We do not believe that our exposure in this area is material to cash flows or earnings. As of June 30, 2011, we had variable rate debt outstanding totaling approximately \$247 million dollars. A one percent change in the interest rate would not be material to our financial statements. The estimated fair value of our fixed rate debt at June 30, 2011 was \$1.16 billion, compared to a

carrying value of \$1.49 billion. In addition, the effect of a hypothetical one-percentage point decrease in our estimated discount rates would increase the estimated fair value of the fixed rate debt instruments from \$1.16 billion to \$1.21 billion at June 30, 2011.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of June 30, 2011, at a reasonable assurance level.

Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of our CEO and CFO, which are required by Rule 13a-14 of the Act. This Disclosure Controls and Procedures section includes information concerning management's evaluation of disclosure controls and procedures referred to in those certifications and, as such, should be read in conjunction with the certifications of the CEO and CFO.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

South Edge Litigation

During fiscal 2008, the administrative agent for the lenders of one of our unconsolidated joint ventures, South Edge, LLC, (South Edge), filed individual lawsuits against some of the joint venture members and certain of those members' parent companies (including the Company), seeking to recover damages under completion guarantees, among other claims. Effective June 10, 2011, the Company and one of its subsidiaries became parties to a settlement among the administrative agent for the lenders to South Edge (the "Administrative Agent"), certain of the lenders to South Edge, and certain of the other South Edge members and their respective parent companies (together with the Company and its subsidiary, the Participating Members). The Chapter 11 trustee for South Edge has expressed its consent to the agreement. Under the agreement, each of the parties will use commercially reasonable efforts to support confirmation of a consensual plan of reorganization for South Edge (the Plan), and to obtain bankruptcy court approval of a disclosure statement that will accompany the Plan, to obtain the requisite support of the South Edge lenders to the Plan, and to consummate the Plan promptly after confirmation, in each case by certain specified dates. Under the agreement, the effective date of the Plan following its confirmation is to occur on or before November 30, 2011, though it may be extended depending on the date of Plan confirmation. No disclosure statement for the Plan has been approved by the bankruptcy court at this time, and nothing herein should be construed as a solicitation of any vote on the Plan by creditors of or equity holders in South Edge.

Other Litigation

A putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation (BMC). The Complaint alleges that Beazer violated the Real Estate Settlement Practices Act (RESPA) and North Carolina Gen. Stat. § 75-1.1 by (1) improperly requiring homebuyers to use Beazer-owned mortgage and settlement services as part of a down payment assistance program, and (2) illegally increasing the cost of homes and settlement services sold by Beazer Homes Corp. The purported class consists of all residents of North Carolina who purchased a home from Beazer, using mortgage financing provided by and through Beazer that included seller-funded down payment assistance, between January 1, 2000 and October 11, 2007. The parties have reached an agreement to settle the lawsuit, which will be partially funded by insurance proceeds. The settlement has been preliminarily approved by the court, but remains subject to final court approval. Under the terms of the settlement, the action will be dismissed with prejudice, and the Company and all other defendants will not admit any liability. A fairness hearing has been set for August 30, 2011.

On June 3, 2009, a purported class action complaint was filed by the owners of one of our homes in our Magnolia Lakes' community in Ft. Myers, Florida. The complaint names the Company and certain distributors and suppliers of drywall and was filed in the Circuit Court for Lee County, Florida on behalf of the named plaintiffs and other similarly situated owners of homes in Magnolia Lakes or alternatively in the State of Florida. The plaintiffs allege that the Company built their homes with defective drywall, manufactured in China, that contains sulfur compounds that allegedly corrode certain metals and that are allegedly capable of harming the health of

individuals. Plaintiffs allege physical and economic damages and seek legal and equitable relief, medical monitoring and attorney's fees. This case has been transferred to the Eastern District of Louisiana pursuant to an order from the United States Judicial Panel on Multidistrict Litigation. In addition, the Company has been named in other multi-plaintiff complaints filed in the multidistrict litigation. We believe that the claims asserted in these actions are governed by home warranties or are without merit. Accordingly, the Company intends to vigorously defend against these actions. Furthermore, the Company has offered to repair all Beazer homes affected by defective Chinese drywall pursuant to a repair protocol that has been adopted by the multidistrict litigation court, including those homes involved in litigation. To date, nearly all of affected Beazer homeowners have accepted the Company's offer to repair. The Company also continues to pursue recovery against responsible subcontractors, drywall suppliers and drywall manufacturers for its repair costs.

