BEAZER HOMES USA INC
Form 10-Q
May 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the Quarterly Period Ended March 31, 2012
or

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

Commission File Number 001-12822

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BEAZER HOMES USA, INC.
(Exact name of registrant as specified in its charter)

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| | |
|---|---|
| DELAWARE<br>(State or other jurisdiction of<br>incorporation or organization) | 58-2086934<br>(I.R.S. employer<br>Identification no.) |
| 1000 Abernathy Road, Suite 260,<br>Atlanta, Georgia | 30328 |
| (Address of principal executive offices) | (Zip Code) |

(770) 829-3700
(Registrant's telephone number, including area code)

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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 April 27, 2012 |
| --- | --- |
| Common Stock, $0.001 par value | 101,204,599 |

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

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this quarterly report in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A— Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business, but instead are the risks that we currently perceive as potentially being material. Such factors may include:

- the final outcome of various putative class action lawsuits, multi-party suits and similar proceedings as well as the results of any other litigation or government proceedings and fulfillment of the obligations in the Deferred Prosecution Agreement and consent orders with governmental authorities and other settlement agreements;
- additional asset impairment charges or writedowns;
- economic changes nationally or in local markets, including changes in consumer confidence, declines in employment levels, volatility of mortgage interest rates and inflation;
- the effect of changes in lending guidelines and regulations;
- a slower economic rebound than anticipated, coupled with persistently high unemployment and additional foreclosures;
- continued or increased downturn in the homebuilding industry;
- estimates related to homes to be delivered in the future (backlog) are imprecise as they are subject to various cancellation risks which cannot be fully controlled;
- continued or increased disruption in the availability of mortgage financing or number of foreclosures in the market;
- our cost of and ability to access capital and otherwise meet our ongoing liquidity needs including the impact of any downgrades of our credit ratings or reductions in our tangible net worth or liquidity levels;
- potential inability to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;
- increased competition or delays in reacting to changing consumer preference in home design;
- shortages of or increased prices for labor, land or raw materials used in housing production;
- factors affecting margins such as decreased land values underlying land option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce production and overhead cost structure;
- the performance of our joint ventures and our joint venture partners;
- the impact of construction defect and home warranty claims including those related to possible installation of drywall imported from China;
- the cost and availability of insurance and surety bonds;
- delays in land development or home construction resulting from adverse weather conditions;
- potential delays or increased costs in obtaining necessary permits 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 and governmental policies;
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potential exposure related to additional repurchase claims on mortgages and loans originated by Beazer Mortgage Corporation;

- estimates related to the potential recoverability of our deferred tax assets;
- effects of changes in accounting policies, standards, guidelines or principles; or
- terrorist acts, acts of war and other factors over which the Company has little or no control.

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

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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)

