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

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2016
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	**58-2086934**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer Identification no.)**
1000 Abernathy Road, Suite 260, Atlanta, Georgia	**30328**
(Address of principal executive offices)	**(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 x 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 x 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	x
Non-accelerated filer	☐	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 x

Class	Outstanding at February 3, 2017
Common Stock, $0.001 par value	33,544,628

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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 (Form 10-Q) contains forward-looking statements. These forward-looking statements represent our expectations or beliefs concerning future results, and it is possible that the results described in this Form 10-Q 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 Form 10-Q.

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 Form 10-Q 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, 2016, as well as Item 1A of this Form 10-Q. These factors are not intended to be an all-inclusive 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:

- economic changes nationally or in local markets, changes in consumer confidence, declines in employment levels, inflation or increases in the quantity and decreases in the price of new homes and resale homes on the market;
- the cyclical nature of the homebuilding industry and a potential deterioration in homebuilding industry conditions;
- factors affecting margins, such as decreased land values underlying land option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce our production and overhead cost structure;
- the availability and cost of land and the risks associated with the future value of our inventory, such as additional asset impairment charges or writedowns;
- estimates related to homes to be delivered in the future (backlog) are imprecise, as they are subject to various cancellation risks that cannot be fully controlled;
- shortages of or increased prices for labor, land or raw materials used in housing production and the level of quality and craftsmanship provided by our subcontractors;
- our cost of and ability to access capital, due to factors such as limitations in the capital markets or adverse credit market conditions, 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;
- our ability to reduce our outstanding indebtedness and to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;
- a substantial increase in mortgage interest rates, increased disruption in the availability of mortgage financing, a change in tax laws regarding the deductibility of mortgage interest for tax purposes or an increased number of foreclosures;
- increased competition or delays in reacting to changing consumer preferences in home design;
- continuing severe weather conditions or other related events that could result in delays in land development or home construction, increase our costs or decrease demand in the impacted areas;
- estimates related to the potential recoverability of our deferred tax assets and a potential reduction in corporate tax rates that could reduce the usefulness of our existing deferred tax assets;
- potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations or governmental policies, and possible penalties for failure to comply with such laws, regulations or governmental policies, including those related to the environment;
- the results of litigation or government proceedings and fulfillment of any related obligations;
- the impact of construction defect and home warranty claims, including water intrusion issues in Florida;
- the cost and availability of insurance and surety bonds, as well as the sufficiency of these instruments to cover potential losses incurred;
- the performance of our unconsolidated entities and our unconsolidated entity partners;
- the impact of information technology failures or data security breaches;
- terrorist acts, natural disasters, acts of war or other factors over which the Company has little or no control; or
- the impact on homebuilding in key markets of governmental regulations limiting the availability of water.

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.

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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)

	December 31, 2016	September 30, 2016
ASSETS		
Cash and cash equivalents	$ 158,623	$ 228,871
Restricted cash	15,963	14,405
Accounts receivable (net of allowance of $350 and $354, respectively)	51,797	53,226
Income tax receivable	288	292
Owned inventory	1,618,544	1,569,279
Investments in unconsolidated entities	5,065	10,470
Deferred tax assets, net	312,666	309,955
Property and equipment, net	19,335	19,138
Other assets	5,862	7,522
Total assets	$ 2,188,143	$ 2,213,158
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$ 86,730	$ 104,174
Other liabilities	121,711	134,253
Total debt (net of premium of $1,535 and $1,482, respectively, and debt issuance costs of $14,509 and $15,514, respectively)	1,336,483	1,331,878
Total liabilities	1,544,924	1,570,305
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, 63,000,000 shares authorized, 33,545,721 issued and outstanding and 33,071,331 issued and outstanding, respectively)	34	33
Paid-in capital	867,084	865,290
Accumulated deficit	(223,899)	(222,470)
Total stockholders' equity	643,219	642,853
Total liabilities and stockholders' equity	$ 2,188,143	$ 2,213,158

See Notes to Unaudited Condensed Consolidated Financial Statements.

BEAZER HOMES USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND UNAUDITED COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)

	Three Months Ended December 31,	
	2016	2015
Total revenue	**$ 339,241**	$ 344,449
Home construction and land sales expenses	**285,578**	285,511
Inventory impairments and abandonments	**—**	1,356
Gross profit	**53,663**	57,582
Commissions	**13,323**	13,774
General and administrative expenses	**36,388**	31,669
Depreciation and amortization	**2,677**	2,991
Operating income	**1,275**	9,148
Equity in income of unconsolidated entities	**22**	60
Loss on extinguishment of debt	**—**	(828)
Other expense, net	**(5,196)**	(6,565)
Income (loss) from continuing operations before income taxes	**(3,899)**	1,815
Expense (benefit) from income taxes	**(2,540)**	616
Income (loss) from continuing operations	**(1,359)**	1,199
Loss from discontinued operations, net of tax	**(70)**	(200)
Net income (loss) and comprehensive income (loss)	**$ (1,429)**	$ 999
Weighted average number of shares:		
Basic	**31,893**	31,757
Diluted	**31,893**	31,844
Basic income (loss) per share:		
Continuing operations	**$ (0.04)**	$ 0.04
Discontinued operations	**$ —**	$ (0.01)
Total	**$ (0.04)**	$ 0.03
Diluted income (loss) per share:		
Continuing operations	**$ (0.04)**	$ 0.04
Discontinued operations	**$ —**	$ (0.01)
Total	**$ (0.04)**	$ 0.03

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	**$ (1,429)**	$ 999
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	**2,677**	2,991
Stock-based compensation expense	**2,176**	1,756
Inventory impairments and abandonments	**—**	1,356
Deferred and other income tax expense (benefit)	**(2,707)**	318
Write-off of deposit on legacy land investment	**2,700**	—
Gain on sale of fixed assets	**(46)**	(771)
Change in allowance for doubtful accounts	**(4)**	(131)
Equity in income of unconsolidated entities	**(22)**	(60)
Cash distributions of income from unconsolidated entities	**6**	—
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**1,433**	1,955
Decrease in income tax receivable	**4**	150
Increase in inventory	**(39,543)**	(28,168)
Decrease in other assets	**1,906**	1,660
Decrease in trade accounts payable	**(17,444)**	(32,144)
Decrease in other liabilities	**(12,541)**	(27,760)
Net cash used in operating activities	**(62,834)**	(77,849)
Cash flows from investing activities:		
Capital expenditures	**(2,874)**	(2,663)
Proceeds from sale of fixed assets	**46**	2,437
Investments in unconsolidated entities	**(1,397)**	(1,779)
Return of capital from unconsolidated entities	**1,621**	1,142
Increases in restricted cash	**(3,646)**	(1,119)
Decreases in restricted cash	**2,088**	669
Net cash used in investing activities	**(4,162)**	(1,313)
Cash flows from financing activities:		
Repayment of debt	**(2,525)**	(26,926)
Debt issuance costs	**(340)**	(413)
Other financing activities	**(387)**	(201)
Net cash used in financing activities	**(3,252)**	(27,540)
Decrease in cash and cash equivalents	**(70,248)**	(106,702)
Cash and cash equivalents at beginning of period	**228,871**	251,583
Cash and cash equivalents at end of period	**$ 158,623**	$ 144,881

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(1) Description of Business

Beazer Homes USA, Inc. ("we," "us," "our," "Beazer," "Beazer Homes" and the "Company") is a geographically diversified homebuilder with active operations in 13 states within three geographic regions in the United States: the West, East and Southeast. Our homes are designed to appeal to homeowners at different price points across various demographic segments, and are generally offered for sale in advance of their construction. Our objective is to provide our customers with homes that incorporate exceptional value and quality, while seeking to maximize our return on invested capital over the course of a housing cycle.

For an additional description of our business, refer to Item 1 within our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (2016 Annual Report).

(2) Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of 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 unaudited financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments (consisting primarily of normal recurring adjustments) necessary for a fair presentation have been included in the accompanying unaudited financial statements. The results of our consolidated operations presented herein for the three months ended December 31, 2016 are not necessarily indicative of the results to be expected for the full year due to seasonal variations in our operations and other factors. For further information and a discussion of our significant accounting policies other than those discussed below, refer to Note 2 to the audited consolidated financial statements within our 2016 Annual Report.

Basis of Consolidation. These unaudited condensed consolidated financial statements present the consolidated balance sheet, income (loss), comprehensive income (loss) and cash flows of the Company, including its consolidated subsidiaries. Intercompany balances have been eliminated in consolidation.

In the past, we have discontinued homebuilding operations in various markets. Results from certain of these exited markets are reported as discontinued operations in the accompanying unaudited condensed consolidated statements of income for all periods presented (see Note 16 for a further discussion of our discontinued operations).

We evaluated events that occurred after the balance sheet date but before these financial statements were issued for accounting treatment and disclosure.

Our fiscal 2017 began on October 1, 2016 and ends on September 30, 2017. Our fiscal 2016 began on October 1, 2015 and ended on September 30, 2016.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make informed estimates and judgments that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Accordingly, actual results could differ from these estimates.

Inventory Valuation. We assess our inventory assets no less than quarterly for recoverability in accordance with the policies described in Notes 2 and 5 to the audited consolidated financial statements within our 2016 Annual Report. Our homebuilding inventories that are accounted for as held for development (development projects in progress) 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. For those communities that 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. We record assets held for sale at the lower of the carrying value or fair value less costs to sell.

Recent Accounting Pronouncements.

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 requires entities to recognize revenue at an amount that the entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under the existing revenue recognition guidance. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for one year, which makes the guidance effective for the Company's first fiscal year beginning after December 15, 2017. Additionally, the FASB is permitting entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We continue to evaluate the impact of ASU 2014-09 on our consolidated financial statements and have been involved in industry-specific discussions with the FASB on the treatment of certain items. However, due to the nature of our operations and simplicity of our revenue recognition model, we do not anticipate the adoption of ASU 2014-09 to result in a significant impact to our financial statements. Nonetheless, we are still evaluating the impact of specific parts of this ASU, and expect our revenue-related disclosures to change.

Leases. In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires lessees to record most leases on their balance sheets. The timing and classification of lease-related expenses for lessees will depend on whether a lease is determined to be a finance lease or an operating lease using updated criteria within ASU 2016-02. Operating leases will result in straight-line expense (similar to current operating leases), while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Regardless of lease type, the lessee will recognize a right-of-use asset, representing the right to use the identified asset during the lease term, and a related lease liability, representing the present value of the lease payments over the lease term. Lessor accounting will be largely similar to that under the current lease accounting rules. The guidance within ASU 2016-02 will be effective for the Company's first fiscal year beginning after December 15, 2018, with early adoption permitted. ASU 2016-02 must be adopted using a modified retrospective approach, which requires application of the standard at the beginning of the earliest comparative period presented, with certain optional practical expedients. ASU 2016-02 also requires significantly enhanced disclosures around an entity's leases and the related accounting. We continue to evaluate the impact of ASU 2016-02 on our consolidated financial statements. However, a large majority of our leases are for office space, which we have determined will be treated as operating leases under ASU 2016-02. As such, we anticipate recording a right-of-use asset and related lease liability for these leases, but we do not expect our expense recognition pattern to change. Therefore, we do not anticipate any significant change to our statements of income or cash flows as a result of adopting ASU 2016-02.

Statement of Cash Flows. In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flow - Restricted Cash* (ASU 2016-18). ASU 2016-18 requires that an entity's statement of cash flows explain the change during the period in that entity's total cash and cash equivalents, including amounts generally described as restricted cash or restricted cash equivalents. Therefore, changes in restricted cash and restricted cash equivalents will no longer be shown in the statement of cash flows. Additionally, an entity is to reconcile its cash and cash equivalents as per its balance sheet to the cash and cash equivalent balances presented in its statement of cash flows. The guidance within ASU 2016-18 will be effective for the Company's first fiscal year beginning after December 15, 2017, with early adoption permitted. While we continue to evaluate the impact of ASU 2016-18 on our financial statements, we expect the impact to be as follows: (1) changes in our restricted cash balances will no longer be shown in our statements of cash flows (within investing activities), as these balances will be included in the beginning and ending cash balances in our statements of cash flows and (2) we will include in our disclosures a reconciliation between our cash balances presented on our balance sheets with the amounts presented in our statements of cash flows.

(3) Supplemental Cash Flow Information

The following table presents supplemental disclosure of non-cash and cash activity for the periods presented:

	Three Months Ended December 31,	
(In thousands)	**2016**	2015
Supplemental disclosure of non-cash activity:		
Non-cash land acquisitions [(a)]	**$ 5,197**	$ 3,769
Land acquisitions for debt	**5,555**	—
Supplemental disclosure of cash activity:		
Interest payments	**11,824**	39,740
Income tax payments	**178**	146
Tax refunds received	**4**	150

[(a)] For the three months ended December 31, 2016 and December 31, 2015, non-cash land acquisitions were comprised of lot takedowns from one of our unconsolidated land development joint ventures.

(4) Investments in Unconsolidated Entities

As of December 31, 2016, we participated in certain joint ventures and other unconsolidated entities in which Beazer had less than a controlling interest. The following table presents our investment in these unconsolidated entities, as well as the total equity and outstanding borrowings of these unconsolidated entities as of December 31, 2016 and September 30, 2016:

(In thousands)	December 31, 2016	September 30, 2016
Beazer's investment in unconsolidated entities	$ **5,065**	$ 10,470
Total equity of unconsolidated entities	**14,585**	31,615
Total outstanding borrowings of unconsolidated entities	**17,725**	14,702

For the three months ended December 31, 2016 and 2015, there were no impairments related to our investments in these unconsolidated entities.

Our equity in income from unconsolidated entity activities for the three months ended December 31, 2016 and 2015 was $22 thousand and $60 thousand, respectively.

Guarantees. Our joint ventures typically obtain secured acquisition, development and construction financing. Historically, Beazer and our joint venture partners have provided varying levels of guarantees of debt and other debt-related obligations for these unconsolidated entities. However, as of December 31, 2016 and September 30, 2016, we had no outstanding guarantees or other debt-related obligations related to our investments in unconsolidated entities.

We and our joint venture partners generally provide unsecured environmental indemnities to land development joint venture project lenders. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the three months ended December 31, 2016 and 2015, we were not required to make any payments related to 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 entities. In addition, we monitor the fair value of the collateral of these unconsolidated entities to ensure that the related borrowings do not exceed the specified percentage of the value of the property securing the borrowings. We have not recorded a liability for the contingent aspects of any guarantees that we determined were reasonably possible but not probable.

(5) Inventory

The components of our owned inventory are as follows as of December 31, 2016 and September 30, 2016:

(In thousands)	December 31, 2016	September 30, 2016
Homes under construction	$ **422,493**	$ 377,191
Development projects in progress	**778,078**	742,417
Land held for future development	**172,824**	213,006
Land held for sale	**28,021**	29,696
Capitalized interest	**144,299**	138,108
Model homes	**72,829**	68,861
Total owned inventory	$ **1,618,544**	$ 1,569,279

Homes under construction include homes substantially finished and ready for delivery and homes in various stages of construction. We had 162 (with a cost of $47.1 million) and 178 (with a cost of $56.1 million) substantially completed homes that were not subject to a sales contract (spec homes) as of December 31, 2016 and September 30, 2016, 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 customer 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 is recorded at the lower of the carrying value or fair value less costs to sell. The amount of interest we are able to capitalize is dependent upon our qualified inventory balance, which considers the status of our inventory holdings. Our qualified inventory balance includes the majority of our homes under construction and development projects in progress, but excludes land held for future development and land held for sale (refer to Note 6 for additional information on capitalized interest).

Total owned inventory, by reportable segment, is presented by category in the table below as of December 31, 2016 and September 30, 2016:

(In thousands)	Projects in Progress [a]	Land Held for Future Development	Land Held for Sale	Total Owned Inventory
December 31, 2016				
West Segment	**$ 619,044**	**$ 147,861**	**$ 7,699**	**$ 774,604**
East Segment	**305,593**	**14,004**	**18,010**	**337,607**
Southeast Segment	**297,336**	**10,959**	**1,212**	**309,507**
Corporate and unallocated [b]	**195,726**	**—**	**1,100**	**196,826**
Total	**$ 1,417,699**	**$ 172,824**	**$ 28,021**	**$ 1,618,544**
September 30, 2016				
West Segment	$ 586,420	$ 172,015	$ 6,577	$ 765,012
East Segment	276,785	30,036	20,930	327,751
Southeast Segment	276,385	10,955	1,090	288,430
Corporate and unallocated [b]	186,987	—	1,099	188,086
Total	$ 1,326,577	$ 213,006	$ 29,696	$ 1,569,279

[a] Projects in progress include homes under construction, development projects in progress, capitalized interest and model home categories from the preceding table.

[b] Projects in progress amount includes capitalized interest and indirect costs that are maintained within Corporate and unallocated. Land held for sale amount includes parcels held by our discontinued operations.

Inventory Impairments. When conducting our community level review for the recoverability of our inventory related to projects in progress, we establish a quarterly "watch list" of communities that carry gross margins in backlog and in our forecast that are below a minimum threshold of profitability, as well as recent closings that have gross margins less than a specific threshold. Each community is first evaluated qualitatively to determine if there are temporary factors driving the low profitability levels. Following our qualitative evaluation, communities with more than 10 homes remaining to close are subjected to substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to gross margins below our watch list threshold. 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. For certain communities, we determined that it is prudent to reduce sales prices or further increase sales incentives in response to a variety of factors, including competitive market conditions in those specific submarkets for the product and locations of these communities. 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. Market deterioration that exceeds our initial estimates may lead us to incur impairment charges on previously impaired homebuilding assets, in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if markets deteriorate.

For the quarter ended December 31, 2016, there were eight communities on our watch list, seven in our West segment and the other in our East segment. However, none of these communities required further analysis to be performed after considering certain qualitative factors. For the quarter ended December 31, 2015, there were no communities on our quarterly watch list that required further impairment analysis to be performed.

Impairments on land held for sale generally represent write downs of these properties to net realizable value, less estimated costs to sell, and are based on current market conditions and our review of recent comparable transactions. Our assumptions about land sales prices require significant judgment because the real estate market is highly sensitive to changes in economic conditions. We calculate the estimated fair value 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 deteriorate.

From time-to-time, we also determine that the proper course of action with respect to a community is to not exercise an option and to write off the deposit securing the option takedown and the related pre-acquisition costs, as applicable. In determining whether to abandon lots or lot option contracts, our evaluation is primarily based upon the expected cash flows from the property. Additionally, in certain limited instances, we are forced to abandon lots due to permitting or other regulatory issues that do not allow us to build on those lots. If we intend to abandon or walk away from a property, we record a charge to earnings for the deposit amount and any related capitalized costs in the period such decision is made. Abandonment charges generally relate to our decision to abandon lots or not exercise certain option contracts that are not projected to produce adequate results, no longer fit with our long-term strategic plan or, in limited circumstances, are not suitable for building due to regulatory or environmental restrictions that are enacted.

We did not have any land held for sale inventory impairments, nor did we have any abandonment charges, during the three months ended December 31, 2016. The following table presents, by reportable segment, our total impairment and abandonment charges for the three months ended December 31, 2015:

(In thousands)	Three Months Ended December 31, 2015
Land Held for Sale:	
East	$ 197
Southeast	371
Total impairment charges on land held for sale	$ 568
Abandonments:	
Southeast	$ 788
Total abandonments charges	$ 788
Total impairment and abandonment charges	$ 1,356

Lot Option Agreements and Variable Interest Entities (VIEs). As previously discussed, we also have access to land inventory through lot option contracts, 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. The 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 specified price. Under lot option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our liability under option contracts is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred. We expect to exercise, subject to market conditions and seller satisfaction of contract terms, 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 at all.

The following table provides a summary of our interests in lot option agreements as of December 31, 2016 and September 30, 2016:

(In thousands)	Deposits & Non-refundable Pre-acquisition Costs Incurred	Remaining Obligation
As of December 31, 2016		
Unconsolidated lot option agreements	**$ 78,001**	**$ 412,881**
As of September 30, 2016		
Unconsolidated lot option agreements	$ 80,433	$ 446,414

(6) Interest

Our ability to capitalize interest incurred during the three months ended December 31, 2016 and 2015 was limited by our inventory eligible for capitalization. The following table presents certain information regarding interest for the periods presented:

(In thousands)	Three Months Ended December 31, 2016	2015
Capitalized interest in inventory, beginning of period	**$ 138,108**	$ 123,457
Interest incurred	**27,087**	30,088
Interest expense not qualified for capitalization and included as other expense [(a)]	**(5,252)**	(7,432)
Capitalized interest amortized to home construction and land sales expenses [(b)]	**(15,644)**	(13,651)
Capitalized interest in inventory, end of period	**$ 144,299**	$ 132,462

[(a)] The amount of interest we are able to capitalize is dependent upon our qualified inventory balance, which considers the status of our inventory holdings. Our qualified inventory balance includes the majority of our homes under construction and development projects in progress, but excludes land held for future development and land held for sale.