On December 10, 2010, a shareholder derivative suit was filed by Milton Pfeiffer in the United States District Court for the District of Delaware against certain officers and directors of the Company. The complaint alleges that the defendants made false and misleading statements in the Company's 2010 proxy regarding the tax deductibility of the Company's 2010 Equity Incentive Plan. Plaintiff also alleges that defendants breached their fiduciary duties. This matter has been settled and the court granted preliminary approval of the settlement. The Company admitted no liability and will pay plaintiff's legal fees. A final hearing was held on August 3, 2011. There were no timely filed objections and the court approved settlement of this matter.

On March 14, 2011, the Company and several subsidiaries were named as defendants in a lawsuit filed by Flagstar Bank, FSB in the Circuit Court for the County of Oakland, State of Michigan. The complaint demands approximately \$5 million to recover purported losses in connection with 57 residential mortgage loan transactions under theories of breach of contract, fraud/intentional misrepresentation and other similar theories of recovery. We believe we have strong defenses to the claims on these individual loans and intend to vigorously defend the action. In addition, BMC has received notices from other investors demanding that BMC indemnify them for losses suffered with respect to mortgage loan transactions largely alleging misrepresentations during the loan origination process. We are currently investigating these claims. As previously disclosed, we operated BMC from 1998 through February 2008 to offer mortgage financing to the buyers of our homes. BMC entered into various agreements with mortgage investors for the origination of mortgage loans. Underwriting decisions were not made by BMC but by the investors or third-party service providers. To date, including the mortgage loans that are the subject of the lawsuit, we have received requests to repurchase fewer than 100 mortgage loans from various investors.

On March 15, 2011, a shareholder derivative suit was filed by certain funds affiliated with Teamsters Local 237 in the Superior Court of Fulton County, State of Georgia against certain officers and directors of the Company and the Company's compensation consultants. The complaint alleges breach of fiduciary duties involving decisions regarding executive compensation; specifically that compensation awarded to certain Company executives for the 2010 fiscal year were improper in light of the negative subsequent advisory "say on pay" vote by shareholders at the Company's 2011 stockholders meeting. The defendants have filed motions to dismiss this case, which were heard on August 3, 2011. The court dismissed all counts of the complaint and requested submission of a proposed order of dismissal.

We cannot predict or determine the timing or final outcome of the lawsuits or the effect that any adverse findings or adverse determinations in the pending lawsuits may have on us. In addition, an estimate of possible loss or range of loss, if any, cannot presently be made with respect to certain of the above pending matters. An unfavorable determination in any of the pending lawsuits could result in the payment by us of substantial monetary damages which may not be fully covered by insurance. Further, the legal costs associated with the lawsuits and the amount of time required to be spent by management and the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our business, financial condition and results of operations.

Other Matters

As disclosed in our 2009 Form 10-K, on July 1, 2009, the Company announced that it has resolved the criminal and civil investigations by the United States Attorney's Office in the Western District of North Carolina (the U.S. Attorney) and other state and federal agencies concerning matters that were the subject of the independent investigation, initiated in April 2007 by the Audit Committee of the Board of Directors (the Investigation) and concluded in May 2008. Under the terms of a deferred prosecution agreement (DPA), the Company's liability for fiscal 2011 and each of the fiscal years after 2010 through a portion of fiscal 2014 (unless extended as previously described in our 2009 Form 10-K) will also be equal to 4% of the Company's adjusted EBITDA (as defined in the DPA). The total amount of such obligations will be dependent on several factors; however, the maximum liability under the DPA and other settlement agreements discussed above will not exceed \$55.0 million of which \$16 million has been paid as of June 30, 2011.