| | March 31, 2012 | September 30, 2011 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $257,028 | $370,403 |
| Restricted cash | 277,395 | 277,058 |
| Accounts receivable (net of allowance of $4,099 and $3,872, respectively) | 21,701 | 28,303 |
| Income tax receivable | 2,399 | 4,823 |
| Inventory | | |
| Owned inventory | 1,191,572 | 1,192,380 |
| Land not owned under option agreements | 14,405 | 11,753 |
| Total inventory | 1,205,977 | 1,204,133 |
| Investments in unconsolidated joint ventures | 21,391 | 9,467 |
| Deferred tax assets, net | 6,145 | 2,760 |
| Property, plant and equipment, net | 21,895 | 22,613 |
| Previously owned rental homes, net | 18,980 | 11,347 |
| Other assets | 25,033 | 46,570 |
| Total assets | $1,857,944 | $1,977,477 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Trade accounts payable | $54,947 | $72,695 |
| Other liabilities | 144,789 | 212,187 |
| Obligations related to land not owned under option agreements | 6,260 | 5,389 |
| Total debt (net of discounts of $21,313 and $23,243, respectively) | 1,433,582 | 1,488,826 |
| Total liabilities | 1,639,578 | 1,779,097 |
| Stockholders' equity: | | |
| Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued) | — | — |
| Common stock (par value $0.001 per share, 180,000,000 shares authorized, 101,196,954 and 75,588,396 issued and outstanding, respectively) | 101 | 76 |
| Paid-in capital | 683,920 | 624,750 |
| Accumulated deficit | (465,655) | (426,446) |
| Total stockholders' equity | 218,366 | 198,380 |
| Total liabilities and stockholders' equity | $1,857,944 | $1,977,477 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Total revenue | $191,643 | $125,716 | $380,191 | $234,668 |
| Home construction and land sales expenses | 170,283 | 109,238 | 333,059 | 206,289 |
| Inventory impairments and option contract abandonments | 1,170 | 17,822 | 4,673 | 18,461 |
| Gross profit (loss) | 20,190 | (1,344) | 42,459 | 9,918 |
| Commissions | 8,375 | 5,233 | 16,746 | 10,223 |
| General and administrative expenses | 26,319 | 36,068 | 54,513 | 68,571 |
| Depreciation and amortization | 3,190 | 2,062 | 5,593 | 3,967 |
| Operating loss | (17,694) | (44,707) | (34,393) | (72,843) |
| Equity in income (loss) of unconsolidated joint ventures | 4 | 71 | (73) | 309 |
| Loss on extinguishment of debt | (2,747) | (102) | (2,747) | (3,004) |
| Other expense, net | (18,265) | (11,466) | (36,538) | (29,531) |
| Loss from continuing operations before income taxes | (38,702) | (56,204) | (73,751) | (105,069) |
| Benefit from income taxes | (836) | (2,426) | (36,583) | (3,019) |
| Loss from continuing operations | (37,866) | (53,778) | (37,168) | (102,050) |
| (Loss) income from discontinued operations, net of tax | (2,082) | 23 | (2,041) | (513) |
| Net loss | $(39,948) | $(53,755) | $(39,209) | $(102,563) |
| Weighted average number of shares: | | | | |
| Basic and Diluted | 78,553 | 73,930 | 76,347 | 73,904 |
| Basic and diluted loss per share: | | | | |
| Continuing Operations | $(0.48) | $(0.73) | $(0.49) | $(1.38) |
| Discontinued operations | $(0.03) | $— | $(0.02) | $(0.01) |
| Total | $(0.51) | $(0.73) | $(0.51) | $(1.39) |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Six Months Ended March 31, 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $(39,209) | $(102,563) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 5,618 | 4,091 |
| Stock-based compensation expense | 2,508 | 5,304 |
| Inventory impairments and option contract abandonments | 4,707 | 18,781 |
| Impairment of future land purchase right | — | 4,036 |
| Deferred and other income tax benefit | (36,278) | (85) |
| Provision for doubtful accounts | 227 | (17) |
| Excess tax benefit from equity-based compensation | 38 | 3,584 |
| Equity in loss of unconsolidated joint ventures | 109 | 40 |
| Cash distributions of income from unconsolidated joint ventures | — | 37 |
| Loss on extinguishment of debt | 2,747 | 2,168 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 6,375 | (1,572) |
| Decrease in income tax receivable | 2,424 | 4,861 |
| Increase in inventory | (14) | (94,490) |
| Decrease in other assets | 7,420 | 3,769 |
| Decrease in trade accounts payable | (17,748) | (14,219) |
| Decrease in other liabilities | (18,905) | (19,964) |
| Other changes | (45) | (473) |
| Net cash used in operating activities | (80,026) | (186,712) |
| Cash flows from investing activities: | | |
| Capital expenditures | (12,488) | (5,001) |
| Investments in unconsolidated joint ventures | (810) | (1,431) |
| Return of capital from joint ventures | 428 | — |
| Increases in restricted cash | (888) | (34,082) |
| Decreases in restricted cash | 551 | 2,264 |
| Net cash used in investing activities | (13,207) | (38,250) |
| Cash flows from financing activities: | | |
| Repayment of debt | (2,899) | (200,164) |
| Proceeds from issuance of new debt | — | 246,388 |
| Proceeds from issuance of cash secured loan | — | 32,591 |
| Debt issuance costs | (97) | (5,130) |
| Equity issuance costs | (1,212) | — |
| Settlement of unconsolidated JV debt obligation | (15,862) | — |
| Common stock redeemed | (34) | (64) |
| Excess tax benefit from equity-based compensation | (38) | (3,584) |
| Net cash (used in) provided by financing activities | (20,142) | 70,037 |
| Decrease in cash and cash equivalents | (113,375) | (154,925) |
| Cash and cash equivalents at beginning of period | 370,403 | 537,121 |
| Cash and cash equivalents at end of period | $257,028 | $382,196 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(1) Summary of Significant Accounting Policies
The accompanying unaudited condensed consolidated financial statements of Beazer Homes USA, Inc. (Beazer Homes or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments (consisting primarily of normal recurring accruals) necessary for a fair presentation have been included in the accompanying financial statements. Certain items in prior period financial statements have been reclassified to conform to the current presentation. For further information and a discussion of our significant accounting policies other than as discussed below, refer to our audited consolidated financial statements appearing in the Beazer Homes' Annual Report on Form 10-K for the fiscal year ended September 30, 2011 (the 2011 Annual Report). Over the past few years, we have discontinued homebuilding operations in certain of our markets. Results from our title services business and our exit markets are reported as discontinued operations in the accompanying unaudited condensed consolidated statements of operations for all periods presented (see Note 15 for further discussion of our Discontinued Operations). Our net loss is equivalent to our comprehensive loss. We evaluated events that occurred after the balance sheet date but before the financial statements were issued or were available to be issued for accounting treatment and disclosure.
Inventory Valuation — We assess our inventory assets no less than quarterly for recoverability in accordance with the policies as described in Notes 1 and 4 to the consolidated financial statements in our 2011 Annual Report. Our homebuilding inventories that are accounted for as held for development include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. For those communities for which construction and development activities are expected to occur in the future or have been idled (land held for future development), all applicable interest and real estate taxes are expensed as incurred and the inventory is stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We record assets held for sale at the lower of the carrying value or fair value less costs to sell.
Other Liabilities. Other liabilities include the following:

| (In thousands) | March 31, 2012 | September 30, 2011 |
|---|---|---|
| Income tax liabilities | $21,999 | $55,093 |
| Accrued warranty expenses | 16,133 | 17,916 |
| Accrued interest | 38,607 | 39,478 |
| Accrued and deferred compensation | 17,509 | 27,427 |
| Customer deposits | 6,865 | 5,868 |
| Other | 43,676 | 66,405 |
| Total | $144,789 | $212,187 |

Recent Accounting Pronouncements. In May 2011, the Financial Accounting Standard Board (FASB) issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and International Financial Reporting Standards (IFRS), and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. The adoption of ASU 2011-04 effective with our second quarter of fiscal 2012 did not have a material effect on our operating results or financial position.

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(2) Supplemental Cash Flow Information

| (In thousands) | Six Months Ended March 31, 2012 | 2011 |
|---|---|---|
| Supplemental disclosure of non-cash activity: | | |
| Increase (decrease) in obligations related to land not owned under option agreements | $871 | $(10,973) |
| (Decrease) increase in future land purchase rights | (11,651) | 17,220 |
| Contribution of future land purchase rights to unconsolidated joint venture | 11,651 | — |
| Decrease in debt related to conversion of Mandatory Convertible Subordinated Notes and Tangible Equity Units for common stock | (55,308) | — |
| Non-cash land acquisitions | — | 770 |
| Issuance of stock under deferred bonus stock plans | — | 3,258 |
| Supplemental disclosure of cash activity: | | |
| Interest payments | 60,145 | 55,642 |
| Income tax payments | 518 | 211 |
| Tax refunds received | 2,564 | 3,940 |

(3) Investments in Unconsolidated Joint Ventures

As of March 31, 2012, we participated in certain land development joint ventures in which Beazer Homes had less than a controlling interest. The following table presents our investment in our unconsolidated joint ventures, the total equity and outstanding borrowings of these joint ventures, and our guarantees of these borrowings, as of March 31, 2012 and September 30, 2011:

| (In thousands) | March 31, 2012 | September 30, 2011 |
|---|---|---|
| Beazer's investment in joint ventures | $21,391 | $9,467 |
| Total equity of joint ventures | 303,510 | 96,966 |
| Total outstanding borrowings of joint ventures | 65,520 | 394,414 |
| Beazer's estimate of its maximum exposure to our repayment guarantees | 696 | 17,916 |