[(b)] Capitalized interest amortized to home construction and land sale expenses varies based on the number of homes closed during the period and land sales, if any, as well as other factors.

(7) Borrowings

As of December 31, 2016 and September 30, 2016, we had the following debt, net of premiums/discounts and unamortized debt issuance costs:

(In thousands)	Maturity Date	December 31, 2016	September 30, 2016
5 3/4% Senior Notes	June 2019	**$ 321,393**	$ 321,393
7 1/2% Senior Notes	September 2021	**198,000**	198,000
8 3/4% Senior Notes	March 2022	**500,000**	500,000
7 1/4% Senior Notes	February 2023	**199,834**	199,834
Unamortized debt premium, net		**2,260**	2,362
Unamortized debt issuance costs		**(13,314)**	(14,063)
Total Senior Notes, net		**1,208,173**	1,207,526
Term Loan (net of unamortized discount of $725 and $880, respectively, and unamortized debt issuance costs of $1,195 and $1,451, respectively)	March 2018	**53,080**	52,669
Junior Subordinated Notes (net of unamortized accretion of $40,387 and $40,903, respectively)	July 2036	**60,387**	59,870
Other Secured Notes payable	Various Dates	**14,843**	11,813
Total debt, net		**$ 1,336,483**	$ 1,331,878

Secured Revolving Credit Facility. Our Secured Revolving Credit Facility (the Facility) provides us with working capital and letter of credit capacity. On October 13, 2016, we executed a third amendment (the Third Amendment) to the Facility. The Third Amendment (1) extended the termination date of the Facility from January 15, 2018 to February 15, 2019; (2) increased the maximum aggregate amount of commitments under the Facility (including borrowings and letters of credit) from $145.0 million to $180.0 million; (3) reduced the aggregate collateral ratio (as defined by the underlying Credit Agreement) from 5.00 to 1.00 to 4.00 to 1.00; and (4) reduced the after-acquired exclusionary condition (also as defined by the underlying Credit Agreement) from $1.0 billion to $800.0 million. The facility continues to be with three lenders. For additional discussion of the Facility, refer to Note 8 to the audited consolidated financial statements within our 2016 Annual Report.

As of December 31, 2016 and September 30, 2016, we had no borrowings outstanding under the Facility. As of December 31, 2016, we had $37.5 million in letters of credit outstanding under the Facility, leaving us with $142.5 million in remaining capacity. The Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. As of December 31, 2016, we were in compliance with all such covenants.

Letter of Credit Facilities. 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 (in addition to the letters of credit issued under the Facility). As of December 31, 2016 and September 30, 2016, we had letters of credit outstanding under these additional facilities of $11.5 million and $12.1 million, respectively, all of which were secured by cash collateral in restricted accounts. The Company may enter into additional arrangements to provide further letter of credit capacity.

Senior Notes. Our Senior Notes are unsecured 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 Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes. See Note 15 for further information.

All unsecured Senior Notes rank equally in right of payment with all of our existing and future senior unsecured obligations, senior to all of the Company's existing and future subordinated indebtedness and effectively subordinated to the Company's existing and future secured indebtedness, including indebtedness under the Facility and the term loan (defined below), to the extent of the value of the assets securing such indebtedness. The unsecured Senior Notes and related guarantees are structurally subordinated to all indebtedness and other liabilities of all of the Company's subsidiaries that do not guarantee these notes. The unsecured Senior Notes are fully and unconditionally guaranteed jointly and severally on a senior basis by the Company's wholly-owned subsidiaries party to each applicable Indenture.

The Company's Senior Notes are issued under indentures that contain certain restrictive covenants which, among other things, restrict our ability to pay dividends, repurchase our common stock, incur certain types of additional indebtedness and to make certain investments. Compliance with our Senior Note covenants does not significantly impact our operations. We were in compliance with the covenants contained in the indentures of all of our Senior Notes as of December 31, 2016.

The table below summarizes the redemption terms for our Senior Notes:

Senior Note Description	Issuance Date	Maturity Date	Redemption Terms
5 3/4% Senior Notes	April 2014	June 2019	Callable at any time before March 15, 2019, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after March 15, 2019, callable at 100% of the principal amount plus, in each case, accrued and unpaid interest
7 1/2% Senior Notes	September 2013	September 2021	Callable at a redemption price equal to 105.625% of the principal amount; on or after September 15, 2017, callable at a redemption price equal to 103.75% of the principal amount; on or after September 15, 2018, callable at a redemption price equal to 101.875% of the principal amount; on or after September 15, 2019, callable at 100% of the principal amount plus, in each case, accrued and unpaid interest
8 3/4% Senior Notes	September 2016	March 2022	Callable at any time prior to March 15, 2019, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after March 15, 2019, callable at a redemption price equal to 104.375% of the principal amount; on or after March 15, 2020, callable at a redemption price equal to 102.188% of the principal amount; on or after March 15, 2021, callable at a redemption price equal to 100% of the principal amount plus, in each case, accrued and unpaid interest
7 1/4% Senior Notes	February 2013	February 2023	Callable at any time prior to February 1, 2018, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after February 1, 2018, callable at a redemption price equal to 103.625% of the principal amount; on or after February 1, 2019, callable at a redemption price equal to 102.41% of the principal amount; on or after February 1, 2020, callable at a redemption price equal to 101.208% of the principal amount; on or after February 1, 2021, callable at 100% of the principal amount plus, in each case, accrued and unpaid interest

During the first quarter of our fiscal 2016, we paid down $22.9 million of the then outstanding Senior Notes due June 2016, which resulted in a loss on extinguishment of debt of $0.8 million.

Term Loan. In March 2016, we entered into a credit agreement (the Credit Agreement) that provided us with a $140 million, two-year secured term loan (the Term Loan). The Term Loan requires quarterly principal payments of $17.5 million that started on June 30, 2016, and bears interest at the London Interbank Offered Rate (LIBOR) plus 550 basis points (6.750% as of December 31, 2016). The Term Loan will mature and all remaining amounts outstanding thereunder will be due and payable on March 11, 2018, but can be pre-paid at any time without penalty. In addition to regularly scheduled payments on the Term Loan made during our fiscal 2016, we made a prepayment of $50.0 million during the fourth quarter of fiscal 2016.

Substantially all of our subsidiaries are guarantors of the obligations under the Credit Agreement. Collectively, we granted security interests and mortgage liens on substantially all of our tangible and intangible assets on a second lien basis, since they are subordinate to those that exist on the Facility.

The Credit Agreement contains covenants which, subject to certain exceptions, limit the ability of the Company and its restricted subsidiaries (as defined in the Credit Agreement) to, among other things, incur additional indebtedness, engage in certain asset sales, make certain types of restricted payments and create liens on assets of the Company or its restricted subsidiaries; these covenants are similar to existing covenants under our Senior Notes. In addition, the Credit Agreement requires the Company's inventory (as defined in the Credit Agreement) to be no less than $1.25 billion as of the last day of any fiscal quarter. The Credit Agreement also includes customary events of default, including, but not limited to, the failure to pay any interest, principal or fees when due; the failure to perform or the violation of any covenant or agreement; inaccurate or false representations or warranties; a default on other material indebtedness, insolvency or bankruptcy; a change of control; and the occurrence of certain material judgments against the Company. As of December 31, 2016, we were in compliance with all such covenants.

Junior Subordinated Notes. Our unsecured junior subordinated notes (Junior Subordinated Notes) mature on July 30, 2036. The Junior Subordinated Notes are redeemable at par and paid interest at a fixed rate of 7.987% for the first ten years ending July 30, 2016. The securities now have a floating interest rate as defined in the Junior Subordinated Notes Indenture, which was a weighted-average of 4.02% as of December 31, 2016 (because the rate on the portion of the Junior Subordinated Notes that was modified, as discussed below, is subject to a floor). The obligations relating to these notes are subordinated to the Facility, the Senior Notes and the Term Loan. In January 2010, we modified the terms of $75.0 million of these notes and recorded them at their then estimated fair value. Over the remaining life of the Junior Subordinated Notes, we will increase their carrying value until this carrying value equals the face value of the notes. As of December 31, 2016, the unamortized accretion was $40.4 million and will be amortized over the remaining life of the notes. As of December 31, 2016, we were in compliance with all covenants under our Junior Subordinated Notes.

Other Secured Notes Payable. We periodically acquire land through the issuance of notes payable. As of December 31, 2016 and September 30, 2016, we had outstanding secured notes payable of $14.8 million and $11.8 million, respectively, primarily related to land acquisitions. These secured notes payable related to land acquisitions have varying expiration dates between 2017 and 2019, and have a weighted-average fixed interest rate of 3.12% as of December 31, 2016. 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) 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 from 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 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 for up to ten years covering only certain defined structural element failures.

Our homebuilding work is performed by subcontractors that typically must agree to indemnify us with regard to their work and provide us with certificates of insurance demonstrating that they have met our insurance requirements and that we are named as an additional insured under their policies. Therefore, many claims relating to workmanship and materials that result in warranty spending are the primary responsibility of these subcontractors. In addition, we maintain insurance coverage related to our construction efforts that can result in recoveries of warranty and construction defect costs above certain specified limits.

Our warranty reserves are included in other liabilities on our consolidated balance sheets, and the provision for warranty accruals is included in home construction expenses in our consolidated statements of income. We record reserves covering anticipated warranty expense for each home we close. 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 division. An analysis by division 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 included in our historical data and trends. While we adjust our estimated warranty liabilities each reporting period to the extent required as a result of our quarterly analyses, historical data and trends may not accurately predict actual warranty costs, which could lead to a significant change in the reserve.

Changes in our warranty reserves are as follows for the periods presented:

(In thousands)	Three Months Ended December 31, 2016	2015
Balance at beginning of period	**$ 39,131**	$ 27,681
Accruals for warranties issued [a]	**2,658**	2,615
Changes in liability related to warranties existing in prior periods [b]	**5,392**	10,600
Payments made [b]	**(14,872)**	(11,983)
Balance at end of period	**$ 32,309**	$ 28,913

[a] Accruals for warranties issued are a function of the number of home closings in the period, the selling prices of the homes closed and the rates of accrual per home estimated as a percentage of the selling price of the home.

[b] Changes in liability related to warranties existing and payments made in all periods presented are elevated due to charges and subsequent payments related to water intrusion issues in certain of our communities located in Florida (refer to separate discussion below).

Florida Water Intrusion Issues

In the latter portion of fiscal 2014, we began to experience an increase in calls from homeowners reporting stucco and water intrusion issues in certain of our communities in Florida (the Florida stucco issues). These issues continued to be reported to us throughout our fiscal 2015 and fiscal 2016. Other builders were also dealing with stucco issues, some of which also received local media coverage. Through December 31, 2016, we cumulatively recorded charges related to these issues of $83.2 million (of which $9.0 million was recorded in the three months ended December 31, 2015). As of September 30, 2016, the accrual to cover outstanding payments and potential repair costs for the impacted homes was $22.6 million, after considering the repair costs already paid. For an additional discussion of this matter and the related expenses recorded in prior periods, refer to Note 9 to the audited consolidated financial statements within our 2016 Annual Report.

During the first quarter of our fiscal 2017, the number of homeowner calls beyond those anticipated based on our procedures and previous call history continued to trend down. However, largely due to increased cost estimates for repairs of homes discovered in more recent periods, we recorded additional warranty expense related to the Florida stucco issues of $4.6 million during the three months ended December 31, 2016. As of December 31, 2016, 705 homes have been identified as likely to require repairs (an increase of 16 homes over those that were anticipated to require repairs as of the end of our fiscal 2016), of which 510 homes have been repaired. We made payments related to the Florida stucco issues of $10.0 million during the three months ended December 31, 2016, including payments on fully repaired homes, as well as payments on homes for which remediation is not yet complete, bringing the remaining accrual related to this issue to $17.2 million as of December 31, 2016, which is included in our overall warranty liability detailed above. As of December 31, 2016, other homes in the impacted communities remain within the period of the applicable statute of repose, but as of the end of the current quarter are not deemed likely to require repairs and, accordingly, no reserve has been established for these homes. The cost to repair these homes would be approximately $4.2 million if the current cost estimates were applied to these additional homes.

Our assessment of the Florida stucco issues is ongoing. As a result, we anticipate that the ultimate magnitude of our liability may change as additional information is obtained. Certain visual and other inspections of the homes that could be subject to defect often do not reveal the severity or extent of the defects, which can only be discovered once we receive a homeowner call and begin repairs. The current quarter charges were offset by additional insurance recoveries; for a discussion of the amounts we have already recovered or anticipate recovering from our insurer, refer to “Insurance Recoveries” section below.

In addition, we believe that we will also recover a portion of such repair costs from sources other than our own insurer, including the subcontractors involved with the construction of these homes and their insurers; however, no amounts related to subcontractor recoveries have been recorded in our unaudited condensed consolidated financial statements as of December 31, 2016. Any amounts recovered from our subcontractors related to homes closed during policy years for which we have exceeded the deductible in our insurance policies would be remitted to our insurers, while recoveries in other policy years would be retained by us.

Insurance Recoveries

The Company has insurance policies that provide for the reimbursement of certain warranty costs incurred by us above a specified threshold for each period covered. We have surpassed these thresholds for certain policy years, particularly those that cover most of the homes impacted by the Florida stucco issues discussed above. As such, beginning with the first quarter of our fiscal 2015, we expect a substantial majority of additional costs incurred for warranty work on homes within these policy years to be reimbursed by our insurers. For one policy year, our accruals have exceeded the insurance claim limit for one division under our first layer of coverage; however, we expect to claim and recover such amounts under our excess insurance coverage.

Warranty expense beyond the deductibles set in our insurance policies was recorded related to homes impacted by the Florida stucco issues, as well as other various warranty issues that are in excess of our insurance thresholds, resulting in our recognition of $3.9 million in insurance recoveries during the three months ended December 31, 2016 that we deem probable of receiving; this amount largely offset the current quarter expense related to the Florida stucco issues. For the three months ended December 31, 2015, $13.7 million was recorded in insurance recoveries. The recoveries recorded during the prior year quarter were $3.6 million greater than the underlying expense related to the Florida stucco issues of $9.0 million, as we began to recover more costs than initially anticipated. The remaining recovery amount during the first quarter of fiscal 2016 related to expenditures for warranty issues that were individually immaterial but were also in excess of our insurance thresholds.

Amounts recorded for anticipated insurance recoveries are reflected within our consolidated statements of income as a reduction of our home construction expenses, and associated amounts not yet received from our insurer are recorded on a gross basis (i.e. not net of any associated warranty expense) as a receivable within accounts receivable on our consolidated balance sheets.

Amounts still to be recovered under our insurance policies will vary based on whether expected additional warranty costs are actually incurred for periods for which our threshold has already been met. As a result, we anticipate the balance of our established receivable for insurance recoveries to fluctuate for potential future reimbursements, as well as the amounts ultimately owed to us from our insurer.

Litigation

From time-to-time, we receive claims from institutions that have acquired mortgages originated by our subsidiary, Beazer Mortgage Corporation (BMC), demanding damages or indemnity or that we repurchase such mortgages. BMC stopped originating mortgages in 2008. We have been able to resolve these claims for no cost or for amounts that are not material to our consolidated financial statements. We cannot rule out the potential for additional mortgage loan repurchase or indemnity claims in the future from other investors. At this time, we do not believe that the exposure related to any such claims would be material to our consolidated financial condition, results of operations or cash flows. As of December 31, 2016, no liability has been recorded for any additional claims related to this matter, as such exposure is not both probable and reasonably estimable.

A purported class action lawsuit was filed on July 7, 2016 against the Company in Maricopa County Arizona Superior Court on behalf of all homeowners in Arizona that purchased homes from the Company that included a certain type of roof underlayment. The complaint alleges various construction defects, but principally claims that the roof underlayment is susceptible to leaks and was not installed in accordance with best practices. We removed this case to federal court and filed motions to dismiss the class action allegations on various grounds. The plaintiffs have now withdrawn the class action allegations without prejudice and filed an amended complaint. In light of the dismissal of the class action allegations, the Company is handling this matter in the ordinary course of defending against alleged construction defect claims covered by the Company's warranty. As such, the Company does not plan to report further on this case in future periodic reports.

In the normal course of business, we are subject to various lawsuits. We cannot predict or determine the timing or final outcome of these lawsuits or the effect that any adverse findings or determinations in 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 these 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 financial condition, results of operations or cash flows.

Other Matters

During January 2017, we made our final payment under the Deferred Prosecution Agreement and associated Bill of Information (the DPA) entered into on July 1, 2009 with the United States Attorney for the Western District of North Carolina and a separate but related agreement with the United States Department of Housing and Urban Development (HUD) and the Civil Division of the United States Department of Justice (the HUD Agreement). For a further discussion of the HUD Agreement, refer to Note 9 to the audited consolidated financial statements within our 2016 Annual Report. During the three months ended December 31, 2015, we accrued $1.2 million related to the HUD Agreement, which was recorded within general and administrative expenses (G&A) in our consolidated statement of income.

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 in 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 an accrual of $9.2 million and $10.2 million in other liabilities on our consolidated balance sheets related to litigation and other matters, excluding warranty, as of December 31, 2016 and September 30, 2016, respectively.

We had outstanding letters of credit and performance bonds of approximately $49.0 million and $220.5 million, respectively, as of December 31, 2016, related principally to our obligations to local governments to construct roads and other improvements in various developments. We have an immaterial amount of outstanding letters of credit relating to our land option contracts as of December 31, 2016.

(9) Fair Value Measurements

As of the dates presented, we had assets on our consolidated balance sheets that were required to be measured at fair value on a recurring or non-recurring basis. 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; and
- Level 3 – Unobservable inputs that reflect our own estimates about the assumptions market participants would use in pricing the asset or liability.

Certain of our assets are required to be recorded at fair value on a recurring basis. The fair value of our deferred compensation plan assets is based on market-corroborated inputs (Level 2).

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 of these assets may not be recovered. We review our long-lived assets, including inventory, for recoverability when factors indicate an impairment may exist, but no less than quarterly. Fair value on assets deemed to be impaired are determined based upon the type of asset being evaluated. The fair value of our owned inventory assets, when required to be calculated, is discussed within Notes 2 and 5. The fair value of our investments in unconsolidated entities is determined primarily using a discounted cash flow model to value the underlying net assets of the respective entities.

Determining which hierarchical level an asset or liability falls within requires significant judgment. We evaluate our hierarchy disclosures each quarter.

The following table presents the period-end balances of our assets measured at fair value on a recurring basis, and the impairment-date fair value of certain assets measured at fair value on a non-recurring basis, for each hierarchy level. These balances represent only those assets whose carrying values were adjusted to fair value during the periods presented:

(In thousands)	Level 1	Level 2	Level 3	Total
Three Months Ended December 31, 2016				
Deferred compensation plan assets [a]	**$ —**	**$ 1,006**	**$ —**	**$ 1,006**
Three Months Ended December 31, 2015				
Deferred compensation plan assets [a]	—	747	—	747
Land held for sale [b]	—	—	16,213 [c]	16,213
As of September 30, 2016				
Deferred compensation plan assets [a]	—	765	—	765

[a] Measured at fair value on a recurring basis.

[b] Measured at fair value on a non-recurring basis.

[c] Amount represents the impairment-date fair value of certain land held for sale assets that were impaired during the three months ended December 31, 2015.

The fair value of our cash and cash equivalents, restricted cash, accounts receivable, trade accounts payable, other liabilities, amounts due under the Facility (if outstanding) and other secured notes payable approximate their carrying amounts due to the short maturity of these assets and liabilities. When outstanding, obligations related to land not owned under option agreements approximate fair value.