In November 2003, Beazer Homes received a request for information from the EPA pursuant to Section 308 of the Clean Water Act seeking information concerning the nature and extent of storm water discharge practices relating to certain of our communities completed or under construction. The EPA or the equivalent state agency has issued Administrative Orders identifying alleged instances of noncompliance and requiring corrective action to address the alleged deficiencies in storm water management practices. The parties have agreed to settle this matter and have executed a Consent Decree which received court approval on February 10, 2011. The terms of the Consent Decree constitute a final judgment and the Company did not admit any liability. Pursuant to the terms of the Consent

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Decree, the Company paid a civil penalty during the quarter which is not material to the Company's financial position or results of operations. The Company has established and implemented a comprehensive stormwater management program to ensure compliance with the Clean Water Act, similar state regulations and the terms of the Consent Decree itself.

In 2006, we received two Administrative Orders issued by the New Jersey Department of Environmental Protection. The Orders allege certain violations of wetlands disturbance permits. The two Orders assess proposed fines of \$630,000 and \$678,000, respectively. We have met with the Department to discuss their concerns on the two affected communities and have requested hearings on both matters. We believe that we have significant defenses to the alleged violations and intend to contest the agency's findings and the proposed fines. We are currently pursuing settlement discussions with the Department.

We and certain of our subsidiaries have been named as defendants in various claims, complaints and other legal actions, most relating to construction defects, moisture intrusion and product liability. Certain of the liabilities resulting from these actions are covered in whole or part by insurance.

Item 5. Other Information

On July 28, 2011, the Company entered into an Extension and Amendment (the Amendment) to the Company's Amended and Restated Credit Agreement, dated as of August 5, 2009, by and between the Company and Citibank, N.A. (the Credit Agreement). The Amendment extends the termination date of the Credit Agreement to August 2, 2012.

Item 6. Exhibits

- 10.1 Extension and Amendment to the Company's Amended and Restated Credit Agreement, dated as of August 5, 2009, by and between the Company and Citibank, N.A.
- 10.2 Fifteenth Supplemental Indenture, dated July 22, 2011, between the Company and U.S. Bank National Association, amending and supplementing the Thirteenth Supplemental Indenture, dated May 20, 2010, and the Fourteenth Supplemental Indenture, dated November 12, 2010
- 31.1 Certification pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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: August 9, 2011

By: /s/ Robert L. Salomon

Name: Robert L. Salomon
Executive Vice President and
Chief Financial Officer

**EXTENSION AND AMENDMENT NO. 2 TO
AMENDED AND RESTATED CREDIT AGREEMENT**

This Extension and Amendment No. 2, dated as of July 28, 2011 (this “**Amendment**”), is entered into by and between Beazer Homes USA, Inc., a Delaware corporation (the “**Borrower**”), and Citibank, N.A., in its capacity as lender (the “**Lender**”) under the Amended and Restated Credit Agreement, dated as of August 5, 2009 (as amended by the Extension and Amendment No. 1, dated as of August 2, 2010, by and between the Borrower and the Lender and as further amended, supplemented or otherwise modified through the date hereof, the “**Credit Agreement**”), among the Borrower, the Lender, the Issuers party thereto and Citibank, N.A., as administrative agent (the “**Agent**”). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement.

W I T N E S S E T H :

WHEREAS, the Borrower and the Lender desire to amend the Credit Agreement in order to effect the changes described below;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), the parties hereto hereby agree as follows:

Section 1. Extension

Pursuant to Section 2.19 of the Credit Agreement, the Borrower hereby requests, and the Lender hereby consents to, the extension of the Termination Date for a period of 364 days from the scheduled Termination Date in effect as of the date hereof.