For the three and six months ended March 31, 2012 and 2011, our income (loss) from joint venture activities, the impairments of our investments in certain of our unconsolidated joint ventures, and the overall equity in income (loss) of unconsolidated joint ventures is as follows:

| (In thousands) | Three Months Ended March 31, 2012 | 2011 | Six Months Ended March 31, 2012 | 2011 |
|---|---|---|---|---|
| Continuing operations: | | | | |
| Income (loss) from joint venture activity | $4 | $71 | $(73) | $401 |
| Impairment of joint venture investment | — | — | — | (92) |
| Equity in income (loss) of unconsolidated joint ventures | $4 | $71 | $(73) | $309 |
| Reported in loss from discontinued operations, net of tax: | | | | |
| Loss from joint venture activity | $— | $(17) | $— | $(17) |
| Impairment of joint venture investment | (7) | (157) | (36) | (332) |
| | $(7) | $(174) | $(36) | $(349) |

Equity in loss of unconsolidated joint ventures - discontinued operations

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South Edge/Inspirada

On December 9, 2010,lenders filed an involuntary bankruptcy petition against the South Edge joint venture (South Edge), which was granted by the court in February 2011. Effective June 10, 2011, the Company and certain other joint venture members (the Participating Members) entered into a settlement agreement with the lenders. Based on the terms of the agreement, the Company paid the lenders $15.9 million during the six months ended March 31, 2012 under the plan of reorganization.

The plan of reorganization resulted in the formation of a new joint venture called Inspirada, LLC (Inspirada), with the Participating Members constituting the members of the new venture. Inspirada took title to the South Edge assets including its real property and lien rights, and the debt to the lenders was extinguished upon payment by the Inspirada members, including the Company, of their obligations under the plan of reorganization. In connection with these payments by the Inspirada members, all the South Edge repayment guarantees were released. The Participating Members also acquired all claims of the lender and South Edge against the non-Participating Members. As a result of the plan of reorganization and the formation of Inspirada, our right to future land purchases is a component of our investment in Inspirada. As such, we have recorded an investment in Inspirada, which includes the $11.7 million we previously estimated for our future right to purchase land and our cash contributions to the joint venture, primarily for organization costs. For the six months ended March 31, 2012, there was no impact to our net income related to these transactions. In addition to our initial payment, we, as a member of the Inspirada joint venture, will have obligations for future infrastructure and other development costs. At this time, these costs cannot be quantified due to, among other things, uncertainty over the future development configuration of the project and the related costs, market conditions, uncertainty over the remaining infrastructure deposits and previously filed bankruptcies of other joint venture members. In addition, there are uncertainties with respect to the location and density of the land we will receive as a result of our investment in Inspirada, the products we will build on such land and the estimated selling prices of such homes. Because there are uncertainties with respect to development costs, the value of the lien rights or title to our share of the underlying property, we may be required to record adjustments to the carrying value of this Inspirada investment in future periods as better information becomes available.

Guarantees

Our joint ventures typically obtain secured acquisition, development and construction financing. Generally, Beazer and our joint venture partners provide varying levels of guarantees of debt and other obligations for our unconsolidated joint ventures. At March 31, 2012, these guarantees included, for certain joint ventures, repayment guarantees and environmental indemnities.

As of March 31, 2012, we and our joint venture partners have a repayment guarantee related to one of our joint venture’s borrowings. This repayment guarantee requires the repayment of all or a portion of the debt of the unconsolidated joint venture in the event the joint venture defaults on its obligations under the borrowing. Our estimate of Beazer’s maximum exposure to this repayment guarantee related to the outstanding debt of the unconsolidated joint venture was $0.7 million at March 31, 2012. As of March 31, 2012, $0.7 million has been recorded in Other Liabilities related to our repayment guarantee. We and our joint venture partners also generally provide unsecured environmental indemnities to joint venture project lenders. In each case, we have performed due diligence on potential environmental risks. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the six months ended March 31, 2012 and 2011, 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 joint ventures. In addition, we monitor the fair value of the collateral of these unconsolidated joint ventures to ensure that the related borrowings do not exceed the specified percentage of the value of the property securing the borrowings. We have recorded a liability for guarantees we determined were probable and reasonably estimable, but we have not recorded a liability for the contingent aspects of any guarantees that we determined were reasonably possible but not probable.

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(4) Inventory

| (In thousands) | March 31, 2012 | September 30, 2011 |
|---|---|---|
| Homes under construction | $277,984 | $277,331 |
| Development projects in progress | 421,892 | 424,055 |
| Land held for future development | 386,280 | 384,761 |
| Land held for sale | 13,224 | 12,837 |
| Capitalized interest | 47,242 | 45,973 |
| Model homes | 44,950 | 47,423 |
| Total owned inventory | $1,191,572 | $1,192,380 |

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 210 ($43.7 million) and 334 ($59.3 million) substantially completed homes that were not subject to a sales contract (spec homes) at March 31, 2012 and September 30, 2011, respectively. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a deposit or sales contract. Land held for future development consists of communities for which construction and development activities are expected to occur in the future or have been idled and are stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. All applicable interest and real estate taxes on land held for future development are expensed as incurred. Land held for sale in Unallocated and Other as of March 31, 2012 included land held for sale in the markets we have decided to exit including Jacksonville, Florida and Charlotte, North Carolina. Total owned inventory, by reportable segment, is set forth in the table below:

| (In thousands) | Projects in Progress | Held for Future Development | Land Held for Sale | Total Owned Inventory |
|---|---|---|---|---|
| March 31, 2012 | | | | |
| West Segment | $287,899 | $318,331 | $2,972 | $609,202 |
| East Segment | 296,506 | 44,637 | 3,591 | 344,734 |
| Southeast Segment | 134,487 | 23,312 | 1,676 | 159,475 |
| Unallocated & Other | 73,176 | — | 4,985 | 78,161 |
| Total | $792,068 | $386,280 | $13,224 | $1,191,572 |
| September 30, 2011 | | | | |
| West Segment | $294,208 | $318,732 | $2,681 | $615,621 |
| East Segment | 304,648 | 41,993 | 5,056 | 351,697 |
| Southeast Segment | 122,126 | 24,036 | 75 | 146,237 |
| Unallocated & Other | 73,800 | — | 5,025 | 78,825 |
| Total | $794,782 | $384,761 | $12,837 | $1,192,380 |

Inventory Impairments. When conducting our community level review for the recoverability of our homebuilding inventories held for development, we establish a quarterly “watch list” of communities with more than 10 homes remaining that carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability. Assets on the quarterly watch list are subject to substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to profit margins below our watch list threshold. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information.