The following table presents the carrying value and estimated fair value of certain of our other financial liabilities as of December 31, 2016 and September 30, 2016:

	As of December 31, 2016		As of September 30, 2016	
(In thousands)	Carrying Amount [a]	Fair Value	Carrying Amount [a]	Fair Value
Senior Notes [b]	$ 1,208,173	$ 1,282,912	$ 1,207,526	$ 1,253,614
Term Loan	53,080	53,080	52,669	52,669
Junior Subordinated Notes	60,387	60,387	59,870	59,870
	$ 1,321,640	$ 1,396,379	$ 1,320,065	$ 1,366,153

[a] Carrying amounts are net of unamortized debt premium/discounts, debt issuance costs or accretion.

[b] The estimated fair value for our publicly-held Senior Notes has been determined using quoted market rates (Level 2).

(10) Income Taxes

Income Tax Provision. Our income tax provision for quarterly interim periods is based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Our total income tax benefit, including discontinued operations, was $2.6 million for the three months ended December 31, 2016, compared to income tax expense of $0.6 million for the three months ended December 31, 2015. Our current quarter income tax benefit was primarily driven by (1) the loss in earnings from continuing operations in the current period and (2) the Company's completion of work necessary to claim an additional $1.2 million in tax credits, which were recorded in the current quarter but related to our fiscal 2016. The tax expense for the three months ended December 31, 2015 was primarily driven by our earnings from continuing operations.

Deferred Tax Assets and Liabilities. The Company continues to evaluate its deferred tax assets each period to determine if a valuation allowance is required based on whether it "is more likely than not" that some portion of these deferred tax assets will not be realized. As of September 30, 2016 and again as of December 31, 2016, we concluded that it is more likely than not that a substantial portion of our deferred tax assets will be realized. As of December 31, 2016, our conclusions on the valuation allowance of $66.3 million and Internal Revenue Code Section 382 limitations related to our deferred tax assets remain consistent with the determinations we made during the period ended September 30, 2016 and are based on similar company specific and industry factors to those discussed in Note 13 to the audited consolidated financial statements within our 2016 Annual Report.

Miscellaneous Tax Matters. In the normal course of business, we are subject to audits by federal and state tax authorities regarding various tax liabilities. Certain state income tax returns for various fiscal years are under routine examination. The statute of limitations for our major tax jurisdictions remains open for examination for our fiscal 2007 and subsequent years.

(11) Stock-based Compensation

Our total stock-based compensation expense is included in G&A in our consolidated statements of income. A summary of the expense related to stock-based compensation by award type is as follows for the periods presented:

	Three Months Ended December 31,	
(In thousands)	2016	2015
Stock options expense	$ 107	$ 148
Restricted stock awards expense	2,069	1,608
Before tax stock-based compensation expense	2,176	1,756
Tax benefit	(774)	(597)
After tax stock-based compensation expense	$ 1,402	$ 1,159

During the three months ended December 31, 2016 and 2015, employees surrendered 30,018 shares and 14,536 shares, respectively, to us in payment of minimum tax obligations upon the vesting of stock awards under our stock incentive plans. We valued this stock at the market price on the date of surrender, for an aggregate value of approximately $387,000 and $201,000 for the three months ended December 31, 2016 and 2015, respectively.

Stock Options. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model (Black-Scholes Model). The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price. As of December 31, 2016, the intrinsic value of our stock options outstanding, vested and expected to vest and exercisable were $0.7 million, $0.7 million and $0.3 million, respectively. As of December 31, 2016 and September 30, 2016, there was $0.5 million and $0.4 million, respectively, of total unrecognized compensation cost related to nonvested stock options. The cost remaining as of December 31, 2016 is expected to be recognized over a weighted-average period of 2.0 years.

During the three months ended December 31, 2016, we issued 27,110 stock options, each for one share of the Company's stock. These stock options typically vest ratably over three years from the date of grant, or two years from the date of grant if issued under the Employee Stock Option Program (EOP; refer to Note 16 of the notes to the consolidated financial statements in our 2016 Annual Report). We used the following assumptions for stock options granted, which derived the weighted average fair value shown, for the period presented:

		Three Months Ended December 31, 2016
Expected life of options		5.4 years
Expected volatility		50.26%
Expected dividends		—
Weighted average risk-free interest rate		1.83%
Weighted average fair value	$	5.87

We 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 granted. We considered historic returns of our stock and the implied volatility of our publicly-traded options in determining expected volatility. We assumed no dividends would be paid, since our Board of Directors has suspended payment of dividends indefinitely and payment of dividends is restricted under our Senior Note covenants. The risk-free interest rate is based on the term structure of interest rates at the time of the option grant.

Activity related to stock options for the period presented is as follows:

	Three Months Ended December 31, 2016		
	Shares		Weighted Average Exercise Price
Outstanding at beginning of period	672,669	$	16.49
Granted	27,110		12.52
Forfeited	(1,334)		8.37
Outstanding at end of period	698,445	$	16.35
Exercisable at end of period	567,599	$	17.79
Vested or expected to vest in the future	694,487	$	16.40

Restricted Stock Awards. The fair value of each restricted stock award with any market conditions is estimated on the date of grant using the Monte Carlo valuation method. The fair value of any restricted stock awards without market conditions is based on the market price of the Company's common stock on the date of grant. If applicable, the cash-settled component of any awards granted to employees is accounted for as a liability, which is adjusted to fair value each reporting period until vested.

Compensation cost arising from restricted stock awards granted to employees is recognized as an expense using the straight-line method over the vesting period. As of December 31, 2016 and September 30, 2016, there was $15.8 million and $11.0 million, respectively, of total unrecognized compensation cost related to nonvested restricted stock awards. The cost remaining as of December 31, 2016 is expected to be recognized over a weighted average period of 2.0 years.

We issued two types of restricted stock awards during the current quarter as follows: (1) performance-based restricted stock awards with a payout based on the Company's performance and certain market conditions and (2) time-based restricted stock awards. Each award type is discussed further below.

Performance-Based Restricted Stock Awards. During the three months ended December 31, 2016, we issued 263,696 shares of performance-based restricted stock (2017 Performance Shares) to our executive officers and certain other employees that also have market conditions. The 2017 Performance Shares are structured to be awarded based on the Company's performance under three pre-determined financial metrics at the end of the three-year performance period. After determining the number of shares earned based on these financial metrics, which can range from 0% to 175% of the targeted number of shares, the award will be subject to further upward or downward adjustment by as much as 20% based on the Company's relative total shareholder return

(TSR) compared against the S&P Homebuilders Select Industry Index during the three-year performance period. The 2017 Performance Shares were valued using the Monte Carlo valuation model due to the existence of the TSR market condition and had an estimated fair value of $13.60 per share on the date of grant.

A Monte Carlo valuation model requires the following inputs: (1) the expected dividend yield on the underlying stock; (2) the expected price volatility of the underlying stock; (3) the risk-free interest rate for the period corresponding with the expected term of the award; and (4) the fair value of the underlying stock. For the Company and each member of the peer group, the following inputs were used, as applicable, in the Monte Carlo valuation model to determine the fair value as of the grant date for the 2017 Performance Shares: 0% dividend yield for the Company, expected price volatility ranging from 32.6% to 66.0% and a risk-free interest rate of 1.30%. The methodology used to determine these assumptions is similar to the Black-Scholes Model; however, the expected term is determined by the model in the Monte Carlo simulation.

Each Performance Share represents a contingent right to receive one share of the Company's common stock if vesting is satisfied at the end of the three-year performance period. Any 2017 Performance Shares earned in excess of the target number of 263,696 shares may be settled in cash or additional shares at the discretion of the Compensation Committee of our Board of Directors. Any portion of these that do not vest at the end of the period will be forfeited.

Time-Based Restricted Stock Awards. During three months ended December 31, 2016, we also issued 269,402 shares of time-based restricted stock (Restricted Shares) to our directors, executive officers and certain other employees. The Restricted Shares granted to our non-employee directors vest on the one-year anniversary of the date of grant, while the Restricted Shares granted to our executive officers and other employees vest ratably over three years from the date of grant.

Activity relating to restricted stock awards for the period presented is as follows:

Three Months Ended December 31, 2016

	Performance-Based Restricted Stock		Time-Based Restricted Stock		Total Restricted Stock	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of period	448,693	$ 16.71	807,124	$ 17.52	1,255,817	$ 17.23
Granted	263,696	13.60	269,402	12.51	533,098	13.05
Vested	—	—	(183,730)	15.49	(183,730)	15.49
Forfeited	(28,690)	11.65	—	—	(28,690)	11.65
End of period	683,699	$ 15.72	892,796	$ 16.43	1,576,495	$ 16.12

(12) Earnings Per Share

Basic income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares outstanding during the period. Diluted income per share adjusts the basic income per share for the effects of any potentially dilutive instruments, only in periods in which the Company has net income and such effects are dilutive under the treasury stock method. Basic and diluted income (loss) per share is calculated using unrounded numbers.

The Company reported a net loss for the three months ended December 31, 2016. Accordingly, all common stock equivalents were excluded from the computation of diluted loss per share because inclusion would have resulted in anti-dilution. For the three months ended December 31, 2016 and 2015, 1.5 million and 1.2 million shares, respectively, related to nonvested stock-based compensation awards were excluded from our calculation of diluted income per share as a result of their anti-dilutive effect.

The weighted average number of common shares outstanding used to calculate basic income (loss) per share is reconciled to shares used to calculate diluted income (loss) per share as follows for the periods presented:

	Three Months Ended December 31,	
(In thousands)	2016	2015
Basic shares	31,893	31,757
Shares issuable upon vesting/exercise of stock awards/options	—	87
Diluted shares	31,893	31,844

(13) Other Liabilities

Other liabilities include the following as of December 31, 2016 and September 30, 2016:

(In thousands)	December 31, 2016	September 30, 2016
Accrued warranty expense	**$ 32,309**	$ 39,131
Accrued interest	**25,089**	11,530
Accrued bonuses and deferred comp	**14,464**	30,466
Customer deposits	**13,273**	12,140
Litigation accrual	**9,187**	10,178
Income tax liabilities	**1,772**	1,718
Other	**25,617**	29,090
Total other liabilities	**$ 121,711**	$ 134,253

(14) Segment Information

We currently operate in 13 states that are grouped into three homebuilding segments based on geography. Revenues from our homebuilding segments are derived from the sale of homes that we construct and from land and lot sales. Our reportable segments have been determined on a basis that is used internally by management for evaluating segment performance and resource allocations. We have considered the applicable aggregation criteria, and have combined our homebuilding operations into three reportable segments as follows:

West: Arizona, California, Nevada and Texas
East: Delaware, Indiana, Maryland, New Jersey[a], Tennessee and Virginia
Southeast: Florida, Georgia, North Carolina and South Carolina

[a] During our fiscal 2015, we made the decision that we would not continue to reinvest in new homebuilding assets in our New Jersey division; therefore, it is no longer considered an active operation. However, it is included in this listing because the segment information below continues to include New Jersey.

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, commission expense, depreciation and amortization and certain G&A expenses that are incurred by or allocated to our homebuilding segments. The accounting policies of our segments are described in Note 2 to the consolidated financial statements within our 2016 Annual Report.

The following tables contain our revenue, operating income and depreciation and amortization by segment for the periods presented:

	Three Months Ended December 31,	
(In thousands)	2016	2015
Revenue		
West	**$ 171,749**	$ 157,196
East	**84,159**	100,557
Southeast	**83,333**	86,696
Total revenue	**$ 339,241**	$ 344,449

(In thousands)	Three Months Ended December 31, 2016	2015
Operating income		
West	**$ 21,015**	$ 16,786
East [(a)]	**1,557**	4,147
Southeast [(b)]	**5,015**	10,657
Segment total	**27,587**	31,590
Corporate and unallocated [(c)]	**(26,312)**	(22,442)
Total operating income	**$ 1,275**	$ 9,148

(In thousands)	Three Months Ended December 31, 2016	2015
Depreciation and amortization		
West	**$ 1,248**	$ 1,218
East	**529**	797
Southeast	**466**	449
Segment total	**2,243**	2,464
Corporate and unallocated [(b)]	**434**	527
Total depreciation and amortization	**$ 2,677**	$ 2,991

(a) Operating income for our East segment for the three months ended December 31, 2016 was impacted by a charge to G&A of $2.7 million related to the write-off of a deposit on a legacy investment in a development site that we deemed noncollectible.

(b) Operating income for our Southeast segment for the three months ended December 31, 2015 was impacted by unexpected warranty costs related to the Florida stucco issues, net of expected insurance recoveries. This impact was a credit of $3.6 million.

(c) Corporate and unallocated operating loss includes amortization of capitalized interest; movement in capitalized indirects; expenses related to numerous shared services functions that benefit all segments but are not allocated to the operating segments reported above, including information technology, treasury, corporate finance, legal, branding and national marketing; and certain other amounts that are not allocated to our operating segments.

Corporate and unallocated depreciation and amortization represents depreciation and amortization related to assets held by our corporate functions that benefit all segments.

The following table contains our capital expenditures by segment for the periods presented:

(In thousands)	Three Months Ended December 31, 2016	2015
Capital Expenditures		
West	**$ 1,184**	$ 1,133
East	**771**	467
Southeast	**618**	969
Corporate and unallocated	**301**	94
Total capital expenditures	**$ 2,874**	$ 2,663

The following table contains our asset balance by segment as of December 31, 2016 and September 30, 2016:

(In thousands)	December 31, 2016	September 30, 2016
Assets		
West	**$ 796,962**	$ 778,521
East	**346,524**	344,898
Southeast	**344,074**	333,501
Corporate and unallocated [a]	**700,583**	756,238
Total assets	**$ 2,188,143**	$ 2,213,158

[a] Primarily consists of cash and cash equivalents, restricted cash, deferred taxes, capitalized interest and indirects and other items that are not allocated to the segments.

(15) 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, Term Loan or the Facility. The guarantees are full and unconditional and the guarantor subsidiaries are 100% owned by Beazer Homes USA, Inc. The following unaudited financial information presents the line items of our unaudited condensed consolidated financial statements separated by amounts related to the parent issuer, guarantor subsidiaries, non-guarantor subsidiaries and consolidating adjustments as of or for the periods presented.

Beazer Homes USA, Inc.

Unaudited Condensed Consolidating Balance Sheet Information

December 31, 2016

(In thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	$ 159,886	$ 4,292	$ 853	$ (6,408)	$ 158,623
Restricted cash	14,683	1,280	—	—	15,963
Accounts receivable (net of allowance of $350)	—	51,797	—	—	51,797
Income tax receivable	288	—	—	—	288
Owned inventory	—	1,618,544	—	—	1,618,544
Investments in unconsolidated entities	773	4,292	—	—	5,065
Deferred tax assets, net	312,666	—	—	—	312,666
Property and equipment, net	—	19,335	—	—	19,335
Investments in subsidiaries	713,629	—	—	(713,629)	—
Intercompany	789,502	—	2,376	(791,878)	—
Other assets	822	5,040	—	—	5,862
Total assets	$ 1,992,249	$ 1,704,580	$ 3,229	$ (1,511,915)	$ 2,188,143
LIABILITIES AND STOCKHOLDERS' EQUITY					
Trade accounts payable	$ —	$ 86,730	$ —	$ —	$ 86,730
Other liabilities	25,014	96,345	352	—	121,711
Intercompany	2,376	795,910	—	(798,286)	—
Total debt (net of premium and debt issuance costs)	1,321,640	14,843	—	—	1,336,483
Total liabilities	1,349,030	993,828	352	(798,286)	1,544,924
Stockholders' equity	643,219	710,752	2,877	(713,629)	643,219
Total liabilities and stockholders' equity	$ 1,992,249	$ 1,704,580	$ 3,229	$ (1,511,915)	$ 2,188,143

Beazer Homes USA, Inc.

Unaudited Condensed Consolidating Balance Sheet Information

September 30, 2016

(In thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	$ 215,646	$ 16,866	$ 859	$ (4,500)	$ 228,871
Restricted cash	12,867	1,538	—	—	14,405
Accounts receivable (net of allowance of $354)	—	53,225	1	—	53,226
Income tax receivable	292	—	—	—	292
Owned inventory	—	1,569,279	—	—	1,569,279
Investments in unconsolidated entities	773	9,697	—	—	10,470
Deferred tax assets, net	309,955	—	—	—	309,955
Property and equipment, net	—	19,138	—	—	19,138
Investments in subsidiaries	701,931	—	—	(701,931)	—
Intercompany	734,766	—	2,574	(737,340)	—
Other assets	577	6,930	15	—	7,522
Total assets	$ 1,976,807	$ 1,676,673	$ 3,449	$ (1,443,771)	$ 2,213,158
LIABILITIES AND STOCKHOLDERS' EQUITY					
Trade accounts payable	$ —	$ 104,174	$ —	$ —	$ 104,174
Other liabilities	11,315	122,561	377	—	134,253
Intercompany	2,574	739,266	—	(741,840)	—
Total debt (net of premium and debt issuance costs)	1,320,065	11,813	—	—	1,331,878
Total liabilities	1,333,954	977,814	377	(741,840)	1,570,305
Stockholders' equity	642,853	698,859	3,072	(701,931)	642,853
Total liabilities and stockholders' equity	$ 1,976,807	$ 1,676,673	$ 3,449	$ (1,443,771)	$ 2,213,158

Beazer Homes USA, Inc.

Unaudited Consolidating Statements of Income (Loss) and Unaudited Comprehensive Income (Loss)

(In thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended December 31, 2016					
Total revenue	$ —	$ 339,241	$ 36	$ (36)	$ 339,241
Home construction and land sales expenses	15,644	269,970	—	(36)	285,578
Gross profit (loss)	(15,644)	69,271	36	—	53,663
Commissions	—	13,323	—	—	13,323
General and administrative expenses	—	36,365	23	—	36,388
Depreciation and amortization	—	2,677	—	—	2,677
Operating income (loss)	(15,644)	16,906	13	—	1,275
Equity in income of unconsolidated entities	—	22	—	—	22
Other (expense) income, net	(5,252)	57	(1)	—	(5,196)
Income (loss) before income taxes	(20,896)	16,985	12	—	(3,899)
Expense (benefit) from income taxes	(7,569)	5,025	4	—	(2,540)
Equity in income of subsidiaries	11,968	—	—	(11,968)	—
Income (loss) from continuing operations	(1,359)	11,960	8	(11,968)	(1,359)
Loss from discontinued operations	(70)	—	—	—	(70)
Equity in loss of subsidiaries from discontinued operations	—	(67)	(3)	70	—
Net income (loss) and comprehensive income (loss)	$ (1,429)	$ 11,893	$ 5	$ (11,898)	$ (1,429)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended December 31, 2015					
Total revenue	$ —	$ 344,449	$ 73	$ (73)	$ 344,449
Home construction and land sales expenses	13,367	272,217	—	(73)	285,511
Inventory impairments and abandonments	—	1,356	—	—	1,356
Gross profit (loss)	(13,367)	70,876	73	—	57,582
Commissions	—	13,774	—	—	13,774
General and administrative expenses	—	31,642	27		31,669
Depreciation and amortization	—	2,991	—	—	2,991
Operating income (loss)	(13,367)	22,469	46	—	9,148
Equity in income of unconsolidated entities	—	60	—	—	60
Loss on extinguishment of debt	(828)	—	—	—	(828)
Other (expense) income, net	(7,432)	868	(1)	—	(6,565)
Income (loss) before income taxes	(21,627)	23,397	45	—	1,815
Expense (benefit) from income taxes	(10,143)	10,742	17	—	616
Equity in income of subsidiaries	12,683	—	—	(12,683)	—
Income from continuing operations	1,199	12,655	28	(12,683)	1,199
Loss from discontinued operations	—	(197)	(3)	—	(200)
Equity in loss of subsidiaries from discontinued operations	(200)	—	—	200	—
Net income and comprehensive income	$ 999	$ 12,458	$ 25	$ (12,483)	$ 999

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

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended December 31, 2016					
Net cash used in operating activities	$ (2,902)	$ (59,928)	$ (4)	$ —	$ (62,834)
Cash flows from investing activities:					
Capital expenditures	—	(2,874)	—	—	(2,874)
Proceeds from sale of fixed assets	—	46	—	—	46
Investments in unconsolidated entities	—	(1,397)	—	—	(1,397)
Return of capital from unconsolidated entities	—	1,621	—	—	1,621
Increases in restricted cash	(1,817)	(1,829)	—	—	(3,646)
Decreases in restricted cash	—	2,088	—	—	2,088
Advances to/from subsidiaries	(50,314)	—	—	50,314	—
Net cash used in investing activities	(52,131)	(2,345)	—	50,314	(4,162)
Cash flows from financing activities:					
Repayment of debt	—	(2,525)	—	—	(2,525)
Debt issuance costs	(340)	—	—	—	(340)
Advances to/from subsidiaries	—	52,224	(2)	(52,222)	—
Other financing activities	(387)	—	—	—	(387)
Net cash (used in) provided by financing activities	(727)	49,699	(2)	(52,222)	(3,252)
Decrease in cash and cash equivalents	(55,760)	(12,574)	(6)	(1,908)	(70,248)
Cash and cash equivalents at beginning of period	215,646	16,866	859	(4,500)	228,871
Cash and cash equivalents at end of period	$ 159,886	$ 4,292	$ 853	$ (6,408)	$ 158,623

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended December 31, 2015					
Net cash used in operating activities	$ (22,794)	$ (55,038)	$ (17)	$ —	$ (77,849)
Cash flows from investing activities:					
Capital expenditures	—	(2,663)	—	—	(2,663)
Proceeds from sale of fixed assets	—	2,437	—	—	2,437
Investments in unconsolidated entities	—	(1,779)	—	—	(1,779)
Return of capital from unconsolidated entities	—	1,142	—	—	1,142
Increases in restricted cash	—	(1,119)	—	—	(1,119)
Decreases in restricted cash	—	669	—	—	669
Advances to/from subsidiaries	(33,119)	—	—	33,119	—
Net cash used in investing activities	(33,119)	(1,313)	—	33,119	(1,313)
Cash flows from financing activities:					
Repayment of debt	(22,875)	(4,051)	—	—	(26,926)
Debt issuance costs	(413)	—	—	—	(413)
Advances to/from subsidiaries	—	38,312	(1)	(38,311)	—
Other financing activities	(201)	—	—	—	(201)
Net cash (used in) provided by financing activities	(23,489)	34,261	(1)	(38,311)	(27,540)
Decrease in cash and cash equivalents	(79,402)	(22,090)	(18)	(5,192)	(106,702)
Cash and cash equivalents at beginning of period	232,226	21,543	1,006	(3,192)	251,583
Cash and cash equivalents at end of period	$ 152,824	$ (547)	$ 988	$ (8,384)	$ 144,881

(16) 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 stockholder 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 our fiscal 2015, we made the decision that we would not continue to reinvest in new homebuilding assets in our New Jersey division; therefore, it is no longer considered an active operation. However, the results of our New Jersey division are not included in the discontinued operations information shown below.