Section 2. Amendments to the Credit Agreement

The definition of “Termination Date” set forth in Section 1.01 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“Termination Date” means August 2, 2012, subject, however, to earlier termination in whole of the Aggregate Commitment pursuant to the terms of this Agreement and to extension of such date as provided in Section 2.19.

Section 3. Conditions Precedent to the Effectiveness of this Amendment

This Amendment shall become effective as of the date (the “**Effective Date**”) when, and only when, each of the following conditions precedent shall have been satisfied or waived by the Lender:

(a) *Executed Counterparts*. The Agent shall have received this Amendment duly executed by the Borrower, each Guarantor and the Lender.

(b) *Corporate and Other Proceedings*. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Amendment shall be reasonably satisfactory in all respects to the Lender.

Section 4. Representations and Warranties

On and as of the Effective Date, after giving effect to this Amendment, the Borrower hereby represents and warrants to the Lender as follows:

(a) each of the Borrower and the Guarantors has all necessary corporate power and authority to execute and deliver this Amendment;

(b) the execution and delivery by each such party of this Amendment has been duly authorized by all necessary corporate action on its part;

(c) the Amendment has been duly executed and delivered by each such party and constitutes each such party’s legal, valid and binding obligation, enforceable in accordance with its terms;

(d) the execution and delivery of this Amendment by the Borrower and the Guarantors will not result in a conflict or be in conflict with, or constitute a default under, any instrument, document, decree, order, statute, rule or governmental regulation applicable to such party;

(e) a Cancellation of Certificate of Limited Partnership with respect to Texas Lone Star Title, L.P (“**Texas Lone Star**”) was filed with the Secretary of State of the State of Texas on December 18, 2009 (effective date as of December 18, 2009) causing the dissolution (the “**Dissolution**”) of Texas Lone Star; the Dissolution (i) constituted an Internal Reorganization of a Subsidiary permitted under Section 5.01 of the Credit Agreement and (ii) did not violate, and was made in compliance with, the terms and provisions of Section 5.01 of the Credit Agreement;

(f) the representations and warranties contained in Article IV of the Credit Agreement are correct in all material respects on and as of the date hereof as though made on and as of the date hereof except to the extent that any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty is correct in all material respects as of such earlier date; provided, however, as to the representations contained in Section 4.04 of the Credit Agreement regarding the financial statements, there were material changes that are reflected in the financial statements dated March 31, 2010 and additional material changes occurred after the filing of the March 31, 2010 financial statements as the result of the issuance of 12,400,000 shares of common stock, 3,000,000 tangible equity units, \$300,000,000 in senior notes (due 2018) and \$250,000,000 senior notes (due 2019), and the repayment of senior notes due 2012, senior notes due 2013 and convertible notes due 2024; and

(g) no Default or Event of Default has occurred and is continuing, or would result from the extension of the Termination Date contemplated by this Amendment.

Section 5. Reference to the Effect on the Loan Documents

(a) As of the Effective Date, each reference in the Credit Agreement to “*this Agreement*,” “*hereunder*,” “*hereof*,” “*herein*” or words of like import, and each reference in the other Loan Documents to the Credit Agreement (including, without limitation, by means of words like “*thereunder*”, “*thereof*” and words of like import), shall mean and be a reference to the Credit Agreement as amended hereby, and this Amendment and the Credit Agreement shall be read together and construed as a single instrument.

(b) Except as expressly amended hereby or specifically waived above, all of the terms and provisions of the Credit Agreement and all other Loan Documents are and shall remain in full force and effect and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender Party under any of the Loan Documents, nor constitute a waiver or amendment of any other provision of any of the Loan Documents or for any purpose except as expressly set forth herein.

(d) This Amendment is a Loan Document.

Section 6. Execution in Counterparts

This Amendment may be executed in any number of counterparts and by different parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are attached to the same document. Delivery of an executed counterpart by telecopy or electronic transmission shall be effective as delivery of a manually executed counterpart of this Amendment.

Section 7. Headings

Section headings used in this Amendment are for convenience of reference only, are not part of this Amendment and are not to affect the constructions of, or to be taken into consideration in interpreting, this Amendment.