In our impairment analyses for the quarter ended March 31, 2012, we have assumed limited market improvements in some communities beginning in fiscal 2013 and continuing improvement in these communities in subsequent years.

For any communities scheduled to close out in fiscal 2012, we did not assume any market improvements. The discount rate used may be different for each community and ranged from 13.4% to 15.2% for the communities analyzed in the quarter ended March 31, 2012 and 12.6% to 15.4% for the quarter ended March 31, 2011. The following tables represent the results, by reportable segment of our community level review of the recoverability of our inventory assets held for development as of March 31, 2012, and 2011 ($ in thousands). We have elected to aggregate our disclosure at the reportable segment level because we believe this level of disclosure is most meaningful to the readers of our financial statements. The aggregate undiscounted cash flow fair value as a percentage of book value for the communities

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represented below is consistent with our expectations given our "watch list" methodology.

| Segment | # of Communities on Watch List | Undiscounted Cash Flow Analyses Prepared | | | |
|---|---|---|---|---|---|
| | | # of Communities | Pre-analysis Book Value (BV) | Aggregate Undiscounted Cash Flow as a % of BV | |
| Quarter Ended March 31, 2012 | | | | | |
| West | 6 | 4 | $8,550 | 103.7 | % |
| East | 12 | 4 | 12,920 | 101.2 | % |
| Southeast | 2 | 1 | 1,027 | 132.4 | % |
| Unallocated | — | — | 1,178 | n/a | |
| Total | 20 | 9 | $23,675 | 103.4 | % |
| Quarter Ended March 31, 2011 | | | | | |
| West | 12 | 9 | 50,327 | 82.8 | % |
| East | 3 | 1 | 2,870 | 102.7 | % |
| Southeast | — | — | — | n/a | |
| Unallocated | — | — | 4,776 | n/a | |
| Total | 15 | 10 | $57,973 | 85.2 | % |

The table below summarizes the results of our discounted cash flow analysis for the three and six months ended March 31, 2012 and 2011. The impairment charges below include impairments taken as a result of these discounted cash flow analyses and also impairment charges recorded for individual homes sold and in backlog with net contribution margins below a minimum threshold of profitability in communities that were not otherwise impaired through our discounted cash flow analyses. The estimated fair value of the impaired inventory is determined immediately after a community's impairment.

| ($ in thousands) | Communities Impaired As a Result of Discounted Cash Flow Analyses Prepared | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Segment | # of Communities Impaired | # of Lots Impaired | Impairment Charge | Estimated Fair Value of Impaired Inventory at Period End | # of Communities Impaired | # of Lots Impaired | Impairment Charge | Estimated Fair Value of Impaired Inventory at Period End |
| Quarter Ended March 31, 2012 | | | | | Six Months Ended March 31, 2012 | | | |
| West | — | — | $ 202 | $ — | 1 | 51 | $ 2,198 | $ 6,377 |
| East | 1 | 25 | 565 | 3,292 | 1 | 25 | 687 | 3,292 |
| Southeast | — | — | 46 | — | — | — | 164 | — |
| Unallocated | — | — | 36 | — | — | — | 84 | — |
| Continuing Operations | 1 | 25 | 849 | 3,292 | 2 | 76 | 3,133 | 9,669 |
| Discontinued Operations | — | — | 2 | — | — | — | 18 | — |
| Total | 1 | 25 | $ 851 | $ 3,292 | 2 | 76 | $ 3,151 | $ 9,669 |
| Quarter Ended March 31, 2011 | | | | | Six Months Ended March 31, 2011 | | | |
| West | 7 | 730 | $ 15,884 | $ 29,244 | 7 | 730 | $ 15,985 | $ 29,244 |
| East | — | — | 120 | — | — | — | 229 | — |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Southeast | — | — | 74 | — | — | — | 122 | — |
| Unallocated | — | — | 1,608 | — | — | — | 1,608 | — |
| Continuing Operations | 7 | 730 | 17,686 | 29,244 | 7 | 730 | 17,944 | 29,244 |
| Discontinued Operations | — | — | 37 | — | — | — | 215 | — |
| Total | 7 | 730 | $ 17,723 | $ 29,244 | 7 | 730 | $ 18,159 | $ 29,244 |

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Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. During these periods, for certain communities we determined that it was prudent to reduce sales prices or further increase sales incentives in response to factors including competitive market conditions in those specific submarkets for the product and locations of these communities. Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including decreased sales prices, the change in sales prices and changes in absorption estimates based on current market conditions and management's assumptions relative to future results led to an impairment in one community in our East segment during the quarter ended March 31, 2012. During the quarter ended March 31, 2011, discrete changes in our revenue and absorption estimates for certain communities due to pricing reductions in response to competitor actions and local market conditions led to impairments in seven communities in our West segment. Market deterioration that exceeds our estimates may lead us to incur additional impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if the market continues to deteriorate.

The year-to-date impairments on land held for sale below represent further write downs of these properties to net realizable value, less estimated costs to sell and are as a result of challenging market conditions and our review of recent comparable transactions. The negative impairments indicated below are due to adjustments to accruals for estimated selling costs related to either our strategic decision to develop a previously held-for-sale land position or revised estimates based on pending sales transactions. Our assumptions about land sales prices require significant judgment because the current market is highly sensitive to changes in economic conditions. We calculated the estimated fair values of land held for sale based on current market conditions and assumptions made by management, which may differ materially from actual results and may result in additional impairments if market conditions continue to deteriorate.