We have classified the results of operations of our discontinued operations separately in the accompanying unaudited condensed consolidated statements of income for all periods presented. There were no material assets or liabilities related to these discontinued operations as of December 31, 2016 or September 30, 2016. Discontinued operations were not segregated in the unaudited condensed consolidated statements of cash flows. Therefore, amounts for certain captions in the unaudited condensed consolidated statements of cash flows will not agree with the respective data in the unaudited condensed consolidated statements of income. The results of our discontinued operations in the unaudited condensed consolidated statements of income for the periods presented were as follows:

	Three Months Ended December 31,	
(In thousands)	**2016**	2015
Total revenue	**$ —**	$ —
Home construction and land sales expenses	**78**	308
Gross loss	**(78)**	(308)
General and administrative expenses	**31**	2
Loss from discontinued operations before income taxes	**(109)**	(310)
Benefit from income taxes	**(39)**	(110)
Loss from discontinued operations, net of tax	**$ (70)**	$ (200)

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

Executive Overview and Outlook

Market Conditions

In any period, the demand for new homes is dependent on a variety of factors, including job growth, changes in population and demographics, the availability and cost of mortgage financing, the supply of new and existing homes and, importantly, consumer confidence. These factors all fluctuate over time at both a national and a more localized market level. While we believe that there are multiple factors that point to further improvement in the homebuilding market in the next several years, such as rising levels of household formation, tight housing supply in many markets, job and wage growth and mortgage rates that continue to be historically low, there are several risks that could significantly impact our business during our fiscal 2017. These risks include fragile consumer confidence, continued volatility in our domestic and international stock markets, political uncertainty and possible legislative reform, rising interest rates, and potential mortgage reform, as well as a variety of local market risks where we do business. However, we continue to believe that we are well positioned in key markets, and that the underlying fundamentals that drive home purchases are supportive.

Overview of Results for Our Fiscal First Quarter

For the quarter ended December 31, 2016, we recorded a net loss from continuing operations of $1.4 million, a decline of $2.6 million from the prior year quarter's net income from continuing operations of $1.2 million. However, the following items impacted the comparability of our net income/loss from continuing operations between periods: (1) during the current quarter, we recorded a $2.7 million charge within our general and administrative expenses (G&A) to write off a deposit on a legacy investment in a development site that we deemed noncollectible and (2) during the prior year quarter, we recorded a credit to cost of sales of $3.6 million for insurance recoveries received or anticipated to be received that were greater than charges recorded in the prior year quarter related to the Florida stucco issues (see Note 8 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q).

Looking at our underlying operating results, year-over-year closings declined by 5.1%, from 1,049 in the prior year quarter to 995 in the current quarter, due primarily to our anticipated decline in average community count, but our average selling price (ASP) increased over the prior year quarter by 5.3%. Combined, these factors caused our homebuilding revenue to be relatively flat, falling only slightly from $336.6 million in the prior year quarter to $336.1 million in the current quarter. Our homebuilding gross margin, excluding impairments, abandonments, interest and, in the prior year quarter, the credit to cost of sales related to the Florida stucco issues mentioned above, showed slight year-over-year improvement to 20.5% in the current quarter from 20.4% in the prior year quarter. Commissions expense declined year-over-year due to the modest revenue decline, but remained consistent as a percentage of homebuilding revenue. Finally, our G&A increased year-over-year by $4.7 million, and has increased as a percentage of total revenue from 9.2% in the prior year quarter to 10.7% in the current quarter. This increase includes the write off of the deposit discussed above, which is partially offset by the recording of $1.2 million in expense related to the Deferred Prosecution Agreement (DPA) in the prior year quarter (see Note 8 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q). The remaining increase in G&A is due to higher compensation-related expenditures, as we look to right-size our team and prepare for future growth opportunities.

We ended the quarter with a backlog of 1,926 units, which represents a 0.7% increase over the 1,912 backlog units we had as of the end of the prior year quarter. Although we entered the current quarter with 122 fewer backlog units when compared to the prior year quarter, an 8.9% increase in new order activity versus the prior year quarter allowed us to build up our backlog stronger than where it was a year ago. The current quarter ending backlog has an ASP of $345.8 thousand, a year-over-year increase of 4.2%.

Reaching "2B-10"

In November 2013, we introduced a multi-year "2B-10" plan, which provided a roadmap of revenue and margin metrics to achieve $2 billion in revenue with a 10% Adjusted EBITDA margin. Taken together, reaching "2B-10" would result in Adjusted EBITDA of at least $200 million. In November 2015, we refined the specific metrics we expect will lead us to our "2B-10" objectives by providing ranges to each metric instead of point estimates. Since we rolled out our "2B-10" plan, we have consistently noted that there are a number of paths to achieving our underlying goal of $200 million of EBITDA, and that we continue our commitment to reaching these objectives as soon as possible. We expect to reach these objectives by making improvements on five key metrics: (1) sales per community per month (our absorption rate); (2) ASP; (3) active community count; (4) homebuilding gross margin; and (5) cost leverage as measured by selling, general and administrative costs (SG&A) as a percentage of total revenue.

Since introducing our "2B-10" plan, we have made significant progress on achieving our Adjusted EBITDA goal (refer to "EBITDA: Reconciliation of Net Income (Loss) to Adjusted EBITDA" section below), driven by improvements with regard to the majority of our key metrics over time due to the intense focus we have placed on the operational drivers of this plan, and, in part, to stronger home pricing conditions. Our progress on each metric is discussed in more detail below:

- Sales per community per month was 2.2 and 1.8 for the quarters ended December 31, 2016 and December 31, 2015, respectively. Our strong emphasis on sales absorptions within our lower active community count allowed us to achieve a significant year-over-year increase in this metric and to rebuild our backlog unit levels. Sales per community per month increased to 2.8 for the trailing 12 months ended December 31, 2016 versus 2.7 a year ago, and is within the range established in our “2B-10” plan of 2.8 to 3.2. We continue to believe that we are among the industry leaders in sales absorption rates, and are focused on maintaining our strong sales momentum through the remainder of our fiscal 2017.
- Our ASP for closings during the trailing 12 months ended December 31, 2016 was $332.6 thousand, up 4.6% year-over-year, and our ASP in backlog as of December 31, 2016 has risen 4.2% versus the prior year quarter to $345.8 thousand. Our targeted metric for ASP established in November 2015 was a range of $330.0 thousand to $340.0 thousand, which we have achieved and believe we can maintain based on the gradual increase in our ASP on closed homes, our ASP on homes in backlog as of December 31, 2016 and our current mix of communities available for sale. As such, we are increasing our targeted metric for ASP to a range of $340.0 thousand to $350.0 thousand.
- During the current quarter, we had an average active community count of 156, down 7.9% from the prior year quarter, and ended the quarter with 154 active communities. This decline in community count was anticipated, as we focused during our fiscal 2016 on balancing our community count with our goal of reducing our outstanding debt balance. However, we expect higher spend on land and land development activities during the current fiscal year, and a corresponding growth in community count in fiscal 2018 and beyond. We invested another $103.2 million in land and land development during the current quarter, bringing our total spending for the trailing 12-month period to $328.2 million. Additionally, we have (1) increasingly focused on the use of option contracts and developed lot deals to maximize the efficiency of our capital, and (2) continued to activate certain parcels of land held for future development so that these assets can begin to generate revenue. We continue to strategically evaluate opportunities to purchase land within our geographic footprint, balancing our desire to reduce our leverage with land acquisition strategies that minimize our capital employed. Our “2B-10” target metric is an active community count range between 170 and 175.
- Homebuilding gross margin excluding impairments, abandonments and interest for the trailing 12 months ended December 31, 2016 was 21.5%, which is within our “2B-10” target metric range of between 21.0% and 22.0%. However, excluding the $15.5 million reduction in cost of sales recorded during the third quarter of our fiscal 2016 resulting from an agreement entered into with our third-party insurer to resolve certain issues related to the extent of our insurance coverage for multiple policy years, our homebuilding gross margin for the trailing 12 months ended December 31, 2016 would have been 20.6%, just below our target metric range. Our homebuilding gross margin has been impacted by a number of headwinds, including the increasing cost of land, driven by both market conditions and the structure of our land deals, and labor, as well as geographic, product and community mix (including an increasing number of closings from recently activated assets formerly classified as land held for future development, which generally have lower margins). While we anticipate these headwinds to continue, we expect our homebuilding margin, as it has in the current quarter, to stabilize and modestly improve in the coming quarters.
- SG&A for the trailing 12 months ended December 31, 2016 was 12.6% of total revenue, an increase of 30 basis points from the prior year. However, excluding the $2.7 million charge to write off a deposit on a legacy investment in a development site that we deemed noncollectible, SG&A for the trailing 12 months ended December 31, 2016 was 12.4% of total revenue. Although it is slightly above our “2B-10” target range of between 11.0% and 12.0%, we believe that as we grow revenue from our larger base of communities expected during our fiscal 2018 and beyond, as well as higher ASPs, we will demonstrate improved SG&A cost leverage.

For the trailing 12 months ended December 31, 2016, our revenue was $1.8 billion, up 6.5% year-over-year. Excluding the non-recurring items detailed in the full reconciliation of our EBITDA (refer to section below entitled “EBITDA: Reconciliation of Net Income (Loss) to Adjusted EBITDA”), Adjusted EBITDA for the trailing 12 months ended December 31, 2016 increased $1.1 million, or 0.7%, to $154.8 million.

We expect to continue our focus on our “2B-10” metrics throughout fiscal 2017, with particular emphasis on driving sales absorptions and improving our homebuilding gross margin.

Debt Reduction and Capital Efficiency

During our fiscal 2016, we reduced our debt balance by nearly $157 million, which surpassed our initial debt reduction target for the prior fiscal year. We will continue to focus on deleveraging, and plan to further reduce our debt by at least another $100 million through our fiscal 2018. We believe that doing so in a strong housing market will create long-term shareholder value. By actively managing our debt structure, we were successful in paying off certain secured senior notes in part by issuing unsecured senior debt with a later maturity date. See Note 7 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q for further discussion of our outstanding borrowings.

Additionally, we have increasingly sought to maximize our return on capital by carefully managing our investment in land, so that our debt reduction targets can be achieved while still concentrating on community count. To reduce the risks associated with these investments and to maximize our capital base, we have increasingly used options to control land. Furthermore, we have activated certain parcels of land held for future development so that these assets can begin to generate revenue for the Company.

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. Accordingly, our financial results for the three months ended December 31, 2016 may not accurately predict our ultimate full year results.

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RESULTS OF CONTINUING OPERATIONS:

The following table summarizes certain key income statement metrics for the periods presented:

	Three Months Ended December 31,	
($ in thousands)	**2016**	2015
Revenues:		
Homebuilding	**$ 336,126**	$ 336,593
Land sales and other	**3,115**	7,856
Total	**$ 339,241**	$ 344,449
Gross profit:		
Homebuilding	**$ 53,204**	$ 58,063
Land sales and other	**459**	(481)
Total	**$ 53,663**	$ 57,582
Gross margin:		
Homebuilding[a]	***15.8%***	*17.3 %*
Land sales and other	***14.7%***	*(6.1)%*
Total	***15.8%***	*16.7 %*
Commissions	**$ 13,323**	$ 13,774
General and administrative expenses (G&A)	**36,388**	31,669
SG&A (commissions plus G&A) as a percentage of total revenue	***14.7%***	*13.2 %*
G&A as a percentage of total revenue	***10.7%***	*9.2 %*
Depreciation and amortization	**$ 2,677**	$ 2,991
Operating income	**$ 1,275**	$ 9,148
Operating income as a percentage of total revenue	***0.4%***	*2.7 %*
Effective Tax Rate[c]	***65.1%***	*33.9 %*
Equity in income of unconsolidated entities	**$ 22**	$ 60
Loss on extinguishment of debt	**—**	828

[a] In addition to other items impacting homebuilding gross margin, for the three months ended December 31, 2015, this metric was impacted by warranty costs related to the Florida stucco issues, net of the associated insurance recoveries. Refer to further discussion of these items below in section titled "Homebuilding Gross Profit and Gross Margin."

[b] In addition to other items impacting G&A, for the three months ended December 31, 2016, this metric was impacted by a $2.7 million charge to write off a deposit on a legacy investment in a development site that we deemed noncollectible.

[c] Calculated as tax expense (benefit) for the period divided by income (loss) from continuing operations. Due to the effects of a variety of factors, including the impact of discrete tax items on our effective tax rate, our income tax expense (benefit) is not always directly correlated to the amount of pretax income (loss) for the associated periods, particularly when focusing on individual quarters.

EBITDA: **Reconciliation of Net Income (Loss) to Adjusted EBITDA**

Reconciliation of Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, debt extinguishment, impairments and abandonments) to total company net income (loss), the most directly comparable GAAP measure, is provided for each period presented below. Management believes that Adjusted EBITDA, which is a non-GAAP measure, assists investors in understanding and comparing the operating characteristics of homebuilding activities by eliminating many of the differences in companies' respective capitalization, tax position and level of impairments. These EBITDA measures should not be considered alternatives to net income determined in accordance with GAAP as an indicator of operating performance.

In addition, given the unusual size and nature of certain amounts recorded during the periods presented, Adjusted EBITDA is also shown excluding these amounts in the following table. Management believes that this representation best reflects the operating characteristics of the Company.

The following table reconciles our net income (loss) to Adjusted EBITDA for the periods presented:

	Three Months Ended December 31,			LTM Ended December 31, [a]		
(In thousands)	**2016**	2015	**16 vs 15**	**2016**	2015	16 vs 15
Net income (loss)	**$ (1,429)**	$ 999	$ (2,428)	**$ 2,265**	$ 367,433	$ (365,168)
Expense (benefit) from income taxes	**(2,579)**	506	(3,085)	**13,139**	(324,724)	337,863
Interest amortized to home construction and land sales expenses, capitalized interest impaired and interest expense not qualified for capitalization	**20,896**	21,083	(187)	**104,523**	89,035	15,488
Depreciation and amortization and stock-based compensation amortization	**4,859**	4,747	112	**21,864**	20,505	1,359
Inventory impairments and abandonments [b]	**—**	1,356	(1,356)	**13,216**	4,465	8,751
Loss on debt extinguishment	**—**	828	(828)	**12,595**	908	11,687
Adjusted EBITDA	**$ 21,747**	$ 29,519	$ (7,772)	**$ 167,602**	$ 157,622	$ 9,980
Unexpected warranty costs related to Florida stucco issues (net of expected insurance recoveries)	**—**	(3,612)	3,612	**—**	(3,612)	3,612
Additional insurance recoveries from third-party insurer	**—**	—	—	**(15,500)**	—	(15,500)
Litigation settlement in discontinued operations	**—**	—	—	**—**	(340)	340
Write-off of deposit on legacy land investment	**2,700**	—	2,700	**2,700**	—	2,700
Adjusted EBITDA excluding unexpected warranty costs (net of recoveries), additional insurance recoveries, litigation settlement and write-off of deposit	**$ 24,447**	$ 25,907	$ (1,460)	**$ 154,802**	$ 153,670	$ 1,132

[a] “LTM” indicates amounts for the trailing 12 months.

[b] Amounts for the trailing 12 months ended December 31, 2016 and 2015 excludes capitalized interest impaired during the period. Capitalized interest that is impaired is included in the line above titled “Interest amortized to home construction and land sales expenses, capitalized interest impaired and interest expense not qualified for capitalization.”

Homebuilding Operations Data

The following table summarizes new orders, net and cancellation rates by reportable segment for the periods presented:

	Three Months Ended December 31,				
	New Orders, net			Cancellation Rates	
	2016	2015	**16 vs 15**	**2016**	2015
West	**467**	422	**10.7 %**	**20.2%**	24.1%
East	**228**	248	**(8.1)%**	**22.7%**	25.7%
Southeast	**310**	253	**22.5 %**	**21.5%**	28.5%
Total	**1,005**	923	**8.9 %**	**21.2%**	25.8%

Sales per community per month was 2.2 and 1.8 for the quarters ended December 31, 2016 and December 31, 2015, respectively, an increase of 18.2%. Our strong emphasis on sales absorptions within our lower active community count allowed us to achieve a significant year-over-year increase in this metric and to rebuild our backlog unit levels. Our average active communities declined 7.9% year-over-year from 169 to 156 during the quarter ended December 31, 2016, partially offsetting our stronger absorptions and ultimately resulting in an 8.9% increase in new orders, net.

For the three months ended December 31, 2016, the increase in new orders, net in our West segment was driven by all of our markets except for Texas, where we had a decline in order activity, particularly in Houston due to a lower community count in response to local economic conditions. The decrease in new orders, net in our East segment for the three months ended December 31, 2016 was caused by a decline in our Maryland market, due to a particularly strong prior year sales performance as we sold additional speculative (spec) homes to generate capital, and our New Jersey market, which did not have any order activity in the current quarter but was winding down in the prior year quarter. Finally, the year-over-year increase in new orders, net for the three months ended December 31, 2016 in our Southeast segment was primarily driven by strong order activity in our Raleigh market, where we have increased our community count, and our Charleston market, as several newer communities have started to gain momentum.

The table below summarizes backlog units by reportable segment, as well as aggregate dollar value of homes in backlog and ASP for homes in backlog as of December 31, 2016 and December 31, 2015:

	As of December 31,		
	2016	2015	**16 vs 15**
Backlog Units:			
West	**785**	885	**(11.3)%**
East	**455**	478	**(4.8)%**
Southeast	**686**	549	**25.0 %**
Total	**1,926**	1,912	**0.7 %**
Aggregate dollar value of homes in backlog (in millions)	**$ 666.1**	$ 634.6	**5.0 %**
ASP in backlog (in thousands)	**$ 345.8**	$ 331.9	**4.2 %**

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. Backlog units as of December 31, 2016 increased by 0.7% from the prior year due to the increase in new orders, net described above, coupled with lower closings as compared to the prior year period. Although we entered the current year quarter with fewer backlog units and a lower community count, we were able to build our backlog through a substantial improvement in sales absorptions year-over-year.