Section 8. Governing Law

This Amendment shall be construed in accordance with and governed by the laws of the State of New York (other than Section 5-1401 of the New York General Obligations Law).

Section 9. Severability

The fact that any term or provision of this Amendment is held invalid, illegal or unenforceable as to any person in any situation in any jurisdiction shall not affect the validity, enforceability or legality of the remaining terms or provisions hereof or the validity, enforceability or legality of such offending term or provision in any other situation or jurisdiction or as applied to any person.

Section 10. Successors

The terms of this Amendment shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and permitted assigns.

Section 11. WAIVER OF JURY TRIAL

EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING WITH RESPECT TO THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT.

[SIGNATURE PAGES FOLLOW]

*[Signature Page to Extension and
Amendment No. 2 to Credit Agreement]*

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their authorized signatories as of the day and year first above written.

BEAZER HOMES USA, INC.,
as Borrower

By: /s/ Jeffrey Hoza
Name: Jeffrey Hoza
Title: Vice President & Treasurer

CITIBANK, N.A.,
as Lender

By: /s/ Timicka C. Anderson
Name: Timicka C. Anderson
Title: Vice President

*[Signature Page to Extension and
Amendment No. 2 to Credit Agreement]*

Each of the undersigned hereby (i) acknowledges receipt of a copy of the foregoing Amendment and (ii) reaffirms its obligations under the Amended and Restated Guaranty, dated as of August 5, 2009, by and between the subsidiaries of the Borrower party thereto as Guarantors and the Agent, in favor of the Agent for the benefit of the Lenders under the Credit Agreement.

APRIL CORPORATION
BEAZER ALLIED COMPANIES HOLDINGS, INC.
BEAZER GENERAL SERVICES, INC.
BEAZER HOMES CORP.
BEAZER HOMES HOLDINGS CORP.
BEAZER HOMES INDIANA HOLDINGS CORP.
BEAZER HOMES SALES, INC.
BEAZER HOMES TEXAS HOLDINGS, INC.
BEAZER REALTY, INC.
BEAZER REALTY CORP.
BEAZER REALTY LOS ANGELES, INC.
BEAZER REALTY SACRAMENTO, INC.
BEAZER/SQUIRES REALTY, INC.
HOMEBUILDERS TITLE SERVICES, INC.
HOMEBUILDERS TITLE SERVICES OF VIRGINIA,
INC

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

BEAZER MORTGAGE CORPORATION

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

*[Signature Page to Extension and
Amendment No. 2 to Credit Agreement]*

ARDEN PARK VENTURES, LLC
BEAZER CLARKSBURG, LLC
BEAZER COMMERCIAL HOLDINGS, LLC
BEAZER HOMES INVESTMENTS, LLC
BEAZER HOMES MICHIGAN, LLC
DOVE BARRINGTON DEVELOPMENT LLC

By: BEAZER HOMES CORP., its Sole Member

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

BEAZER SPE, LLC

By: BEAZER HOMES HOLDINGS CORP., its Sole
Member

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

BEAZER HOMES INDIANA LLP

By: BEAZER HOMES INVESTMENTS, LLC, its
Managing Partner

By: BEAZER HOMES CORP., its Sole Member

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

*[Signature Page to Extension and
Amendment No. 2 to Credit Agreement]*

BEAZER REALTY SERVICES, LLC

By: BEAZER HOMES INVESTMENTS, LLC,
its Sole Member

By: BEAZER HOMES CORP.,
its Sole Member

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

PARAGON TITLE, LLC TRINITY HOMES, LLC

By: BEAZER HOMES INVESTMENTS, LLC, a
Member

By: BEAZER HOMES CORP.,
its Sole Member

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

BEAZER HOMES TEXAS, L.P.