Also, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as pre-acquisition costs. In determining whether to abandon a lot option contract, we evaluate the lot option primarily based upon the expected cash flows from the property that is the subject of the option. If we intend to abandon or walk-away from a lot option contract, we record a charge to earnings in the period such decision is made for the deposit amount and any related capitalized costs associated with the lot option contract. We recorded lot option abandonment charges during the three and six ended March 31, 2012 and 2011 as indicated in the table below. The abandonment charges relate to our decision to abandon certain option contracts that no longer fit in our long-term strategic plan.

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The following table sets forth, by reportable homebuilding segment, the inventory impairments and lot option abandonment charges recorded for the three and six ended March 31, 2012 and 2011 (in thousands) :

| | Quarter Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Development projects and homes in process (Held for Development) | | | | |
| West | $202 | $15,884 | $2,198 | $15,985 |
| East | 565 | 120 | 687 | 229 |
| Southeast | 46 | 74 | 164 | 122 |
| Unallocated | 36 | 1,608 | 84 | 1,608 |
| Subtotal | $849 | $17,686 | $3,133 | $17,944 |
| Land Held for Sale | | | | |
| West | $— | $— | $— | $(51) |
| East | — | — | — | — |
| Southeast | — | (42) | 208 | 169 |
| Subtotal | $— | $(42) | $208 | $118 |
| Lot Option Abandonments | | | | |
| West | $170 | $41 | $172 | $84 |
| East | 90 | 43 | 564 | 133 |
| Southeast | 60 | 94 | 594 | 182 |
| Unallocated | 1 | — | 2 | — |
| Subtotal | $321 | $178 | $1,332 | $399 |
| Continuing Operations | $1,170 | $17,822 | $4,673 | $18,461 |
| Discontinued Operations | | | | |
| Held for Development | $2 | $37 | $18 | $215 |
| Land Held for Sale | — | — | — | 57 |
| Lot Option Abandonments | — | 1 | 16 | 48 |
| Subtotal | $2 | $38 | $34 | $320 |
| Total Company | $1,172 | $17,860 | $4,707 | $18,781 |

Lot Option Agreements and Variable Interest Entities (VIE). 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. A majority of our lot option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land for the right to acquire lots during a specified period of time at a certain price. Under lot option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our liability under option contracts is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which aggregated approximately $25.3 million at March 31, 2012. The total remaining purchase price, net of cash deposits, committed under all options was $205.7 million as of March 31, 2012. 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.

For the VIEs in which we are the primary beneficiary of the VIE, we have consolidated the VIE and reflected such assets and liabilities as land not owned under option agreements in our balance sheets. For VIEs we were required to consolidate, we recorded the remaining contractual purchase price under the applicable lot option agreement to land not owned under option agreements with an offsetting increase to obligations related to land not owned under option agreements. Also, to reflect the purchase price of this inventory consolidated, we reclassified the related option deposits from land under development to land not owned under option agreement in the accompanying unaudited condensed consolidated balance sheets. Consolidation of these VIEs has no impact on the Company's results of operations or cash flows.

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The following provides a summary of our interests in lot option agreements as of March 31, 2012 and September 30, 2011 (in thousands):

| | Deposits & Non-refundable Preacquisition Costs Incurred | Remaining Obligation | Land Not Owned - Under Option Agreements |
|---|---|---|---|
| As of March 31, 2012 | | | |
| Consolidated VIEs | $7,183 | $3,347 | $ 10,530 |
| Other consolidated lot option agreements (a) | 962 | 2,913 | $ 3,875 |
| Unconsolidated lot option agreements | 17,139 | 199,445 | — |
| Total lot option agreements | $25,284 | $205,705 | $ 14,405 |
| As of September 30, 2011 | | | |
| Consolidated VIEs | $6,201 | $1,214 | $ 7,415 |
| Other consolidated lot option agreements (a) | 164 | 4,175 | 4,338 |
| Unconsolidated lot option agreements | 13,732 | 219,841 | — |
| Total lot option agreements | $20,097 | $225,230 | $ 11,753 |

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

(5) Interest

Our ability to capitalize all interest incurred during the three and six months ended March 31, 2012 and 2011 has been limited by our inventory eligible for capitalization. The following table sets forth certain information regarding interest (in thousands):

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Capitalized interest in inventory, beginning of period | $46,510 | $43,433 | $45,973 | $36,884 |
| Interest incurred | 32,190 | 32,937 | 64,715 | 65,303 |
| Capitalized interest impaired | (25) | (1,409) | (53) | (1,409) |
| Interest expense not qualified for capitalization and included as other expense | (18,797) | (19,058) | (37,914) | (37,981) |
| Capitalized interest amortized to house construction and land sales expenses | (12,636) | (8,279) | (25,479) | (15,173) |
| Capitalized interest in inventory, end of period | $47,242 | $47,624 | $47,242 | $47,624 |

(6) Earnings Per Share

All outstanding common stock equivalents were excluded from the diluted loss per share calculations for the three and six months ended March 31, 2012 and 2011 because the effect of their inclusion would be antidilutive, or would decrease the reported loss per share. The computation of basic loss per share for the three and six months ended March 31, 2012 include approximately 4.4 million and 2.2 million weighted average shares outstanding related to the exchange of our Mandatory Convertible Subordinated Notes and Tangible Equity Units (TEUs) discussed below.

During the quarter ended March 31, 2012, we exchanged 11.0 million shares of our common stock for $48.1 million of our Mandatory Convertible Subordinated Notes and 13.8 million shares of our common stock for 2.8 million TEUs comprised of prepaid stock purchase contracts and senior amortizing notes. As of March 31, 2012, there is $9.4 million of Mandatory Convertible Subordinated Notes and 0.2 million TEUs outstanding (including $0.5 million of amortizing notes). If these instruments were converted at the maximum settlement factor under their respective agreements, we would be required to issue approximately 2.8 million shares of common stock to the instrument holders upon conversion. See Note 7 below for additional information related to the March 2012 respective conversion transactions.