Homebuilding Revenue, Average Selling Price and Closings

The table below summarizes homebuilding revenue, the ASP of our homes closed and closings by reportable segment for the periods presented:

	Three Months Ended December 31,								
	Homebuilding Revenue			**Average Selling Price**			**Closings**		
($ in thousands)	**2016**	2015	**16 vs 15**	**2016**	2015	**16 vs 15**	**2016**	2015	**16 vs 15**
West	**$ 171,749**	$ 157,196	**9.3 %**	**$ 336.8**	$ 319.5	**5.4%**	**510**	492	**3.7 %**
East	**81,250**	94,345	**(13.9)%**	**374.4**	367.1	**2.0%**	**217**	257	**(15.6)%**
Southeast	**83,127**	85,052	**(2.3)%**	**310.2**	283.5	**9.4%**	**268**	300	**(10.7)%**
Total	**$ 336,126**	$ 336,593	**(0.1)%**	**$ 337.8**	$ 320.9	**5.3%**	**995**	1,049	**(5.1)%**

The change in ASP for the three months ended December 31, 2016 was impacted primarily by a change in mix of closings between geographies, products and among communities within each individual market as compared to the prior year period. It was also positively impacted by our operational strategies, as well as improved market conditions in certain geographies.

Generally, closings for the three months ended December 31, 2016 declined due to our lower year-over-year community count in comparative periods, and, more specifically, was also driven by (1) a sharp decline in our Maryland market, where we sold and closed a significant number of spec homes in the prior year quarter to generate capital for debt reduction; (2) fewer closings in our Texas market, as the prior year quarter benefited from additional closings that were pushed out of the end of our fiscal 2015 due to the weather conditions in that region; (3) no closings from our de-activated New Jersey market in the current quarter, whereas we were still closing homes in the prior year quarter; and (4) fewer backlog units entering the current quarter when compared to the prior year quarter. These declines were partially offset by improved performance in communities that have recently opened, as we continue to gain sales and closings momentum.

The increase in our ASP nearly canceled out the decline in closings, resulting in homebuilding revenue that was relatively flat year-over-year, as shown in the table above. On average, we anticipate that our ASP will likely continue to increase in future quarters, as indicated by our ASP for homes in backlog.

Homebuilding Gross Profit and Gross Margin

The following tables present our homebuilding (HB) gross profit and gross margin by reportable segment and total homebuilding gross profit and gross margin, as well as such amounts excluding inventory impairments and abandonments and interest amortized to cost of sales (COS) for the periods presented. Homebuilding gross profit is defined as homebuilding revenue 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 abandonment charges). Additionally, we have shown the impact of unexpected warranty costs related to the Florida stucco issues, net of insurance recoveries, which we consider to be a non-recurring item, on our gross profit and gross margin for the prior year quarter.

	Three Months Ended December 31, 2016							
($ in thousands)	**HB Gross Profit (Loss)**	**HB Gross Margin**	**Impairments & Abandonments (I&A)**	**HB Gross Profit (Loss)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	**$ 36,817**	**21.4%**	**$ —**	**$ 36,817**	**21.4%**	**$ —**	**$ 36,817**	**21.4%**
East	**13,428**	**16.5%**	**—**	**13,428**	**16.5%**	**—**	**13,428**	**16.5%**
Southeast	**14,577**	**17.5%**	**—**	**14,577**	**17.5%**	**—**	**14,577**	**17.5%**
Corporate & unallocated	**(11,618)**		**—**	**(11,618)**		**15,644**	**4,026**	
Total homebuilding	**$ 53,204**	**15.8%**	**$ —**	**$ 53,204**	**15.8%**	**$ 15,644**	**$ 68,848**	**20.5%**

	Three Months Ended December 31, 2015							
($ in thousands)	HB Gross Profit (Loss)	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit (Loss) 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	$ 32,213	20.5%	$ —	$ 32,213	20.5%	$ —	$ 32,213	20.5%
East	14,598	15.5%	—	14,598	15.5%	—	14,598	15.5%
Southeast	19,649	23.1%	788	20,437	24.0%	—	20,437	24.0%
Corporate & unallocated	(8,397)		—	(8,397)		13,367	4,970	
Total homebuilding	$ 58,063	17.3%	$ 788	$ 58,851	17.5%	$ 13,367	$ 72,218	21.5%
Unexpected warranty costs related to Florida stucco issues (net of expected insurance recoveries)	(3,612)						(3,612)	
Adjusted homebuilding	54,451	16.2%					68,606	20.4%

Our overall homebuilding gross profit declined by $4.9 million to $53.2 million for the three months ended December 31, 2016, from $58.1 million in the prior year period, despite homebuilding revenue being essentially flat. However, the comparability of our gross profit, as shown in the tables above, was impacted by several items as follows: (1) prior year quarter gross profit included a credit to cost of sales of $3.6 million for insurance recoveries received or anticipated to be received that were greater than that quarter's charges related to the Florida stucco issues; (2) prior year gross profit also included $0.8 million in impairment and abandonment charges taken in our Southeast segment; and (3) interest amortized to homebuilding cost of sales increased by $2.3 million, from $13.4 million in the prior year quarter to $15.6 million in the current quarter (refer to Note 6 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q). When these items are taken into consideration, year-over-year gross profit, like homebuilding revenue, is essentially flat, and our homebuilding gross margin improved by 10 basis points.

Our gross margin continues to be impacted by the following factors: (1) mix of closings between geographies/markets, individual communities within each market, and product type; (2) activation of assets formerly classified as land held for future development, which generally have lower margins; (3) the structure of our land purchase transactions, since finished lot purchases tend to result in lower gross margins; (4) the mix between speculative homes and "to be built" homes closed in each period; and (5) higher labor costs.

Total homebuilding gross profit and gross margin excluding inventory impairments and abandonments, interest amortized to cost of sales and other non-recurring items that we disclose are not GAAP financial measures. These measures should not be considered alternatives to homebuilding gross profit and gross margin determined in accordance with GAAP as an indicator of operating performance.

In particular, the magnitude and volatility of non-cash inventory impairment and abandonment charges for the Company, and for other homebuilders, have been significant and, as such, have made financial analysis of our industry more difficult. Homebuilding metrics excluding these charges, as well as interest amortized to cost of sales, and other similar presentations by analysts and other companies are frequently used to assist investors in understanding and comparing the operating characteristics of homebuilding 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.

In a given period, our reported gross profit is generated from both communities previously impaired and communities not previously impaired. In addition, as indicated above, certain gross profit 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 margin for each home closing is higher for a particular community after an impairment because the carrying value of the 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 that 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 margin on a trailing 12-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, our homebuilding gross margin was 16.2% and excluding interest and inventory impairments, it was 21.5%. For the same trailing 12-month period, homebuilding gross margin was as follows in those communities that have previously been impaired, which represented 8.0% of total closings during this period:

Homebuilding Gross Margin from previously impaired communities:	
Pre-impairment turn gross margin	(7.6)%
Impact of interest amortized to COS related to these communities	5.1 %
Pre-impairment turn gross margin, excluding interest amortization	(2.5)%
Impact of impairment turns	13.9 %
Gross margin (post impairment turns), excluding interest amortization	11.4 %

For a further discussion of our impairment policies, refer to Notes 2 and 5 of the notes to unaudited condensed consolidated financial statements in this Form 10-Q.

Land Sales and Other Revenues and Gross Profit (Loss)

Land sales relate to land and lots sold that did not fit within our homebuilding programs and strategic plans in certain markets. Other revenues included net fees we received for general contractor services we performed on behalf of a third party and broker fees. The following tables summarize our land sales and other revenues and related gross profit (loss) by reportable segment for the periods presented:

(In thousands)	Land Sales and Other Revenues Three Months Ended December 31, 2016	 2015	 16 vs 15	Land Sales and Other Gross Profit (Loss) Three Months Ended December 31, 2016	 2015	 16 vs 15
West	$ —	$ —	$ —	$ 278	$ 351	$ (73)
East	2,909	6,212	(3,303)	131	(246)	377
Southeast	206	1,644	(1,438)	50	(214)	264
Corporate and unallocated [a]	—	—	—	—	(372)	372
Total	$ 3,115	$ 7,856	$ (4,741)	$ 459	$ (481)	$ 940

[a] Corporate and unallocated includes interest and indirects related to land sold that was costed off.

Although not as significant as in the prior year period, to further support our efforts to reduce our leverage, we continued to focus on closing on a number of land sales in the three months ended December 31, 2016 that did not fit within our strategic plans. We expect additional land sales to occur during the remainder of our fiscal 2017. However, future land and lot sales will depend on a variety of factors, including local market conditions, individual community performance and changing strategic plans.

Operating Income

The table below summarizes operating income (loss) by reportable segment for the periods presented:

(In thousands)	Three Months Ended December 31, 2016	 2015	 16 vs 15
West	$ 21,015	$ 16,786	$ 4,229
East [a]	1,557	4,147	(2,590)
Southeast [b]	5,015	10,657	(5,642)
Corporate and Unallocated [c]	(26,312)	(22,442)	(3,870)
Operating income	$ 1,275	$ 9,148	$ (7,873)

[a] Operating income for our East segment for the three months ended December 31, 2016 was impacted by a charge to G&A of $2.7 million related to the write-off of a deposit on a legacy investment in a development site that we deemed noncollectible.

[b] Operating income for our Southeast segment for the three months ended December 31, 2015 was impacted by a credit to cost of sales of $3.6 million for unexpected warranty costs related to the Florida stucco issues, net of expected insurance recoveries.

[c] Corporate and unallocated operating loss includes amortization of capitalized interest; movement in capitalized indirects; expenses related to numerous shared services functions that benefit all segments but are not allocated to the operating segments; and certain other amounts that are not allocated to our operating segments.

Our operating income declined by $7.9 million to $1.3 million for the three months ended December 31, 2016, compared to $9.1 million for the three months ended December 31, 2015. As discussed above, our homebuilding gross profit during the current quarter declined by $4.9 million (but was relatively flat when adjusted for non-recurring items, impairments and abandonments, and interest amortized to cost of sales). In addition to lower year-over-year gross profit, our decline in operating income was also driven by an increase in G&A of $4.7 million. Higher G&A was the result of: (1) a charge of $2.7 million related to the write-off of a deposit on a legacy investment in a development site that we deemed noncollectible and (2) higher compensation-related expenditures, as we look to right-size our team and prepare for future growth opportunities, such as the Gatherings active adult communities, offset by (3) the recording of $1.2 million in expense related to the DPA in the prior year quarter (see Note 8 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q). Lower gross profit and higher G&A during the current quarter were partially offset by a $0.9 million increase in land sales and other gross profit, as well as a year-over-year decline in commissions expense of $0.5 million.

Below operating income, we had two noteworthy year-over-year fluctuations for the three months ended December 31, 2016 as follows: (1) we had a current quarter decline in our other expense, net, mainly driven by a reduction in our interest costs on a lower outstanding debt balance (refer to Note 6 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q) and (2) we recorded a loss on the extinguishment of debt in the prior year quarter of $0.8 million from paying down $22.9 million of the then outstanding Senior Notes due June 2016; no debt repurchase activity occurred during the current quarter.

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, but was partially released in the fourth quarter of our fiscal 2015. 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. As such, our effective tax rates have not been meaningful metrics, as our income tax expense/benefit was not directly correlated to the amount of pretax income or loss for the associated periods. Beginning in our fiscal 2016, the Company started using an annualized effective tax rate in interim periods to determine its tax expense/benefit, which should more closely correlate with our pretax income or loss in periods, but will continue to be impacted by discrete tax items.

Our current quarter income tax benefit was primarily driven by (1) the loss in earnings from continuing operations in the current period and (2) the Company's completion of work necessary to claim an additional $1.2 million in tax credits, which were recorded in the current quarter but related to our fiscal 2016. The tax expense for the three months ended December 31, 2015 was primarily driven by our earnings from continuing operations.

As discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, we executed a restructuring effort in the current quarter that involved changes in the legal forms and tax elections for certain of our operating entities. These efforts were undertaken to reduce our effective tax rate to an amount that is in-line with our peers, while also providing cash tax savings in jurisdictions where we no longer have significant loss carryforwards available. Our fiscal 2017 annualized effective tax rate, excluding the impacts of discrete items recorded in the period, is currently in-line with our peers, and we expect to remain in that range in subsequent fiscal years.

Refer to Note 10 of the notes to our unaudited condensed consolidated financial statements included in this Form 10-Q for a further discussion of our income taxes.

Three months ended December 31, 2016 as compared to 2015

West Segment: Homebuilding revenue increased 9.3% for the three months ended December 31, 2016 compared to the prior year quarter due to a 3.7% increase in closings (particularly in our Sacramento market, which reopened during our fiscal 2015), as well as a year-over-year increase in ASP of 5.4%, which improved in the majority of our markets in the West segment. As compared to the prior year period, our homebuilding gross profit increased by $4.6 million, due mainly to the increase in revenue already discussed, as well as an increase in homebuilding gross margin from 20.5% to 21.4%. Gross margin increased in the majority of our markets in the West segment, particularly in Sacramento where our re-opened communities continue to gain momentum. The $4.2 million increase in operating income resulted from the aforementioned increase in homebuilding gross profit, partially offset by a modest increase in G&A costs, particularly with the growth of the Sacramento market.

East Segment: Homebuilding revenue decreased by 13.9% for the three months ended December 31, 2016 compared to the prior year quarter, primarily due to a 15.6% decline in closings (mainly driven by our Maryland market, where we sold and closed a significant number of spec homes in the prior year quarter to generate capital for debt reduction, and the absence of closings from our de-activated New Jersey market in the current quarter, where we were still closing homes in the prior year quarter as we wound down operations), partially offset by the impact of a 2.0% increase in ASP. As compared to the prior year period, our homebuilding gross profit decreased $1.2 million, related mainly to the aforementioned decline in homebuilding revenue, offset by higher homebuilding gross margin, which increased from 15.5% in the prior year quarter to 16.5%. Gross margin increased for all of our markets in the East segment, and were driven up for the segment overall due to the closing of additional low-margin spec homes in our Maryland market during the prior year quarter to return capital to the company and the closeout of our New Jersey division, which generated several lower margin closings in the prior year period. The $2.6 million decline in operating income resulted from the decrease in gross profit as previously discussed, and higher G&A costs, driven by a charge of $2.7 million related to the write-off of a deposit on a legacy investment in a development site that we deemed noncollectible. However, outside of the deposit write-off, commissions, sales and marketing and G&A costs all declined due to lower business volume and the wind down of our New Jersey operations.

Southeast Segment: Homebuilding revenue decreased by 2.3% for the three months ended December 31, 2016 compared to the prior year quarter due to a 10.7% decline in closings (particularly in our Charleston and Orlando markets), partially offset by the impact of a 9.4% increase in ASP. Our homebuilding gross profit in the Southeast segment decreased by $5.1 million due to the aforementioned decline in homebuilding revenue, as well as a decline in gross margin from 23.1% to 17.5%. However, our year-over-year comparison of gross profit and gross margin is impacted by the Florida stucco issues and impairments and abandonments recorded during the prior year quarter. When adjusting for these items, gross profit declined by $2.2 million, and gross margin declined from 19.8% to 17.5%. The decrease in gross margin in the Southeast segment was primarily attributable to the the close out of certain higher-margin communities; the mix of closings between markets, communities and product type; and certain unexpected warranty costs incurred on homes closed in prior periods. The decrease in operating income of $5.6 million resulted from the decline in gross profit already described, as well as higher G&A, particularly in our Atlanta market as we try to increase our business in this market.

Corporate and Unallocated: Our Corporate and unallocated results include amortization of capitalized interest; movement in capitalized indirects; expenses for various shared services functions that benefit all segments but are not allocated, including information technology, treasury, corporate finance, legal, branding and national marketing; and certain other amounts that are not allocated to our operating segments. For the three months ended December 31, 2016, corporate and unallocated net costs increased by $3.9 million from the prior year quarter, primarily due to (1) a year-over-year increase in interest amortized to cost of sales of $2.3 million (refer to Note 6 of the notes to our unaudited condensed consolidated financial statements included in this Form 10-Q) and (2) higher corporate costs incurred due to business growth, including costs associated with the opportunity to increase the scope of our Gatherings projects for active adults, partially offset by (3) the recording of $1.2 million in expense related to the DPA in the prior year quarter, an accrual for which was not needed in the current quarter due to the expiration of the DPA as of the end of our fiscal 2016.

Derivative Instruments and Hedging Activities. We are exposed to fluctuations in interest rates. From time-to-time, we may enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates. However, as of December 31, 2016, 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: (1) cash from operations; (2) proceeds from Senior Notes, our Secured Revolving Credit Facility (the Facility) and other bank borrowings; (3) the issuance of equity and equity-linked securities; and (4) other external sources of funds. Our short-term and long-term liquidity depends primarily upon our level of net income, working capital management (cash, accounts receivable, accounts payable and other liabilities) and available credit facilities.

Cash and cash equivalents decreased as follows for the periods presented:

	Three Months Ended December 31,	
(In thousands)	**2016**	2015
Cash used in operating activities	**$ (62,834)**	$ (77,849)
Cash used in investing activities	**(4,162)**	(1,313)
Cash used in financing activities	**(3,252)**	(27,540)
Net decrease in cash and cash equivalents	**$ (70,248)**	$ (106,702)

Operating Activities. We spent $103.2 million on land and land development activities during the three months ended December 31, 2016, a decrease of $8.5 million, or 7.6%, compared to $111.7 million in land-related spending for the three months ended December 31, 2015. We expect our spend on land and land development activities to increase during the remainder of our fiscal 2017. Our level of land and land development spend, which partly drives our change in inventory, had a significant impact on our cash flows from operating activities in both years, bringing net cash used in operating activities to $62.8 million and $77.8 million for the three months ended December 31, 2016 and 2015, respectively. Our cash used in operating activities was also impacted by changes in our working capital balances, particularly trade payables and other liabilities; these changes were more favorable in the current quarter when compared with the prior year quarter, but were a net use of cash during both periods. However, our year-over-year decline in earnings, once adjusted for non-cash items, negatively impacted cash flows from operating activities in the current quarter versus the prior year quarter, and was driven by lower revenues and additional G&A costs in the current quarter.

Investing Activities. Net cash used in investing activities was $4.2 million for the three months ended December 31, 2016, driven by capital expenditures, primarily for model homes, and a net increase in our restricted cash balances (which are primarily used to support our outstanding letters of credit under our stand-alone, cash-secured letter of credit agreements). Net cash used in investing activities was $1.3 million for the three months ended December 31, 2015, primarily driven by capital expenditures for model homes and additional investments made in unconsolidated entities, partially offset by proceeds received from the sale of a building owned by the Company.

Financing Activities. Net cash used in financing activities was $3.3 million for the three months ended December 31, 2016 due to payments made on secured notes payable used to acquire certain land parcels. Net cash used in financing activities was $27.5 million for the three months ended December 31, 2015, primarily related to principal payments on the then outstanding Senior Notes due June 2016.

Financial Position. As of December 31, 2016, our liquidity position consisted of:

- $158.6 million in cash and cash equivalents;
- $142.5 million of remaining capacity under the Facility (due to the use of the Facility to secure $37.5 million in letters of credit); and

- $16.0 million of restricted cash, the majority of which is used to secure certain stand-alone letters of credit.

While we believe we possess sufficient liquidity, we are mindful of potential short-term or seasonal requirements for enhanced liquidity that may arise to grow our business. We expect to be able to meet our liquidity needs in fiscal 2017 and to maintain a significant liquidity position, 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 period-to-period basis.

During the first quarter of our fiscal 2016, we paid down $22.9 million of the then outstanding Senior Notes due June 2016, which resulted in a loss on extinguishment of debt of $0.8 million. We had no debt repayment activity on our Senior Notes or term loan (defined in Note 7 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q) during the current quarter.

Debt. We generally fulfill our short-term cash requirements with cash generated from our operations and available borrowings. Additionally, we maintain the Facility, which has a total capacity of $180 million and an available capacity of $142.5 million as of December 31, 2016 after considering our outstanding letters of credit backed by the Facility of $37.5 million.

We have also entered into a number of stand-alone, cash secured letter of credit agreements with banks. These combined facilities provide for letter of credit needs collateralized by either cash or assets of the Company. We currently have $11.5 million of outstanding letters of credit under these facilities (in addition to the $37.5 million outstanding letters of credit backed by the Facility), which are secured by cash collateral that is maintained in restricted accounts totaling $14.7 million.