By: BEAZER HOMES TEXAS HOLDINGS, INC.,
its General Partner

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

*[Signature Page to Extension and
Amendment No. 2 to Credit Agreement]*

BH BUILDING PRODUCTS, LP

By: BH PROCUREMENT SERVICES, LLC,
its General Partner

By: BEAZER HOMES TEXAS, L.P.,
its Sole Member

By: BEAZER HOMES TEXAS HOLDINGS, INC.,
its General Partner

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

BH PROCUREMENT SERVICES, LLC

By: BEAZER HOMES TEXAS, L.P.,
its Sole Member

By: BEAZER HOMES TEXAS HOLDINGS, INC., its General
Partner

By: /s/ Jeffrey Hoza (SEAL)
Name: Jeffrey Hoza
Title: Vice President & Treasurer

BEAZER HOMES USA, INC. AND THE SUBSIDIARY GUARANTORS PARTY HERETO,

Fifteenth Supplement Indenture

Dated as of July 22, 2011

U.S. BANK NATIONAL ASSOCIATION,
Trustee

THIS FIFTEENTH SUPPLEMENTAL INDENTURE, dated as of July 22, 2011, by and among BEAZER HOMES USA, INC., a corporation duly incorporated and existing under the laws of the State of Delaware (the “Company”), having its principal office at 1000 Abernathy Road, Suite 1200, Atlanta, Georgia 30328, the Subsidiary Guarantors signatory hereto, each having its principal office at 1000 Abernathy Road, Suite 1200, Atlanta, Georgia 30328, and U.S. BANK NATIONAL ASSOCIATION, a national banking association, having an office at 1349 West Peachtree Street NW, Suite 1050, Atlanta, Georgia 30309, as Trustee (the “Trustee”), under the Indenture, dated as of April 17, 2002 (the “Original Indenture”), which Original Indenture was executed and delivered by the Company to the Trustee to secure the payment of senior debt securities issued or to be issued under and in accordance with the provisions of the Original Indenture, reference to which Original Indenture is hereby made, this instrument (hereinafter called the “Fifteenth Supplemental Indenture”) being supplemental thereto;

RECITALS

WHEREAS, the Company, the Trustee, and the Subsidiary Guarantors party hereto are parties to the Original Indenture, providing for the issuance by the Company from time to time of its senior debt securities to be issued in one or more series as provided in the Original Indenture;

WHEREAS, the Company and the Subsidiary Guarantors have previously executed and delivered to the Trustee the Thirteenth Supplemental Indenture, dated as of May 20, 2010, pursuant to which the Company issued its 9.125% Senior Notes due 2018 (the “Thirteenth Supplemental Indenture”);

WHEREAS, the Company and the Subsidiary Guarantors have also previously executed and delivered to the Trustee the Fourteenth Supplemental Indenture, dated as of November 12, 2010, pursuant to which the Company issued its 9.125% Senior Notes due 2019 (the “Fourteenth Supplemental Indenture” and, together with the Thirteenth Supplemental Indenture, the “2018 and 2019 Indentures”);

WHEREAS, Section 5.03(b)(i) and Section 5.03(b)(v) of each of the 2018 and 2019 Indentures provides that the Indenture may be amended by the Company, the Subsidiary Guarantors and the Trustee (without notice to or consent of any Holder of Notes) for certain specified matters, including to cure any ambiguity, defect or inconsistency in the 2018 and 2019 Indentures and to make any change that does not adversely affect the legal rights of any Holder under the Indenture;

WHEREAS, the amendments to be effected by this Fifteenth Supplemental Indenture are intended to cure a defect in the 2018 and 2019 Indentures and would not adversely affect the legal rights of any Holder under the Indenture;

WHEREAS, the amendments are made without in any way affecting the interpretation or application of any provision of the 2018 and 2019 Indentures for any reason other than the matter specifically addressed herein;

WHEREAS, pursuant to Sections 9.06, 10.04 and 10.05 of the Original Indenture, there has been delivered to the Trustee on the date hereof an Officers' Certificate and an Opinion of Counsel certifying, among other things, that this Fifteenth Supplemental Indenture is authorized or permitted by the Original Indenture.