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(7) Borrowings

At March 31, 2012 and September 30, 2011 we had the following long-term debt (in thousands):

| | Maturity Date | March 31, 2012 | September 30, 2011 |
|---|---|---|---|
| 6 7/8% Senior Notes | July 2015 | $172,454 | $172,454 |
| 8 1/8% Senior Notes | June 2016 | 172,879 | 172,879 |
| 12% Senior Secured Notes | October 2017 | 250,000 | 250,000 |
| 9 1/8% Senior Notes | June 2018 | 300,000 | 300,000 |
| 9 1/8% Senior Notes | May 2019 | 250,000 | 250,000 |
| TEU Senior Amortizing Notes | August 2013 | 467 | 10,062 |
| Unamortized debt discounts | | (21,313) | (23,243) |
| Total Senior Notes, net | | 1,124,487 | 1,132,152 |
| Mandatory Convertible Subordinated Notes | January 2013 | 9,402 | 57,500 |
| Junior subordinated notes | July 2036 | 50,570 | 49,537 |
| Cash Secured Loan | November 2017 | 247,368 | 247,368 |
| Other secured notes payable | Various Dates | 1,755 | 2,269 |
| Total debt, net | | $1,433,582 | $1,488,826 |

Secured Revolving Credit Facility — In July 2011, we entered into an amendment to extend the maturity of our $22 million Secured Revolving Credit Facility to August 2012. The Secured Revolving Credit Facility is provided by one lender. The Secured Revolving Credit Facility provides for future working capital and letter of credit needs collateralized by either cash or assets of the Company at our option, based on certain conditions and covenant compliance. As of March 31, 2012, we were in compliance with all such covenants. We have elected to cash collateralize all letters of credit; however, as of March 31, 2012, we have pledged approximately $1.0 billion of inventory assets to our Senior Secured Revolving Credit Facility to collateralize potential future borrowings or letters of credit. The Secured Revolving Credit Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. Subject to our option to cash collateralize our obligations under the Secured Revolving Credit Facility upon certain conditions, our obligations under the Secured Revolving Credit Facility are secured by liens on substantially all of our personal property and a significant portion of our owned real properties. There were no outstanding borrowings under the Secured Revolving Credit Facility as of March 31, 2012 or September 30, 2011.

We have entered into stand-alone, cash-secured letter of credit agreements with banks to maintain our pre-existing letters of credit and to provide for the issuance of new letters of credit. The letter of credit arrangements combined with our Senior Secured Revolving Credit Facility provide a total letter of credit capacity of approximately $92.0 million. As of March 31, 2012 and September 30, 2011, we have secured letters of credit using cash collateral in restricted accounts totaling $24.6 million and $28.9 million, respectively. The Company may enter into additional arrangements to provide additional letter of credit capacity.

Senior Notes — The majority of our Senior Notes are unsecured or secured obligations ranking pari passu with all other existing and future senior indebtedness. Substantially all of our significant subsidiaries are full and unconditional guarantors of the Senior Notes and are jointly and severally liable for obligations under the Senior Notes and the Secured Revolving Credit Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes. As of March 31, 2012, we were in compliance with all covenants under our Senior Notes.

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At March 31, 2012, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. The indentures provide that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes. Specifically, certain indentures require us to offer to purchase 10% of the original amount of the Senior Notes at par if our consolidated tangible net worth (defined as stockholders' equity less intangible assets) is less than

$85 million at the end of any two consecutive fiscal quarters. If triggered and fully subscribed, this could result in our having to purchase $62.5 million of notes, based on the original amounts of the applicable notes; however, this amount may be reduced by certain Senior Note repurchases (potentially at less than par) made after the triggering date. As of March 31, 2012, our consolidated tangible net worth was $179.0 million.

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

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

Senior Notes: Tangible Equity Units — In May 2010, we issued 3 million 7.25% TEUs which were comprised of prepaid stock purchase contracts and senior amortizing notes. As these two components of the TEUs are legally separate and detachable, we have accounted for the two components as separate items for financial reporting purposes and valued them based on their relative fair value at the date of issuance. The amortizing notes are unsecured senior obligations and rank equally with all of our other unsecured indebtedness and had an aggregate initial principal amount of $15.7 million as determined under the relative fair value method. Outstanding notes pay quarterly installments of principal and interest through August 15, 2013, and in the aggregate, these installments will be equivalent to a 7.25% cash payment per year with respect to each $25 stated amount of the TEUs. The prepaid stock purchase contracts were originally accounted for as equity (additional paid in capital) and recorded at $57.4 million, the initial fair value of these contracts based on the relative fair value method.

During the quarter ended March 31, 2012, we exchanged 13.8 million shares of our common stock for 2.8 million TEUs (comprised of prepaid stock purchase contracts and $7.2 million of senior amortizing notes). Since our offer to convert the TEUs included a premium share component and was not pursuant to the instrument's original conversion terms, we accounted for the exchange as an induced conversion of the TEUs. We compared the fair value of the common stock issued to the fair value of the TEU instruments at the date of acceptance in order to determine the premium of the consideration. This premium was then allocated between the debt and equity components of the TEUs based on each components relative fair value. The difference between the implied fair value of the amortizing notes (including the premium allocation) and the carrying value of the amortizing notes was recognized as a loss on extinguishment of debt during the quarter ended March 31, 2012 and totaled approximately $0.7 million. The remaining related prepaid stock purchase contracts will be settled in Beazer Homes’ common stock on August 15, 2013.

Mandatory Convertible Subordinated Notes — On January 12, 2010, we issued $57.5 million aggregate principal amount of 7 1/2% Mandatory Convertible Subordinated Notes due 2013 (the Mandatory Convertible Subordinated Notes). Interest on the Mandatory Convertible Subordinated Notes is payable quarterly in cash in arrears. Holders of the Mandatory Convertible Subordinated Notes have the right to convert their notes, in whole or in part, at any time prior to maturity, into shares of our common stock at a fixed conversion rate of 5.4348 shares per $25 principal amount of notes.

During the quarter ended March 31, 2012, we exchanged 11.0 million shares of our common stock for $48.1 million of our Mandatory Convertible Subordinated Notes. Since our offer to convert these notes included a premium share component, we accounted for the exchange as an induced conversion of these notes. We recognized a $2.0 million inducement expense equal to the fair value of the premium shares issued based on our common stock price as of the date of acceptance. This expense is included in loss on extinguishment of debt for the quarter ended March 31, 2012. At maturity, the remaining $9.4 million of outstanding notes will automatically convert into the Company’s common stock at a defined conversion rate which will range from 4.4547 to 5.4348 (the initial conversion rate) shares per $25 principal amount of notes based on the then current price of the common stock. The securities are subordinated to nonconvertible debt, the conversion feature is non-detachable and there are no beneficial conversion features associated with this debt. If our consolidated tangible net worth is less than $85 million as of the last day of a fiscal quarter, the Company has the right to require holders to convert all of the notes then outstanding for shares of our common stock at the maximum conversion rate plus a conversion premium as described in the agreement.