In the future, we may from time-to-time seek to continue to retire or purchase our outstanding debt through cash repurchases or in exchange for other debt securities, in open market purchases, privately-negotiated transactions or otherwise. We also may seek to expand our business through acquisition, which may be funded through cash, additional debt or equity. In addition, any material variance from our projected operating results could require us to obtain additional equity or debt financing. There can be no assurance that we will be able to complete any of these transactions in the future on favorable terms or at all. See Note 7 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q for more information.

Credit Ratings. Our credit ratings are periodically reviewed by rating agencies. In September 2016, Moody's reaffirmed the Company's issuer default debt rating of B3 and upgraded the Company’s senior unsecured notes to B3 from Caa1. Moody’s outlook on the Company remains positive. In August 2016, S&P reaffirmed the Company's corporate credit rating of B- and upgraded its rating on the Company’s senior unsecured notes to B- from CCC+. In September 2016, Fitch reaffirmed the Company's long-term debt rating of B- and revised its outlook to stable. 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, financial condition, results of operations 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.

Stock Repurchases and Dividends Paid. The Company did not repurchase any shares in the open market during the three months ended December 31, 2016 or 2015. Any future stock repurchases, to the extent allowed by our debt covenants, must be approved by the Company’s Board of Directors or its Finance Committee.

The indentures under which our Senior Notes were issued contain certain restrictive covenants, including limitations on the payment of dividends. There were no dividends paid during the three months ended December 31, 2016 or 2015.

Off-Balance Sheet Arrangements and Aggregate Contractual Commitments. As of December 31, 2016, we controlled 23,300 lots. We owned 74.2%, or 17,296 of these lots, and 6,004 of these lots, or 25.8%, were under option contracts with land developers and land bankers, 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 and other non-refundable amounts incurred, which totaled approximately $78.0 million as of December 31, 2016. The total remaining purchase price, net of cash deposits, committed under all options was $412.9 million as of December 31, 2016. Based on market conditions and our liquidity, we may further expand our use of option agreements to supplement our owned inventory supply.

We expect to exercise, subject to market conditions and seller satisfaction of contract terms, 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 at all.

We have historically funded the exercise of lot options with 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.

Occasionally, we use legal entities in which we have less than a controlling interest. We enter into the majority of these arrangements with land developers, other homebuilders and financial partners to acquire attractive land positions, to manage our risk profile and to leverage our capital base. The underlying land positions are developed into finished lots for sale to the unconsolidated entity's members or other third parties. We account for our interest in unconsolidated entities under the equity method.

Historically, we and our partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated entities. As of December 31, 2016, we have no repayment guarantees outstanding related to the debt of our unconsolidated entities. See Note 4 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q for more information.

We had outstanding performance bonds of approximately $220.5 million as of December 31, 2016, related principally to our obligations to local governments to construct roads and other improvements in various developments.

Critical Accounting Policies: Our critical accounting policies require the use of judgment in their application and/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 (GAAP), 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. It is also possible that other professionals, applying reasonable judgment to the same set of facts and circumstances, could develop a different conclusion. As disclosed in our 2016 Annual Report, our most critical accounting policies relate to (1) inventory valuation (projects in progress, land held for future development and land held for sale); (2) homebuilding revenues and costs; (3) warranty reserves; and (4) income tax valuation allowances and ownership changes. Since September 30, 2016, there have been no significant changes to these critical accounting policies.

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 results of operations. As of December 31, 2016, we had variable rate debt outstanding totaling approximately $158 million, a portion of which will be reduced during our fiscal 2017 according to the underlying debt agreements. A one percent increase in the interest rate for these variable-rate issuances would result in an increase of our interest expense by $1.4 million over the next twelve-month period. The estimated fair value of our fixed-rate debt as of December 31, 2016 was $1.30 billion, compared to a carrying value of $1.22 billion. 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 $1.30 billion to $1.35 billion as of December 31, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed based on criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) 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 (the Act). Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016, 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 December 31, 2016 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

Litigation

From time-to-time, we receive claims from institutions that have acquired mortgages originated by our subsidiary, Beazer Mortgage Corporation (BMC), demanding damages or indemnity or that we repurchase such mortgages. BMC stopped originating mortgages in 2008. We have been able to resolve these claims for no cost or for amounts that are not material to our consolidated financial statements. We cannot rule out the potential for additional mortgage loan repurchase or indemnity claims in the future from other investors. At this time, we do not believe that the exposure related to any such claims would be material to our consolidated financial condition, results of operations or cash flows.

A purported class action lawsuit was filed on July 7, 2016 against the Company in Maricopa County Arizona Superior Court on behalf of all homeowners in Arizona that purchased homes from the Company that included a certain type of roof underlayment. The complaint alleges various construction defects, but principally claims that the roof underlayment is susceptible to leaks and was not installed in accordance with best practices. We removed this case to federal court and filed motions to dismiss the class action allegations on various grounds. The plaintiffs have now withdrawn the class action allegations without prejudice and filed an amended complaint. In light of the dismissal of the class action allegations, the Company is handling this matter in the ordinary course of defending against alleged construction defect claims covered by the Company's warranty. As such, the Company does not plan to report further on this case in future periodic reports.

In the normal course of business, we are subject to various lawsuits. We cannot predict or determine the timing or final outcome of these lawsuits or the effect that any adverse findings or determinations in 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 these 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 financial condition, results of operations or cash flows.

Other Matters

During January 2017, we made our final payment under the Deferred Prosecution Agreement and associated Bill of Information (the DPA) entered into on July 1, 2009 with the United States Attorney for the Western District of North Carolina and a separate but related agreement with the United States Department of Housing and Urban Development (HUD) and the Civil Division of the United States Department of Justice (the HUD Agreement). For a further discussion of the HUD Agreement, refer to Note 9 to the audited consolidated financial statements within our 2016 Annual Report. During the three months ended December 31, 2015, we accrued $1.2 million related to the HUD Agreement, which was recorded within general and administrative expenses in our consolidated statement of income.

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.

Item 1A. Risk Factors

Except for the addition of the risk factor below, there have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the year ended September 30, 2016.

The value of our deferred income tax asset could be significantly reduced if corporate tax rates in the United States (U.S.) are lowered or if other changes in the U.S. corporate tax system occur.

Due to the recent change of our President, discussions in the U.S. Congress regarding comprehensive tax reform have increased. Such legislation could significantly alter the existing tax code, including a reduction in corporate income tax rates. Although a reduction in the corporate income tax rate could result in lower future tax expense and tax payments, it would reduce, perhaps significantly, the value of our existing deferred tax asset and could result in a charge to our earnings from the write-down of this asset. It is uncertain whether or when any such tax reform proposals will be enacted into law, and whether or how they will affect our deferred tax asset.

Item 6. Exhibits

10.1*	Form of 2014 Long-Term Incentive Plan Award Agreement for Performance Shares (Named Executive Officers).
31.1	Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements from Beazer Homes USA, Inc.'s Quarterly Report on Form 10-Q for the period ended December 31, 2016, filed on February 9, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated Statements of Income, (iii) Unaudited Condensed Consolidated Statements of Cash Flows and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.

* Represents a management contract or compensatory plan or arrangement.

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.

Date:	February 9, 2017	Beazer Homes USA, Inc.	
		By:	/s/ Robert L. Salomon
		Name:	**Robert L. Salomon**
			Executive Vice President and Chief Financial Officer

BEAZER HOMES USA, INC.

2014 LONG-TERM INCENTIVE PLAN

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BEAZER HOMES USA, INC. 2014 LONG-TERM INCENTIVE PLAN

Article 1 - **General Provisions**

1.1 *Establishment of Plan.* Beazer Homes USA, Inc., a Delaware corporation (the “Company”), hereby establishes an incentive compensation plan to be known as the “Beazer Homes USA, Inc. 2014 Long-Term Incentive Plan” (the “Plan”), as set forth in this document.

1.2 *Purpose of Plan.* The objectives of the Plan are to (i) attract and retain employees, directors, and other persons who perform services for the Company and its affiliates by providing compensation opportunities that are competitive with other companies; (ii) provide incentives to those individuals who contribute significantly to the long-term performance and growth of the Company and its affiliates; and (iii) align the long-term financial interests of employees and other Eligible Participants with those of the Company’s stockholders.

1.3 *Types of Awards.* Awards under the Plan may be made to Eligible Participants in the form of (i) Incentive Stock Options, (ii) Nonqualified Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock, (v) Restricted Stock Units, (vi) Performance Shares, (vii) Performance Units, (viii) Other Stock-Based Awards, (ix) Long-Term Incentive Compensation Awards or any combination thereof.

1.4 *Effective Date.* The Plan will become effective on the date on which the Company’s stockholders approve the Plan (the “Effective Date”).

1.5 *Termination of Plan.* No Awards shall be granted under the Plan after the tenth anniversary of the Effective Date. However, Awards granted under the Plan on or prior to the tenth anniversary of the Effective Date shall remain outstanding beyond that date in accordance with the terms and conditions of the Plan and the Agreements corresponding to such Awards.

Article 2 - **Definitions**

Except where the context otherwise indicates, the following definitions apply:

2.1 “Act” means the Securities Exchange Act of 1934, as now in effect or as hereafter amended. All citations to sections of the Act or rules thereunder are to such sections or rules as they may from time to time be amended or renumbered.

2.2 “Agreement” means the written agreement evidencing an Award granted under the Plan that specifies the size, form, terms, conditions and duration of each Award. As determined by the Committee, each Agreement shall consist of either (i) a written agreement in a form approved by the Committee and executed on behalf of the Company by an officer duly authorized to act on its behalf, or (ii) an electronic notice of Award grant in a form approved by the Committee and recorded by the Company (or its designee) in an electronic recordkeeping system used for the purpose of tracking Award grants under the Plan, and if required by the Committee, executed or otherwise electronically accepted by the recipient of the Award in such form and manner as the Committee may require. The Committee may authorize any officer of the Company (other than the particular Award recipient) to execute any or all Agreements on behalf the Company.

2.3 “Award” means an Option, a Stock Appreciation Right, Restricted Stock, a Restricted Stock Unit, a Performance Share, a Performance Unit, an Other Stock-Based Award, a Long-Term Incentive Compensation Award or a combination thereof.

2.4 “Award Pool” shall have the meaning ascribed to such term in Section 4.1.

2.5 "Board" means the Board of Directors of the Company, as constituted from time to time.

2.6 "Cause" means, "Cause" as defined under any employment or service agreement applicable to the Participant at the time of the Participant's termination or if no such employment or service agreement exists or if such employment or service agreement does not contain any such definition, "Cause" means (a) the Participant's act or failure to act amounting to gross negligence or willful misconduct to the detriment of the Company or any affiliate; (b) the Participant's dishonesty, fraud, theft or embezzlement of funds or properties in the course of Participant's employment or service; (c) the Participant's commission of or pleading guilty to or confessing to any felony; or (d) the Participant's breach of any restrictive covenant agreement with the Company or any affiliate, including, but not limited to, covenants not to compete, non-solicitation covenants and non-disclosure covenants. "Cause" shall also include a material violation of the Company's Code of Business Conduct & Ethics or any successor or similar Company policy governing ethical behavior. The existence of "Cause" under this Section 2.6 shall be determined in good faith by the Committee.

2.7 "Change in Control" means, except as otherwise expressly provided in an Agreement, the occurrence of any of the following events:

(a) The accumulation in any number of related or unrelated transactions by any Person of Beneficial Ownership of twenty-five percent (25%) or more of the combined voting power of the Company's voting stock; provided that for purposes of this subsection (a), a Change in Control will not be deemed to have occurred if the accumulation of twenty-five percent (25%) or more of the Beneficial Ownership of the combined voting power of the Company's voting stock resulted from (i) any acquisition of voting stock by the Company or by any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliate or (ii) any acquisition of voting stock directly from the Company provided the Person's Beneficial Ownership of the combined voting power of the Company's voting stock at no time thereafter equals thirty-five percent (35%) or more of the combined voting power of the Company's voting stock; or

(b) Consummation of a merger, consolidation, reorganization or similar transaction (a "Business Combination"), unless, immediately following that Business Combination, (i) all or substantially all of the Persons who had Beneficial Ownership of the voting stock of the Company immediately prior to that Business Combination have Beneficial Ownership, directly or indirectly, of more than fifty percent (50%) of the combined voting power of the Company's or the surviving entity's voting stock resulting from that Business Combination (including, without limitation, an entity that as a result of that transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), in substantially the same proportions relative to each other as their Beneficial Ownership, immediately prior to that Business Combination, of the voting stock of the Company, (ii) no Person acquires Beneficial Ownership of twenty five percent (25%) or more of the combined voting power of the Company's or the surviving entity's voting stock resulting from that Business Combination (including, without limitation, an entity that as a result of that transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), and (iii) the Business Combination does not result in a Change in Control under subsection (c) below; provided that for purposes of this subsection (b), a Change in Control will not be deemed to have occurred as the result of any Person's accumulation of Beneficial Ownership of twenty-five percent (25%) or more, but less than thirty-five percent (35%), of the combined voting power of the Company's or the surviving entity's voting stock resulting from that Business Combination so long as the Board approved the Business Combination; or

(c) Less than a majority of the members of the Board of Directors of the Company or any entity resulting from a Business Combination are Incumbent Board Members; or

(d) Consummation of a sale or other disposition of all or substantially all of the assets of the Company, except pursuant to a Business Combination that would not cause a Change in Control under subsection (b) above; or

(e) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company, except pursuant to a Business Combination that would not cause a Change in Control under subsection (b) above

For purposes of this Section 2.7, the meaning of (i) "Person" shall be based on the definition of person in Section 3(a)(9) of the Act, as modified and used in Sections 13(d) and 14(d) of the Act, and (ii) "Beneficial Ownership" shall be as such term is used in Rule 13d-3 under the Act.

Incumbent Board Member means an individual who either is (a) a member of the Company's Board as of the effective date of the adoption of this Plan or (b) a member who becomes a member of the Company's Board subsequent to the date of the adoption of this Plan whose election, or nomination for election by the Company's shareholders, was approved by a vote of a majority of the then Incumbent Board Members (either by a specific vote or by approval of the proxy statement of the Company in which that Person is named as a nominee for director, without objection to that nomination), but excluding, for that purpose, any individual whose initial assumption of office occurs as a result of an actual or threatened election contest (within the meaning of Rule 14a-11 of the Act) with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors.

Notwithstanding anything in this Plan or any Agreement to the contrary, to the extent any provision of this Plan or an Agreement would cause a payment of a 409A Award to be made because of the occurrence of a Change in Control, then such payment shall not be made unless such Change in Control also constitutes a "change in ownership", "change in effective control" or "change in ownership of a substantial portion of the Company's assets" within the meaning of Code section 409A. Other Participant rights that are tied to a Change in Control, such as vesting, shall not be affected by this paragraph.

2.8 "Code" means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered and shall include all related regulations.

2.9 "Committee" means the Compensation Committee of the Board, or the Board itself if no Compensation Committee exists. If such Compensation Committee exists, if and to the extent deemed necessary by the Board, such Compensation Committee shall consist of two or more directors, all of whom are (i) "non-employee directors" within the meaning of Rule 16b-3 under the Exchange Act, (ii) "outside directors" within the meaning of Code section 162(m) and (iii) independent directors under the rules of any stock exchange on which the Company's securities are traded.

2.10 "Company" means Beazer Homes USA, Inc., a Delaware corporation, and its successors and assigns.

2.11 "Covered Employee" means a Participant whom the Committee determines is or may be subject to the limitations of Code section 162(m).

2.12 "Director" means any individual who is a member of the Board; provided, however, that any individual who is both a member of the Board and employed by the Company or any other entity constituting the Employer shall not be considered a Director for purposes of the Plan.

2.13 “Disability” means, with respect to any Incentive Stock Option, a disability as determined under Code section 22(e)(3), and with respect to any other Award, a disability as determined under procedures established by the Committee or in any Agreement; provided that to the extent any provision of this Plan or an Agreement would cause a payment of a 409A Award to be made because of the Participant’s Disability, then there shall not be a Disability that triggers payment until the date (if any) that the Participant is disabled within the meaning of Code section 409A(a)(2)(C).

2.14 “Effective Date” shall have the meaning ascribed to such term in Section 1.4 above.

2.15 “Eligible Participant” means an employee of an Employer as well as any other natural person, including a Director or a person who provides bona fide services to an Employer, subject to any limitations as shall be determined by the Committee.

2.16 “Employer” means the Company and any entity during any period that it is a “parent corporation” or a “subsidiary corporation” with respect to the Company within the meaning of Code sections 424(e) and 424(f). With respect to all purposes of the Plan, including but not limited to, the establishment, amendment, termination, operation and administration of the Plan, the Company shall be authorized to act on behalf of all other entities included within the definition of “Employer.”

2.17 “Fair Market Value” means, on any given date:

(a) if the Shares are listed on the NYSE on the given date, Fair Market Value on such date shall be the closing price for a Share on the NYSE on such date, or if no sale was reported on such date, on the last preceding day on which a sale was reported on the NYSE;

(b) if the Shares are listed on a national or regional securities exchange other than the NYSE on the given date, Fair Market Value on such date shall be the closing price for a Share on the securities exchange on such date or, if no sale was reported on such date, on the last preceding day on which a sale was reported on such exchange; or

(c) if neither (a) nor (b) applies on the given date, the fair market value of a Share on that date shall be determined in good faith by the Committee.

For purposes of subsection (b) above, if Shares are not traded on the NYSE but they are traded on more than one securities exchange on the given date, then the following exchange shall be referenced to determine Fair Market Value: (i) the NASDAQ, or (ii) if shares are not traded on the NASDAQ, the largest exchange on which Shares are traded.

Notwithstanding the foregoing, (i) in the case of an Option or SAR, Fair Market Value shall be determined in accordance with a definition of fair market value that permits the Award to be exempt from Code section 409A; and (ii) in the case of an Option that is intended to qualify as an ISO under Code section 422 or an Award that is intended to qualify as performance-based compensation under Code section 162(m), Fair Market Value shall be determined by the Committee in accordance with the requirements of Code section 422 or Code section 162(m), as applicable.

2.18 “409A Award” means each Award that is not exempt from Code section 409A.

2.19 “Good Reason” means, “Good Reason” as defined under any employment or service agreement applicable to the Participant at the time of the Participant’s termination or if no such employment or service agreement exists or if such employment or service agreement does not contain any such definition, "Good Reason" means the occurrence of any of the following conditions without the Participant's consent:

(a) a material diminution in the Participant's authority, duties or responsibilities from those that existed on the date immediately preceding the Change in Control; or

(b) relocation of the Participant's primary office to a location more than thirty-five (35) miles from the location of the Participant's primary office on the date immediately preceding the Change in Control.

Notwithstanding the foregoing, the occurrence of any of the events described above will not constitute Good Reason unless (i) the Participant gives the Company written notice within fifteen (15) days after the initial occurrence of an event that the Participant believes constitutes Good Reason and describes such event in the notice; (ii) the Company thereafter fails to cure any such event within fifteen (15) days after receipt of such notice; and (iii) the Participant's termination as a result of such event occurs at least 31 days after the Company's receipt of the notice referred to in clause (ii), but no more than 60 days after the initial occurrence of such event. The existence of "Good Reason" under this Section 2.19 shall be determined in good faith by the Committee.

2.20 "Incentive Stock Option" or "ISO" means an Option granted to an Eligible Participant under Article 5 of the Plan which is designated as an Incentive Stock Option and intended to meet the requirements of Code section 422.

2.21 "Insider" shall mean an individual who is, on the relevant date, subject to the reporting requirements of Section 16(a) of the Act.

2.22 "Long-Term Incentive Compensation Award" means an Award that is granted pursuant to Article 10 of the Plan.

2.23 "Nonqualified Stock Option" or "NQSO" means an Option granted to an Eligible Participant under Article 5 of the Plan which is not intended to meet the requirements of Code section 422 or that otherwise does not meet such requirements.

2.24 "NYSE" means the New York Stock Exchange.

2.25 "Option" means an Incentive Stock Option or a Nonqualified Stock Option. An Option shall be designated as either an Incentive Stock Option or a Nonqualified Stock Option, and in the absence of such designation shall be a Nonqualified Stock Option.