NOW THEREFORE, in consideration of the foregoing and the mutual premises and covenants contained herein and for other good and valuable consideration, the parties hereto agree as follows:

Section 1. Definitions. Capitalized terms used but not defined in this Fifteenth Supplemental Indenture shall have the specified meanings set forth in each of the 2018 and 2019 Indentures.

Section 2. Amendment to the 2018 and 2019 Indentures.

(a) The amendment set forth below will become effective upon the execution and delivery of this Fifteenth Supplemental Indenture by the Company, the Trustee and the Subsidiary Guarantors signatory hereto.

(b) The definition of "Restricted Investment" in each of the 2018 and 2019 Indentures is hereby amended by deleting such definition in its entirety and replacing it with the following:

"Restricted Investment" means any Investment in joint ventures or Unrestricted Subsidiaries having an aggregate fair market value (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value), taken together with all other Investments made pursuant to this definition that are at the time outstanding, net of any amounts paid to the Company or any Restricted Subsidiary as a return of, or on, such Investments, that exceed(s) five percent of Consolidated Tangible Assets.

Section 3. Ratification of Indentures; Supplemental Indenture Part of the 2018 and 2019 Indentures. The Original Indenture and each of the 2018 and 2019 Indentures, each as supplemented and amended by this Fifteenth Supplemental Indenture, are in all respects ratified and confirmed, and the Original Indenture, each of the 2018 and 2019 Indentures and this Fifteenth Supplemental Indenture and all indentures supplemental thereto shall be read, taken and construed as one and the same instrument.

Section 4. Governing Law. This Fifteenth Supplemental Indenture shall be governed by, and construed in accordance with, the laws of the state of New York, but without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby.

Section 5. Trustee Makes No Representations. The Trustee makes no representation as to the validity or sufficiency of this Fifteenth Supplemental Indenture. The recitals contained herein shall be taken as the statements solely of the Company, and the Trustee assumes no responsibility for the correctness thereof.

Section 6. *Counterparts.* The parties may sign any number of copies of this Fifteenth Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 7. *Effect of Headings.* The section headings herein are for convenience only and shall not affect the construction thereof.

Section 8. *Successors and Assigns.* All covenants and agreements in this Fifteenth Supplemental Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 9. *Separability Clause.* In case any provision in this Fifteenth Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

[Signature pages follow]

IN WITNESS WHEREOF, the parties have executed this Fifteenth Supplemental Indenture as of the date first written above.

BEAZER HOMES USA, INC.

By: /s/ Robert L. Salomon

Name: Robert L. Salomon

Title: Executive Vice President and
Chief Financial Officer

APRIL CORPORATION

BEAZER ALLIED COMPANIES HOLDINGS, INC.

BEAZER GENERAL SERVICES, INC.

BEAZER HOMES CORP.

BEAZER HOMES HOLDINGS CORP.

BEAZER HOMES INDIANA HOLDINGS CORP.

BEAZER HOMES SALES, INC.

BEAZER HOMES TEXAS HOLDINGS, INC.

BEAZER REALTY CORP.

BEAZER REALTY, INC.

BEAZER REALTY LOS ANGELES, INC.

BEAZER REALTY SACRAMENTO, INC.

BEAZER/SQUIRES REALTY, INC.

HOMEBUILDERS TITLE SERVICES OF VIRGINIA, INC.

HOMEBUILDERS TITLE SERVICES, INC.

By: /s/ Robert L. Salomon

Name: Robert L. Salomon

Title: Executive Vice President

[Signature Page — Fifteenth Supplemental Indenture]