Junior Subordinated Notes — On June 15, 2006, we completed a private placement of $103.1 million of unsecured junior subordinated notes which mature on July 30, 2036, are redeemable at par and pay a fixed rate of 7.987% for the first ten years ending July 30, 2016. Thereafter, the securities have a floating interest rate equal to three-month LIBOR plus 2.45% per annum, resetting quarterly. These notes were issued to Beazer Capital Trust I, which simultaneously issued, in a private

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transaction, trust preferred securities and common securities with an aggregate value of $103.1 million to fund its purchase of these notes. The transaction is treated as debt in accordance with GAAP. The obligations relating to these notes and the related securities are subordinated to the Secured Revolving Credit Facility and the Senior Notes.

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

The aforementioned exchange has been accounted for as an extinguishment of debt as there has been a significant modification of cash flows and, as such, the New Junior Notes were recorded at their estimated fair value at the exchange date. Over the remaining life of the New Junior Notes, we will increase their carrying value until this carrying value equals the face value of the notes. As of March 31, 2012, the unamortized accretion was $50.2 million and will be amortized over the remaining life of the notes.

As of March 31, 2012, we were in compliance with all covenants under our Junior Notes.

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

The lenders of these facilities may put the outstanding loan balances to the Company at the two or four year anniversaries of the loan. The loan matures in seven years. Borrowings under the facilities are fully secured by cash held by the lender or its affiliates. This secured cash is reflected as restricted cash on our unaudited condensed consolidated balance sheet as of March 31, 2012. We borrowed $32.6 million at inception of the loans. As previously indicated and in order to protect financing capacity available under our covenant refinancing basket related to previous or future debt repayments, we borrowed an additional $214.8 million under the cash secured loan facilities in the quarter ended June 30, 2011. The cash secured loan has an interest rate equivalent to LIBOR plus 0.4% per annum which is paid every three months following the effective date of each borrowing.

Other Secured Notes Payable — We periodically acquire land through the issuance of notes payable. As of March 31, 2012 and September 30, 2011, we had outstanding notes payable of $1.8 million and $2.3 million, respectively, primarily related to land acquisitions. These notes payable expire during 2012 and had a weighted average fixed rate of 7.135% at March 31, 2012. These notes are secured by the real estate to which they relate.

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

(8) Income Taxes

For the three and six months ended March 31, 2012, our non-cash tax benefit from continuing operations was $0.8 million and $36.6 million, respectively primarily related to a decrease of our prior year’s unrecognized tax benefits. For the three and six months ended March 31, 2012, our unrecognized tax benefits decreased by $0.6 million and $27.7 million, respectively, as the result of tax planning and the close of prior year statute of limitations. In addition, our total income tax benefit includes the decrease in the interest accrual related to this tax benefit.

As of March 31, 2012 and September 30, 2011, respectively, we had $2.3 million and $8.2 million of accrued interest and penalties related to our unrecognized tax benefits.

Our federal income tax returns for fiscal years 2007 through 2010, and certain state income tax returns for various fiscal years are under routine examination. The final outcome of these examinations is not yet determinable and therefore the change in our unrecognized tax benefits that could occur within the next 12 months cannot be estimated at this time.

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

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

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

Due to a combination of Section 382 limitations and the maximum 20-year carryforward of our NOLs, we will be unable to fully recognize certain deferred tax assets. As a result, as of March 31, 2012, our valuation allowance was $474.0 million and we expect to continue to add to our gross deferred tax assets for anticipated NOLs that will not be limited by Section 382.

(9) Contingencies

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

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

Since we subcontract our homebuilding work to subcontractors whose contracts generally include an indemnity obligation and a requirement that certain minimum insurance requirements be met, including providing us with a certificate of insurance prior to receiving payments for their work, many claims relating to workmanship and materials are the primary responsibility of the subcontractors.

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

As of March 31, 2012, our warranty reserves include an estimate for the repair of 60 homes in Florida where certain of our subcontractors installed defective Chinese drywall in homes that were delivered during our 2006 and 2007 fiscal years. As of March 31, 2012, we have completed repairs on approximately 95% of these homes and we are in the process of repairing the remaining homes we have been given permission to repair. As needed, we will continue to inspect additional homes in order to determine whether they also contain the defective Chinese drywall.

Like most major homebuilders, we contract for many of our construction activities on a turnkey basis, including the purchase and installation of drywall. With few exceptions, our contractors purchased the drywall from independent suppliers, and then delivered and installed this drywall into Beazer's homes. Much of the supplier data is unavailable or inconclusive. Accordingly, it is difficult for the Company to determine which suppliers were used by these contractors, which suppliers provided defective Chinese drywall during the time period at issue or what amounts may have been purchased from such suppliers. As a result, the Company is unable to determine which Beazer communities or particular homes had Chinese drywall installed without inspections, and accordingly, the amount of additional liability, if any, is not reasonably estimable. Therefore, the outcome of inspections in process and potential future inspections, or an unexpected increase in repair costs, may require us to increase our warranty reserve in the future. In addition, the Company has been named as a defendant in a number of legal actions related to

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defective Chinese drywall (see Litigation below).