2.26 "Option Price" means the price at which a Share may be purchased by exercise of an Option.

2.27 "Other Stock-Based Award" means any form of equity-based or equity-related award, other than an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Stock, or Performance Unit, that is granted pursuant to Article 9 of the Plan.

2.28 "Participant" means an Eligible Participant to whom an Award has been granted.

2.29 "Payment Date" shall have the meaning set forth in Section 5.5 of the Plan.

2.30 "Performance Share" means an Award under Article 8 of the Plan that is valued by reference to a Share, which value may be paid to the Participant by delivery of cash or Shares, or any combination thereof, as determined by the Committee, upon achievement of such performance objectives during the relevant performance period as the Committee shall establish at the time of such Award or thereafter, but not later than the time permitted by Code section 162(m) in the case of a Covered Employee, unless the Committee does not intend for such Award to comply with Code section 162(m).

2.31 "Performance Unit" means an Award under Article 8 of the Plan that has a value set by the Committee (or that is determined by reference to a valuation formula specified by the Committee), which value may be paid to the Participant by delivery of cash or Shares, or any combination thereof, as determined by the Committee, upon achievement of such performance objectives during the relevant performance period as the Committee shall establish at the time of such Award or thereafter, but not later than the time permitted by Code section 162(m) in the case of a Covered Employee, unless the Committee does not intend for such Award to comply with Code section 162(m).

2.32 "Plan" means the Beazer Homes USA, Inc. 2014 Long-Term Incentive Plan, as set forth in this document and as it may be amended from time to time.

2.33 "Restricted Stock" means an Award of Shares under Article 7 of the Plan, which Shares are issued with such restriction(s) as the Committee, in its sole discretion, may impose.

2.34 "Restricted Stock Unit" means an Award under Article 7 of the Plan that is valued by reference to a Share, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including without limitation, cash or Shares, or any combination thereof, and that has such restriction(s) as the Committee, in its sole discretion, may impose.

2.35 "Restriction Period" means the period during which Restricted Stock or Restricted Stock Units are subject to one or more restrictions that will lapse based on the passage of time, the achievement of performance goals, or the occurrence of another event or events, as determined by the Committee and specified in the applicable Agreement.

2.36 "SAR Price" means the amount that is subtracted from the Fair Market Value of a Share at the time of exercise of a SAR to determine the amount payable, if any, upon exercise of the SAR.

2.37 "Share" means one share of common stock, par value $.001 per share, of the Company, as may be adjusted pursuant to the provisions of Section 4.3 of the Plan.

2.38 "Stock Appreciation Right" or "SAR" means an Award granted under Article 6 which provides for an amount payable in Shares and/or cash, as determined by the Committee, equal to the excess of the Fair Market Value of a Share on the day the Stock Appreciation Right is exercised over the SAR Price.

Article 3 - **Administration**

3.1 *General.* This Plan shall be administered by the Committee.

3.2 *Authority of the Committee*.

(a) The Committee shall have the full and exclusive discretionary authority to (i) interpret, construe and administer the terms and intent of the Plan and any Agreement (as well as any other agreement or document related to the Plan or an Award), (ii) select the persons who are eligible to receive an Award, (iii) act in all matters pertaining to the granting of an Award and the contents of the Agreement evidencing the Award, including the determination of the size, form, terms, conditions and duration of each Award, and (iv) make any amendment to an Award or Agreement consistent with the provisions of the Plan. The Committee may adopt such rules, regulations and procedures of general application for the administration of this Plan, as it deems appropriate.

(b) The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Agreement in the manner and to the extent it shall deem desirable to address the matter.

(c) In the event the Company shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of another corporation or business entity, the Committee may, in its discretion, make such adjustments in the terms of Awards under the Plan as it shall deem appropriate.

(d) In making any determination or in taking or not taking any action under the Plan, the Committee may obtain and may rely on the advice of experts, including employees of the Company and professional advisors.

(e) All acts, determinations and decisions of the Committee made or taken pursuant to grants of authority under the Plan or with respect to any questions arising in connection with the administration and interpretation of the Plan, including the severability of any and all of the provisions thereof, shall be conclusive, final and binding upon all parties, including the Company, its stockholders, any Employer, Participants, Eligible Participants and their estates, beneficiaries and successors.

3.3 *Rules for Foreign Jurisdictions.* Notwithstanding anything in the Plan to the contrary, the Committee may, in its sole discretion, (i) amend or vary the terms of the Plan in order to conform such terms with the requirements of each non-U.S. jurisdiction where an Eligible Participant is located or where an Eligible Participant's Award rights are otherwise regulated (including changes related to obtaining favorable tax treatment and avoiding unfavorable tax treatment) or in order to meet the goals and objectives of the Plan; (ii) establish one or more sub-plans for these purposes; and (iii) establish administrative rules and procedures to facilitate the operation of the Plan in such non-U.S. jurisdictions.

3.4 *Delegation of Authority.* The Committee may, in its discretion, at any time and from time to time, delegate to one or more of the members of the Committee such of its powers as it deems appropriate (provided that any such delegation shall be to at least two members of the Committee with respect to Awards to Covered Employees and Insiders). Except with respect to Awards to Covered Employees and Insiders, the Committee may, in its discretion, at any time and from time to time, delegate to one or more persons who are not members of the Committee any or all of its authority and discretion under Section 3.2 and 3.3, to the full extent permitted by law and the rules of any exchange on which Shares are traded.

3.5 *Agreements.* Each Award granted under the Plan shall be evidenced by an Agreement, provided that Awards granted on or after November 1, 2016 may not vest in full in less than one year from the date of grant, except where vesting occurs due to (i) a Participant's death, or disability or (ii) a Change in Control. Each Agreement shall be subject to and incorporate, by reference or otherwise, the applicable terms and conditions of the Plan, and may include any other terms and conditions, not inconsistent with the Plan, as determined by the Committee, including without limitation, provisions related to the consequences of termination of employment. A copy of the Agreement evidencing an Award shall be provided to the affected Participant, and the Committee may, but need not, require that the Participant sign a copy of the Agreement.

3.6 *Indemnification.* In addition to such other rights of indemnification as they may have as members of the Board or as members of the Committee, the Company shall indemnify and hold harmless the members of the Committee against (i) reasonable expenses, including attorney's fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal thereof, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted thereunder, (ii) all amounts paid by them in settlement thereof, provided such settlement is approved by independent legal counsel selected by the Company, and (iii) all amounts paid by them in satisfaction of a judgment in any such action, suit or proceeding, except as to matters as to which the Committee member has been negligent or engaged in misconduct in the performance of his duties (all amounts reimbursed hereunder are referred to as the "Reimbursement Expenses"); provided, that within 60 days after institution of any such action, suit or proceeding, a Committee member shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same. In the performance of its responsibilities with respect to the Plan, the members of the Committee shall be entitled to rely upon, and no member of the Committee shall be liable for any action taken or not taken in good faith reliance upon, information and/or advice furnished by the Company's officers or employees, the Company's accountants, or the Company's counsel.

Article 4 - **Shares Subject to the Plan**

4.1 *Number of Shares.* Subject to adjustment as provided in Section 4.3, the aggregate number of Shares which are available for issuance pursuant to Awards under the Plan is 3,850,000 Shares, inclusive of the 2,000,000 Shares initially reserved under the Plan as of the Effective Date and the 1,850,000 added to the Plan pursuant to the amendment approved by the Board on November 8, 2016 (the "Award Pool"). The Award Pool shall be available for all types of Awards granted under the Plan; there is no maximum number of Shares per type of Award. Such Shares shall be made available from Shares authorized but unissued or Shares held (or subsequently acquired) by the Company as treasury shares, including Shares purchased in the open market or in private transactions.

The following rules shall apply for purposes of determining the number of Shares available for issuance under the Plan:

(a) Each Option shall be counted as one Share subject to an Award and deducted from the Award Pool.

(b) Each share of Restricted Stock, each Restricted Stock Unit that may be settled in Shares and each Other Stock-Based Award that may be settled in Shares shall be counted as one Share subject to an Award and deducted from the Award Pool. Restricted Stock Units and Other Stock-Based Awards that may not be settled in Shares shall not result in a deduction from the Award Pool.

(c) Each Performance Share that may be settled in Shares shall be counted as one Share subject to an Award, based on the number of Shares that would be paid under the Performance Share for achievement of target performance, and deducted from the Award Pool. Each Performance Unit that may be settled in Shares shall be counted as a number of Shares subject to an Award, based on the number of Shares that would be paid under the Performance Unit for achievement of target performance, with the number determined by dividing the value of the Performance Unit at the time of grant by the Fair Market Value of a Share at the time of grant, and this number shall be deducted from the Award Pool. In both cases, in the event that the Award is later settled based on above-target performance, the number of Shares corresponding to the above-target performance, calculated pursuant to the applicable methodology specified above, shall be deducted from the Award Pool at the time of such settlement; in the event that the Award is later settled upon below-target performance, the number of Shares corresponding to the below-target performance, calculated pursuant to the applicable methodology specified above, shall be added back to the Award Pool. Performance Shares and Performance Units that may not be settled in Shares shall not result in a deduction from the Award Pool.

(d) Each Stock Appreciation Right that may be settled in Shares shall be counted as one Share subject to an Award and deducted from the Award Pool. Stock Appreciation Rights that may not be settled in Shares shall not result in a deduction from the Award Pool.

(e) If an Award granted under the Plan lapses, expires, terminates, is forfeited or otherwise cancelled without issuance of the Shares or the Award is settled in cash in lieu of Shares, such Shares shall again be available for issuance pursuant to an Award under the Plan and shall be added back to the Award Pool. However, if the tax withholding obligation, exercise price or purchase price under an Award is satisfied by the Company retaining Shares that otherwise would have been issued in settlement of the Award or by Shares tendered by the Participant (either by actual delivery or attestation), the number of Shares so retained or tendered shall not again be available for issuance pursuant to an Award under this Plan and shall not be added back to the Award Pool.

4.2 *Individual Limits.* Subject to adjustment as provided in Section 4.3, and except to the extent the Committee determines that an Award to a Covered Employee shall not comply with the performance-based compensation provisions of Code section 162(m), the following rules shall apply to Awards under the Plan:

(a) *Options and SARs.* The maximum number of Options and Stock Appreciation Rights that, in the aggregate, may be granted in any one fiscal year to any one Participant shall be Seven Hundred Fifty Thousand (750,000).

(b) *Restricted Stock and Restricted Stock Units.* The maximum number of Shares of Restricted Stock and Restricted Stock Units that, in the aggregate, may be granted in any one fiscal year to any one Participant shall be Two Hundred Fifty Thousand (250,000) Shares and Units.

(c) *Performance Units.* The maximum number of Performance Units (valued as of the grant date) that, in the aggregate, may be granted in any one fiscal year to any one Participant shall be Five Hundred Thousand (500,000), to the extent settled in Shares, or Three Million Dollars ($3,000,000), to the extent settled in cash. This limitation shall be applied based on the maximum amount that could be paid under the Award of Performance Units.

(d) *Performance Shares and Other Stock-Based Awards.* The maximum number of Performance Shares and Other Stock-Based Awards that, in the aggregate, may be granted in any one fiscal year to any one Participant shall be Five Hundred Thousand (500,000). This limitation shall be applied based on the maximum amount that could be paid under the Award of Performance Shares and Other Stock-Based Awards.

(e) *Long-Term Incentive Compensation Awards.* The maximum Long-Term Incentive Compensation Awards that, in the aggregate, may be granted in any one fiscal year to any one Participant shall be Three Million Dollars ($3,000,000). This limitation shall be applied based on the maximum amount that could be paid under the Long-Term Incentive Compensation Awards.

4.3 *Adjustment of Shares.* If any change in corporate capitalization, such as a stock split, reverse stock split, or stock dividend; or any corporate transaction such as a reorganization, reclassification, merger or consolidation or separation, including a spin-off, of the Company or sale or other disposition by the Company of all or a portion of its assets, any other change in the Company's corporate structure, or any distribution to stockholders (other than an ordinary cash dividend) results in the outstanding Shares, or any securities exchanged therefore or received in their place, being exchanged for a different number or class of shares or other securities of the

Company, or for shares of stock or other securities of any other corporation; or new, different or additional shares or other securities of the Company or of any other corporation being received by the holders of outstanding Shares; then the Committee shall make equitable adjustments, as it determines are necessary and appropriate, in:

(a) the number and class of stock or other securities that comprise the Award Pool as set forth in Section 4.1;

(b) the limitations on the aggregate number of Awards that may be granted in any one fiscal year to any one Participant as set forth in Section 4.2;

(c) the number and class of stock or other securities subject to outstanding Awards, and which have not been issued or transferred under outstanding Awards;

(d) the Option Price under outstanding Options, the SAR Price under outstanding Stock Appreciation Rights and the number of Shares to be transferred in settlement of outstanding Options and Stock Appreciation Rights; and

(e) the terms, conditions or restrictions of any Award and Agreement, including the price payable for the acquisition of Shares.

It is intended that, if possible, any adjustments contemplated above shall be made in a manner that satisfies applicable legal requirements, as well as applicable requirements with respect to taxation (including, without limitation and as applicable in the circumstances, Code section 424, Code section 409A, and Code section 162(m)) and accounting (so as to not trigger any charge to earnings with respect to such adjustment).

Without limiting the generality of the above, any good faith determination by the Committee as to whether an adjustment is required in the circumstances and the extent and nature of any such adjustment shall be final, conclusive and binding on all persons.

Article 5 - **Stock Options**

5.1 *Grant of Options.* Subject to the terms and provisions of the Plan, Options may be granted to Eligible Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee. The Committee shall have sole discretion in determining the number of Shares subject to Options granted to each Participant. The Committee may grant a Participant ISOs, NQSOs or a combination thereof, and may vary such Awards among Participants; provided that only Participants who are common law employees of the Employer may be granted ISOs. Notwithstanding anything in this Article 5 to the contrary, except for Options that are specifically designated as intended to be subject to Code section 409A, Options may only be granted to individuals who provide direct services on the date of grant of the Option to the Company or another entity in a chain of entities in which the Company or another such entity has a controlling interest (within the meaning of Treasury Regulation § 1.409A-1(b)(5)(iii)(E)) in each entity in the chain.

5.2 *Option Price.* The Option Price for each grant of an Option shall be determined by the Committee and shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. Notwithstanding the prior sentence, an Option may be granted with an Option Price that is less than one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted if such Option is granted in replacement for an award previously granted by an entity that is assumed by the Company in a business combination, provided that the Committee determines that such Option Price is appropriate to preserve the economic benefit of the replaced award and will not impair the exemption of the Option from Code section 409A.

5.3 *Duration of Options.* Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that the Committee may extend the term of any Option that would otherwise expire at a time when the Participant is not permitted by applicable law or Company policy to exercise such Option; and provided, further, that no Option shall be exercisable later than the tenth (10th) anniversary of its grant date.

5.4 *Exercise of Options.* Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, including conditions related to the employment of or provision of services by the Participant to the Company or any Employer, which need not be the same for each grant or for each Participant. The Committee may provide in the Agreement for automatic accelerated vesting and other rights upon the occurrence of a Change in Control of the Company or upon the occurrence of other events as specified in the Agreement.

5.5 *Payment.* Options shall be exercised by the delivery of an oral, written or electronic notice of exercise to the Company or its designated representative, setting forth the number of Shares with respect to which the Option is to be exercised and satisfying any requirements that the Committee may apply from time to time. Full payment of the Option Price must be made on or prior to the Payment Date, as defined below. The Option Price shall be payable to the Company in United States dollars either: (a) in cash; (b) cash equivalent approved by the Committee; (c) if approved by the Committee, by tendering previously acquired Shares (or delivering a certification or attestation of ownership of such Shares) having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the tendered Shares must have been held by the Participant for any period required by the Committee); (d) if approved by the Committee, by cashless exercise as permitted under Federal Reserve Board’s Regulation T, subject to applicable securities law restrictions; (e) by any other means which the Committee determines to be consistent with the Plan’s purpose and applicable law, including a net exercise; or (f) by any combination of the above. “Payment Date” shall mean the date on which a sale transaction in connection with a cashless exercise (whether or not payment is actually made pursuant to a cashless exercise) would have settled in connection with the subject option exercise.

5.6 *Nontransferability of Options*. No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Except as otherwise provided in a Participant’s Agreement or otherwise determined at any time by the Committee, no NQSO granted under this Article 5 may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

5.7 *Special Rules for ISOs.* In no event shall any Participant who owns (within the meaning of Code section 424(d)) stock of the Company possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any “parent” or “subsidiary” (within the meaning of Code section 424(e) or (f), respectively) be eligible to receive an ISO (i) at an Option Price less than one hundred ten percent (110%) of the Fair Market Value of a Share on the date the ISO is granted, or (ii) that is exercisable later than the fifth (5th) anniversary date of its grant date. The aggregate Fair Market Value of Shares with respect to which ISOs granted to a Participant are first exercisable in any calendar year under the Plan and all other incentive stock option plans of the Employer) shall not exceed One Hundred Thousand Dollars ($100,000). For this purpose, Fair Market Value shall be determined with respect to a particular ISO on the date on which such ISO is granted.

Article 6 **- Stock Appreciation Rights**

6.1 *Grant of SARs.* Subject to the terms and provisions of the Plan, SARs may be granted to Eligible Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee. A Stock Appreciation Right may be granted to an Eligible Participant in connection with an Option granted under Article 5 of this Plan or may be granted independently of any Option. A Stock Appreciation Right shall entitle the holder, within the specified period, to exercise the SAR and receive in exchange therefor a payment having an aggregate value equal to the amount by which the Fair Market Value of a Share exceeds the SAR Price, times the number of Shares with respect to which the SAR is exercised. A SAR granted in connection with an Option (a "Tandem SAR") shall entitle the holder of the related Option, within the period specified for the exercise of the Option, to surrender the unexercised Option, or a portion thereof, and to receive in exchange therefore a payment having an aggregate value equal to the amount by which the Fair Market Value of a Share exceeds the Option Price, times the number of Shares under the Option, or portion thereof, which is surrendered.

6.2 *Tandem SARs.* Each Tandem SAR shall be subject to the same terms and conditions as the related Option, including limitations on transferability, and shall be exercisable only to the extent such Option is exercisable and shall terminate or lapse and cease to be exercisable when the related Option terminates or lapses. The grant of a Tandem SAR must be concurrent with the grant of the Option.

6.3 *Payment.* The Committee shall have sole discretion to determine in each Agreement whether the payment with respect to the exercise of a SAR will be in the form of all cash, all Shares, or any combination thereof. If payment is to be made in Shares, the number of Shares shall be determined based on the Fair Market Value of a Share on the date of exercise.

6.4 *SAR Price.* The SAR Price for each grant of a SAR shall be determined by the Committee and shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date the SAR is granted. Notwithstanding the prior sentence, a SAR may be granted with a SAR Price that is less than one hundred percent (100%) of the Fair Market Value of a Share on the date the SAR is granted if such SAR is granted in replacement for an award previously granted by an entity that is assumed by the Company in a business combination, provided that the Committee determines that such SAR Price is appropriate to preserve the economic benefit of the replaced award and will not impair the exemption of the SAR from Code section 409A.

6.5 *Duration of SARs.* Each SAR shall expire at such time as the Committee shall determine at the time of grant; provided, however, that the Committee may extend the term of any SAR that would otherwise expire at a time when the Participant is not permitted by applicable law or Company policy to exercise such SAR; and provided, further, that no SAR shall be exercisable later than the tenth (10th) anniversary of its grant date.

6.6 *Exercise of SARs*. SARs granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, including conditions related to the employment of or provision of services by the Participant with the Company or any Employer, which need not be the same for each grant or for each Participant. The Committee may provide in the Agreement for automatic accelerated vesting and other rights upon the occurrence of a Change in Control of the Company or upon the occurrence of other events as specified in the Agreement. Upon exercise of a Tandem SAR, the number of Shares subject to exercise under the related Option shall automatically be reduced by the number of Shares represented by the Option or portion thereof which is surrendered. SARs shall be exercised by the delivery of an oral, written or electronic notice of exercise to the Company or its designated representative, setting forth the number of Shares with respect to which the SAR is to be exercised and satisfying any requirements that the Committee may apply from time to time.