BEAZER MORTGAGE CORPORATION

By: /s/ Allan P. Merrill

Name: Allan P. Merrill

Title: President

BEAZER HOMES INDIANA LLP

By: BEAZER HOMES INVESTMENTS, LLC,
its Managing Partner

By: BEAZER HOMES CORP.,
its Sole Member

By: /s/ Robert L. Salomon

Name: Robert L. Salomon

Title: Executive Vice President

ARDEN PARK VENTURES, LLC

BEAZER CLARKSBURG, LLC

BEAZER COMMERCIAL HOLDINGS, LLC

DOVE BARRINGTON DEVELOPMENT LLC

BEAZER HOMES INVESTMENTS, LLC

BEAZER HOMES MICHIGAN, LLC

ELYSIAN HEIGHTS POTOMIA, LLC

By: BEAZER HOMES CORP.,
its Sole Member

By: /s/ Robert L. Salomon

Name: Robert L. Salomon

Title: Executive Vice President

[Signature Page — Fifteenth Supplemental Indenture]

BEAZER HOMES TEXAS, L.P.

By: BEAZER HOMES TEXAS HOLDINGS, INC.,
its General Partner

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Title: Executive Vice President

BEAZER REALTY SERVICES, LLC

By: BEAZER HOMES INVESTMENTS, LLC,
its Sole Member

By: BEAZER HOMES CORP.,
its Sole Member

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Title: Executive Vice President

BEAZER SPE, LLC

By: BEAZER HOMES HOLDINGS CORP.,
its Sole Member

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Title: Executive Vice President

[Signature Page — Fifteenth Supplemental Indenture]

BH BUILDING PRODUCTS, LP

By: BH PROCUREMENT SERVICES, LLC,
its General Partner

By: BEAZER HOMES TEXAS, L.P.,
its Sole Member

By: BEAZER HOMES TEXAS
HOLDINGS, INC.,
its General Partner

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Title: Executive Vice President

BH PROCUREMENT SERVICES, LLC

By: BEAZER HOMES TEXAS, L.P.,
its Sole Member

By: BEAZER HOMES TEXAS HOLDINGS, INC.,
its General Partner

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Title: Executive Vice President

[Signature Page — Fifteenth Supplemental Indenture]

PARAGON TITLE, LLC

By: BEAZER HOMES INVESTMENTS, LLC,
its Sole Member and Manager

By: BEAZER HOMES CORP.,
its Sole Member

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Title: Executive Vice President

TRINITY HOMES, LLC

By: BEAZER HOMES INVESTMENTS, LLC,
its Member

By: BEAZER HOMES CORP.,
its Sole Member

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Title: Executive Vice President

CLARKSBURG ARORA LLC

By: BEAZER CLARKSBURG, LLC,
its Sole Member

By: BEAZER HOMES CORP.,
its Sole Member

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Title: Executive Vice President

[Signature Page — Fifteenth Supplemental Indenture]

CLARKSBURG SKYLARK, LLC

By: CLARKSBURG ARORA LLC,
its Sole Member

By: BEAZER CLARKSBURG, LLC,
its Sole Member

By: BEAZER HOMES CORP.,
its Sole Member

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Title: Executive Vice President

[Signature Page — Fifteenth Supplemental Indenture]

U.S. BANK NATIONAL ASSOCIATION
as Trustee

By: /s/ William B. Echols

Name: William B. Echols

Title: Vice President

[Signature Page — Fifteenth Supplemental Indenture]

**CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Allan P. Merrill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Beazer Homes USA, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2011

/s/ Allan P. Merrill

Allan P. Merrill

President and Chief Executive Officer

**CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert L. Salomon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Beazer Homes USA, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2011

/s/ Robert L. Salomon

Robert L. Salomon

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Beazer Homes USA, Inc. (the “Company”) hereby certifies that the Report on Form 10-Q of the Company for the period ended June 30, 2011, accompanying this certification, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2011

/s/ Allan P. Merrill

Allan P. Merrill

President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and Section 1350 of Title 18, United States Code, and is not being filed as part of the report or as a separate disclosure document.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Beazer Homes USA, Inc. (the "Company") hereby certifies that the Report on Form 10-Q of the Company for the period ended June 30, 2011, accompanying this certification, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2011

/s/ Robert L. Salomon

Robert L. Salomon

Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and Section 1350 of Title 18, United States Code, and is not being filed as part of the report or as a separate disclosure document.