6.7 *Nontransferability of SARs.* Except as otherwise provided in a Participant's Agreement or otherwise determined at any time by the Committee consistent with securities and other applicable laws, rules and regulations, no SAR granted under this Article 6 may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

Article 7 - **Restricted Stock and Restricted Stock Units**

7.1 *Grant of Restricted Stock/Unit.* Subject to the terms and provisions of the Plan, Restricted Stock Awards and Restricted Stock Unit Awards may be granted to Eligible Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee. Awards of Restricted Stock/Units may be made either alone or in addition to or in tandem with other Awards granted under the Plan and may be current grants of Restricted Stock, deferred grants of Restricted Stock or Restricted Stock Units.

7.2 *Nontransferability.* Except as otherwise provided in this Article 7 or an Agreement, Restricted Stock and Restricted Stock Units may not be sold, exchanged, transferred, pledged, or otherwise alienated or hypothecated or otherwise disposed of during the Restriction Period or, in the case of Restricted Stock Units, until the date of delivery of Shares or other payment with respect to the Restricted Stock Units (other than by will or by the laws of descent and distribution). Further, except as otherwise provided in the applicable Agreement, a Participant's rights with respect to Shares of Restricted Stock or Restricted Stock Units shall be available during the Participant's lifetime only to the Participant or the Participant's legal representative.

7.3 *Certificates.* Upon an Award of Restricted Stock to a Participant, Shares of Restricted Stock shall be registered in the Participant's name. Certificates, if issued, may either be held in custody by the Company until the Restriction Period expires or until restrictions thereon otherwise lapse and/or be issued to the Participant and registered in the name of the Participant, bearing an appropriate restrictive legend and remaining subject to appropriate stop-transfer orders. If required by the Committee, the Participant shall deliver to the Company one or more stock powers endorsed in blank relating to the Restricted Stock. If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, unrestricted certificates for such shares shall be delivered to the Participant.

7.4 *Dividends and Other Distributions.* Except as provided in this Article 7 or in the Agreement, a Participant receiving a Restricted Stock Award shall have, with respect to such Restricted Stock Award, all of the rights of a stockholder of the Company, including the right to vote the Shares to the extent, if any, such Shares possess voting rights and the right to receive any dividends; provided, however, the Committee may require that any dividends on such Shares of Restricted Stock shall be automatically deferred and reinvested in additional Restricted Stock subject to the same restrictions on vesting as the underlying Award, or may require that dividends and other distributions on Restricted Stock shall be paid to the Company for the account of the Participant and held pending and subject to the same restrictions on vesting as the underlying Award. A Participant receiving a Restricted Stock Unit Award shall not possess voting rights and shall accrue dividend equivalents on such Units only to the extent provided in the Agreement relating to the Award.

7.5 *Short-Term Deferral*. To the extent an Award described in this Section is a 409A Award and is subject to a substantial risk of forfeiture within the meaning of Code section 409A (or will be granted upon the satisfaction of a condition that constitutes such a substantial risk of forfeiture), any compensation due under the Award (or pursuant to a commitment to grant an Award) shall be paid in full not later than the 60th day following the date on which there is no longer such a substantial risk of forfeiture with respect to the Award (and the Participant shall have no right to designate the year of the payment), unless the Committee shall clearly and expressly provide otherwise at the time of granting the Award.

Article 8 - **Performance Shares and Units**

8.1 *Grant of Performance Shares/Units.* Subject to the terms and provisions of the Plan, Performance Shares and Performance Units may be granted to Eligible Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

8.2 *Value of Performance Shares/Units.* Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. In addition to any non-performance terms applicable to the Award, the Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Performance Shares, Performance Units or both, as applicable, that will be paid out to the Participant. For purposes of this Article 8, the time period during which the performance goals must be met shall be called a "Performance Period." The Committee may, but is not obligated to, set such performance goals by reference to the performance measures set forth in Article 11.

8.3 *Earning of Performance Shares/Units.* Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of the Performance Shares/Units shall be entitled to receive a payout of the number and value of Performance Shares/Units earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved and any applicable non-performance terms have been met.

8.4 *Form and Timing of Payment of Performance Shares/Units.* Subject to the terms of this Plan and the applicable Agreement, the Committee, in its sole discretion, may pay earned Performance Shares/Units in the form of cash or Shares or other Awards (or a combination thereof) which have an aggregate Fair Market Value equal to the value of the earned Performance Shares/Units at the close of the applicable Performance Period. Any such Shares may be granted subject to any restrictions deemed appropriate by the Committee. The determination of the Committee with respect to the form and timing of payout of such Awards shall be set forth in the Agreement pertaining to the grant of the Award.

8.5 *Dividends and Other Distributions.* A Participant receiving a Performance Share/Unit Award shall not possess voting rights and shall accrue dividend equivalents on such Performance Shares/Units only to the extent provided in the Agreement relating to the Award. Any rights to dividend equivalents on Performance Shares/Units shall be subject to the same restrictions on vesting and payment as the underlying Award.

8.6 *Nontransferability.* Except as otherwise provided in this Article 8 or the applicable Agreement, Performance Shares/Units may not be sold, exchanged, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

Article 9 - **Other Stock-Based Awards**

The Committee shall have the authority to specify the terms and provisions of other forms of equity-based or equity-related awards not described above that the Committee determines to be consistent with the purpose of the Plan and the interests of the Company. The Other Stock-Based Awards may provide for cash payments based in whole or in part on the value or future value of Shares, for the acquisition or future acquisition of Shares, or any combination of the foregoing. Notwithstanding the foregoing, where the value of an Other Stock-Based Award is based on the difference in the value of a Share at different points in time, the grant or exercise price will not be less than 100% of the Fair Market Value of the Shares on the date of grant unless the Other Stock-Based Award is granted in replacement for an award previously granted by an entity that is assumed by the Company in a business combination, provided that the Committee determines that the Other Stock-Based Award preserves the economic benefit of the replaced award.

Article 10 - **Long-Term Incentive Compensation Awards**

Subject to the terms of this Plan, the Committee will determine all of the terms and conditions of a Long-Term Incentive Compensation Award, including but not limited to the performance measures, performance period, the potential amount payable, and the timing of payment, subject to the following: (a) the Committee must require that payment of all or any portion of the amount subject to the Long-Term Incentive Compensation Award is contingent on the achievement of one or more performance measures during the period the Committee specifies, although the Committee may specify that all or a portion of the performance measures subject to an Award are deemed achieved upon a Participant's death, Disability or retirement, or such other circumstances as the Committee may specify; and (b) the performance period must relate to a period of more than one fiscal year of the Company. The Long-Term Incentive Compensation Awards will be payable in cash and the Committee may provide Participants with the right to defer all or part of any Award.

Article 11 - **Performance Measures**

11.1 *In General*. The Committee may, in its discretion, include performance conditions in any Award.

11.2 *Section 162(m) Performance Measures*. Unless and until the Committee proposes for stockholder vote and stockholders approve a change in the general performance measures set forth in this Article 11, the attainment of which may determine the degree of payout and/or vesting with respect to Covered Employees' Awards that are intended to qualify under the performance-based compensation provisions of Code section 162(m), the performance measure(s) to be used for purposes of such Awards shall be chosen from among the following: earnings, earnings per share, consolidated pre-tax earnings, net earnings, net income, operating income, EBIT (earnings before interest and taxes), EBITDA (earnings before interest, taxes, depreciation and amortization), gross margin, operating margin, profit margin, revenues, revenue growth, market value added, market share, economic value added, return measures (including but not limited to return on equity, return on investment, return on assets, return on net assets, and return on capital employed), total stockholder return, relative total stockholder return, profit, operating profit, economic profit, capitalized economic profit, after-tax profit, pre-tax profit, cash, cash flow measures (including but not limited to operating cash flow, free cash flow, and cash flow return), sales, sales volume, sales growth, assets, inventory turnover ratio, productivity ratios, Share price, cost, unit cost, expense ratios, charge-off levels, operating efficiency, operating expenses, improvement in or attainment of expense levels, working capital, improvement in or attainment of working capital levels, debt, debt to equity ratio, debt reduction, capital targets and/or consummation of acquisitions, dispositions, projects or other specific events or transactions.

Any performance measure may be applied to the Company and any other entity included in the term "Employer" in the aggregate, to a selection of these, to each as a whole or alternatively, or to any business unit of the Company or any other entity included in the term "Employer", either individually, alternatively or in any combination and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to results for previous years or to a designated comparison group of entities or to a published or stock market or other index, in each case as specified by the Committee. The Committee shall specify the period over which the performance goals for a particular Award shall be measured.

11.3 *Other Performance Measures*. The Committee may establish other performance measures for Awards granted to Eligible Participants that are not intended to qualify under the performance-based compensation exception from the deductibility limitations of Code section 162(m).

11.4 *Committee Determination of Achievement of Performance Goals; Adjustments*. The Committee shall determine whether the applicable performance goals have been met with respect to a particular Award and, if they have, the Committee shall so certify in writing and ascertain the amount payable under the applicable Award. The Committee is authorized to make adjustments in performance-based criteria or in the terms and conditions of other Awards in recognition of unusual or nonrecurring events affecting the Company or its financial statements (including, but not limited to, asset write-downs; litigation or claim judgments or settlements; reorganizations or restructuring programs; extraordinary, unusual, or nonrecurring items of gain or loss as defined under US generally accepted accounting principles; mergers, acquisitions or divestitures; and foreign exchange gains and losses) or changes in applicable laws, regulations or accounting principles. In the case of Awards to Covered Employees that are intended to qualify under the performance-based compensation exception from the deductibility limitations of Code section 162(m), such adjustments shall be made in accordance with guidelines established by the Committee at the time the performance-based Award is granted (or within such period thereafter as may be permissible under Code section 162(m)). The Committee shall also have the discretion to adjust downward the determinations of the degree of attainment of the pre-established performance goals.

If applicable tax and/or securities laws permit Committee discretion to alter the governing performance measures without obtaining stockholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining stockholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards which shall not qualify for the performance-based compensation exception from the deductibility limitations of Code section 162(m), the Committee may make such grants without satisfying the requirements of Code section 162(m).

Article 12 - **Beneficiary Designation**

To the extent permitted by the Committee, each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any vested but unpaid Award is to be paid in case of the Participant's death. In the absence of any such designation, vested but unpaid Awards outstanding at the Participant's death shall be paid to the Participant's estate.

Article 13 - **Deferrals**

The Committee may permit or require a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under any Award. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such deferrals. Any deferrals required or permitted by the Committee of Awards shall be made in compliance with Code section 409A.

Article 14 - **Withholding**

14.1 *Tax Withholding.* The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes or similar charges, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of or in connection with this Plan or any Award.

14.2 *Share Withholding.* With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock or Restricted Stock Units, upon the achievement of performance goals related to Performance Shares or Performance Units, or upon any other taxable event arising as a result of or in connection with an Award granted hereunder that is settled in Shares, unless other arrangements are made with the consent of the Committee, Participants shall satisfy the withholding requirement by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to not more than the amount necessary to satisfy the Company’s withholding obligations at the minimum statutory withholding rates. All such withholding arrangements shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

Article 15 - **Amendment and Termination**

15.1 *Amendment or Termination of Plan.* The Committee may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any Awards previously granted under the Plan, unless a Participant who is adversely affected by such amendment consents in writing. The Company will obtain the approval of the stockholders before amending the Plan to the extent required by Code section 162(m) or 422 and/or the rules of the exchange upon which the Shares are traded or other applicable law.

15.2 *Amendment of Agreement.* The Committee may, at any time, amend outstanding Agreements in a manner not inconsistent with the terms of the Plan; provided, however, if such amendment is adverse to the Participant, as determined by the Committee, the amendment shall not be effective as to that Participant unless and until the Participant consents, in writing, to such amendment. To the extent not inconsistent with the terms of the Plan, the Committee may, at any time, amend an outstanding Agreement in a manner that is not unfavorable to the Participant without the consent of such Participant. Except to the extent provided in Section 4.3, the Committee shall not without the approval of the stockholders of the Company, (i) reduce the purchase price or base price of any previously granted Option or SAR, (ii) cancel any previously granted Option or SAR in exchange for another Option or SAR with a lower purchase price or base price or (iii) cancel any previously granted Option or SAR in exchange for cash or another award if the purchase price of such Option or the base price of such SAR exceeds the Fair Market Value of a Share on the date of such cancellation, in each case other than in connection with a Change in Control.

15.3 *Recoupment of Compensation or Cancellation of Awards.* Awards under the Plan shall be subject to any policy of recoupment of compensation adopted or amended from time to time by the Board or the Committee, including, without limitation, any policy it deems necessary or desirable to comply with the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (providing for recovery of erroneously awarded compensation), Section 304 of the Sarbanes-Oxley Act of 2002 (providing for forfeiture of certain bonuses and profits), and any implementing rules and regulations of the U.S. Securities and Exchange Commission and applicable listing standards of a national securities exchange adopted in accordance with either of these Acts which policy is incorporated into this Plan, the Awards and the Agreements. The Committee may provide in the Agreement that if a Participant engages in any “detrimental activity” (as defined in the Agreement), the Committee may, notwithstanding any other provision in this Plan to the contrary, cancel, rescind, suspend, withhold or otherwise restrict or limit any unexpired, unexercised, unpaid or deferred Award and require the Participant to pay to the Company the fair market value of the compensation received by the Participant from the Award.

Article 16 - **Change in Control**

Except as otherwise provided in an employment, change in control or similar agreement with the Company that provides for the effect of a Change in Control (as defined in the Plan or in any such other agreement for similar transactions) on outstanding Awards (an "Outstanding Award") granted under the Plan to a Participant, the Agreement may provide (in addition to other provisions) that upon a Change in Control the Committee shall have the authority to determine (which determination may be different for different types or grants of Outstanding Awards or for different groups of Participants) that Outstanding Awards:

(a) will be continued by the Company (if the Company is the surviving entity); or

(b) will be assumed by the surviving entity or its parent or subsidiary; or

(c) will be substituted for by the surviving entity or its parent or subsidiary with an equivalent award for the Outstanding Award.

If (a), (b) or (c) above do not apply to an Outstanding Award, the Agreement may provide that the Committee will in its discretion determine the impact of the Change in Control on the Outstanding Award, including the right to determine to fully vest Outstanding Awards that are not continued, assumed or substituted and to cash out Outstanding Awards.

If subsections (a), (b), or (c) above apply to an Outstanding Award, the continued, assumed or substituted awards will provide (i) similar terms and conditions and preserve the same benefits as the Outstanding Award that is being continued or replaced, and (ii) that, in the event of the Participant's involuntary termination without Cause or termination for Good Reason on, or within the two-year period following, the date of the Change in Control, the Outstanding Award (or substituted award) will fully vest and become immediately exercisable and/or nonforfeitable.

The Agreement may contain such other provisions relating to the treatment of Outstanding Awards upon a Change in Control as the Committee determines are necessary or desirable.

In the event that any acceleration of vesting or other action with respect to an Award and any other payment or benefit received or to be received by a Participant would subject the Participant to any excise tax pursuant to Code section 4999 due to the characterization of such acceleration of vesting, action, payment or benefit as an "excess parachute payment" under Code section 280G, the Committee may in its discretion elect to reduce the amount payable with respect to an Award.

Article 17 - **Miscellaneous Provisions**

17.1 *Restrictions on Shares.* All certificates for Shares delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed and any applicable federal or state laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. In making such determination, the Committee may rely upon an opinion of counsel for the Company.

Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any Shares under the Plan or make any other distribution of the benefits under the Plan unless such delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act of 1933), and the applicable requirements of any securities exchange or similar entity.

17.2 *Rights of Stockholder.* Except as provided otherwise in the Plan or in an Agreement, no Participant receiving an Award shall have any right as a stockholder with respect to any Shares covered by such Award (including but not limited to the right to vote the Shares) prior to the date on which the Participant becomes the record holder of such Shares.

17.3 *No Implied Rights.* Nothing in the Plan or any Agreement shall confer upon any Participant any right to continue in the service of the Employer, or to serve as a Director thereof, or interfere in any way with the right of the Employer to terminate the Participant's employment or other service relationship at any time and for any reason. Unless agreed by the Board or the Committee, no Award granted under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan, severance program, or other arrangement of the Employer for the benefit of its employees. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall, except as otherwise provided by the Committee, be no greater than the right of an unsecured general creditor of the Company.

17.4 *Compliance with Code Section 409A.* At all times, this Plan, an Award and any Agreement shall be interpreted and operated (i) with respect to 409A Awards in accordance with the requirements of Code section 409A, and (ii) to maintain the exemptions from Code section 409A of Options, SARs and Restricted Stock and any Awards designed to meet the short-term deferral exception under Code section 409A. In addition, to the extent required to avoid a violation of the applicable rules under Code section 409A by reason of Code section 409A(a)(2)(B)(i), any payment under an Award shall be delayed until the earliest date of payment that will result in compliance with the rules of Code section 409A(a)(2)(B)(i) (regarding the required six-month delay for distributions to specified employees that are related to a separation from service). To the extent that a 409A Award provides for payment upon the recipient's termination of employment as an employee or cessation of service as a Director, the 409A Award shall be deemed to require payment upon the individual's "separation from service" within the meaning of Code section 409A.

17.5 *Deferrals for Code Section 162(m).* The Committee, in its discretion, may defer the payment of an Award, if such payment would cause the annual remuneration of a Participant, who is subject to the requirements of Code section 162(m), to be nondeductible because it exceeds $1,000,000 (or such other amount allowed under Code section 162(m) as a deduction).

17.6 *Successors.* The terms of the Plan and all outstanding Awards shall be binding upon the Company, and its successors and assigns.

17.7 *Tax Elections.* Each Participant agrees to promptly give the Committee a copy of any election made by such Participant under Code section 83(b) or any similar provision thereof. Notwithstanding the preceding sentence, the Committee may condition any Award on the Participant making or not making an election under Code section 83(b) with respect to the Award.

17.8 *Right of Setoff.* The Company or an Employer may, to the extent permitted by applicable law, deduct from and setoff against any amounts payable in connection with any Award, such amounts as may be owed by the Participant to the Company or an Employer.

17.9 *No Fractional Shares*. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award; in the discretion of the Committee, the Company shall forfeit the value of fractional shares or make cash payments in lieu of fractional Shares.

17.10 *Uncertificated Shares*. To the extent that the Plan provides for issuance of certificates to reflect the transfer of Shares, the transfer of such Shares may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange.

17.11 *Legal Construction*.

(a) *Severability.* If any provision of this Plan or an Agreement is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Agreement under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Agreement, it shall be stricken and the remainder of the Plan or the Agreement shall remain in full force and effect.

(b) *Gender and Number.* Where the context admits, words in any gender shall include the other gender, words in the singular shall include the plural and words in the plural shall include the singular.

(c) *Governing Law.* To the extent not preempted by federal law, the Plan and all Agreements hereunder shall be construed in accordance with and governed by the laws of the State of Delaware, excluding any conflicts or choice or law rule or principle that might otherwise refer construction or interpretation of the Plan or the Agreement (as applicable) to the substantive law of any other jurisdiction.

17.12 *Data Privacy; Transfer of Data.* By accepting an Award, a Participant (a) explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of any of Participant’s personal data that is necessary to facilitate the implementation, administration and management of the Award and the Plan, (b) understands that the Company and any Employer may, for the purpose of implementing, administering and managing the Plan, hold certain personal information about Participant, including, but not limited to, Participant’s name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, and details of all Awards or entitlements to Shares granted to Participant under the Plan or otherwise (“Data”), (c) understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, including any broker with whom the Shares issued with respect to an Award may be deposited, and that these recipients may be located in Participant’s country or elsewhere, and that the recipient’s country may have different data privacy laws and protections than Participant’s country; (d) waives any data privacy rights Participant may have with respect to the Data; and (e) authorizes the Company and any Employer and its agents to store and transmit such information in electronic form.

IN WITNESS WHEREOF, this Plan is executed this 17th day of December, 2013.

BEAZER HOMES USA, INC.

By: ____________________________________
Authorized Officer

ATTEST:

By: _______________________________
Secretary

Exhibit 31.1

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: February 9, 2017

/s/ Allan P. Merrill
Allan P. Merrill
President and Chief Executive Officer

Exhibit 31.2

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: February 9, 2017

/s/ Robert L. Salomon
Robert L. Salomon
Executive Vice President and Chief Financial Officer

Exhibit 32.1

**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 December 31, 2016, 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: February 9, 2017

/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.

Exhibit 32.2

**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 December 31, 2016, 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: February 9, 2017

/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.