During the six months ended March 31, 2012, we received an $11 million recovery related to water intrusion warranty and legal expenses incurred in prior years. We recognized this recovery as a reduction of home construction and land sales expenses.
As a result of our quarterly analyses, we adjust our estimated warranty liabilities if required. While we believe our warranty reserves are adequate as of March 31, 2012, historical data and trends may not accurately predict actual warranty costs or future developments could lead to a significant change in the reserve. Our warranty reserves are as follows (in thousands):

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Balance at beginning of period | $17,414 | $21,643 | $17,916 | $25,821 |
| Accruals for warranties issued | 1,741 | 940 | 3,228 | 1,814 |
| Changes in liability related to warranties existing in prior periods | (1,244) | (683) | (1,351) | (2,683) |
| Payments made | (1,778) | (3,201) | (3,660) | (6,253) |
| Balance at end of period | $16,133 | $18,699 | $16,133 | $18,699 |

Litigation
On June 3, 2009, Beazer Homes Corp. was named as a defendant in a purported class action lawsuit in the Circuit Court for Lee County, State of Florida, filed by Bryson and Kimberly Royal, the owners of one of our homes in our Magnolia Lakes' community in Ft. Myers, Florida. The complaint names the Company and certain distributors and suppliers of drywall and was on behalf of the named plaintiffs and other similarly situated owners of homes in Magnolia Lakes or alternatively in the State of Florida. The plaintiffs allege that the Company built their homes with defective drywall, manufactured in China, that contains sulfur compounds that allegedly corrode certain metals and that are allegedly capable of harming the health of individuals. Plaintiffs allege physical and economic damages and seek legal and equitable relief, medical monitoring and attorney's fees. This case has been transferred to the Eastern District of Louisiana pursuant to an order from the United States Judicial Panel on Multidistrict Litigation. In addition, the Company has been named in other multi-plaintiff complaints filed in the multidistrict litigation. We believe that the claims asserted in these actions are governed by home warranties or are without merit. Accordingly, the Company intends to vigorously defend against these actions. Furthermore, the Company has offered to repair all Beazer homes affected by defective Chinese drywall pursuant to a repair protocol that has been adopted by the multidistrict litigation court, including those homes involved in litigation. To date, nearly all of affected Beazer homeowners have accepted the Company's offer to repair. The Company also continues to pursue recovery against responsible subcontractors, drywall suppliers and drywall manufacturers for its repair costs.
On March 14, 2011, the Company and several subsidiaries were named as defendants in a lawsuit filed by Flagstar Bank, FSB in the Circuit Court for the County of Oakland, State of Michigan. The complaint demands approximately $8.7 million to recover purported losses in connection with 73 residential mortgage loan transactions under theories of breach of contract, fraud/intentional misrepresentation and other similar theories of recovery. We believe we have strong defenses to the claims on these individual loans and intend to vigorously defend the action.
In addition, three other investors have demanded that BMC indemnify them for losses suffered with respect to other mortgage loans or repurchase such loans, largely alleging misrepresentations by the borrowers or defects in the loan origination process. We are currently investigating each of these claims and are in communications with the investors. To date, including the mortgage loans that are the subject of the lawsuit described above, we have active requests to repurchase fewer than 100 mortgage loans. While we have not been required to repurchase any of such mortgage loans, there can be no assurance that once all documentation and facts are investigated that BMC will not agree to, or be obligated to, repurchase some or all of such loans. Previously, we established an immaterial amount as a reserve for the repurchase of mortgage loans originated by BMC. BMC did not service the loans it originated and accordingly

information regarding loan performance and the underwriting process is limited or difficult to obtain. At this time, we do not believe that the exposure related to any such additional claims would be material to our consolidated financial position or results of operation. However, given the increasing focus on this issue generally, potential actions of government sponsored entities and the uncertainties regarding resolution of each claim, we cannot rule out the potential for additional mortgage loan repurchase claims in the future, potential liability for some or all of these claims or changes in our assessment of these claims which may result in establishment of additional reserves that may or may not be material. However, as of March 31, 2012 , no liability has been recorded for any such additional claims as such exposure is not reasonable estimable.

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On March 15, 2011, a shareholder derivative suit was filed by certain funds affiliated with Teamster Local 237 in the Superior Court of Fulton County, State of Georgia against certain officers and directors of the Company and the Company’s compensation consultants. The complaint alleges breach of fiduciary duties involving decisions regarding executive compensation; specifically that compensation awarded to certain Company executives for the 2010 fiscal year was improper in light of the negative subsequent advisory “say on pay” vote by shareholders at the Company’s 2011 stockholders' meeting. On September 16, 2011, the Court entered an order and granted the defendants’ motion to dismiss all counts of the complaint. Although the plaintiffs filed an appeal from this dismissal, they have subsequently decided to withdraw such appeal. We have joined in that motion. Each party has agreed to bear its own fees and expenses and the Company made no payment to the plaintiffs to resolve this matter.

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

Other Matters

As disclosed in our 2009 Form 10-K, on July 1, 2009, the Company announced that it has resolved the criminal and civil investigations by the United States Attorney’s Office in the Western District of North Carolina (the U.S. Attorney) and other state and federal agencies concerning matters that were the subject of the independent investigation, initiated in April 2007 by the Audit Committee of the Board of Directors (the Investigation) and concluded in May 2008. Under the terms of a deferred prosecution agreement (DPA), the Company’s liability for each of the fiscal years after 2010 through a portion of fiscal 2014 (unless extended as previously described in our 2009 Form 10-K) will be equal to 4% of the Company’s adjusted EBITDA (as defined in the DPA). The total amount of such obligations will be dependent on several factors; however, the maximum liability under the DPA and other settlement agreements discussed above will not exceed $55.0 million, of which $16 million has been paid as of March 31, 2012. Positive adjusted EBITDA in future years will require us to incur additional expense in the future.

In 2006, we received two Administrative Orders issued by the New Jersey Department of Environmental Protection. The Orders allege certain violations of wetlands disturbance permits and assess proposed fines of $630,000 and $678,000, respectively. We have met with the Department to discuss their concerns on the two affected communities and have requested hearings on both matters. Although we believe that we have significant defenses to the alleged violations, we have made a settlement proposal to the Department that is currently under consideration.

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

We have accrued $16.7 million and $30.4 million in other liabilities related to litigation and other matters, excluding warranty, as of March 31, 2012 and September 30, 2011, respectively. The amount accrued as of September 30, 2011 included $15.7 million related to the South Edge settlement obligation that was paid during the quarter ended December 31, 2011 (see Note 3 for additional information).

We had outstanding letters of credit and performance bonds of approximately $24.6 million and $159.5 million, respectively, at March 31, 2012 related principally to our obligations to local governments to construct roads and other improvements in various developments. We have no outstanding letters of credit relating to our land option contracts as of March 31, 2012.

(10) Fair Value Measurements

As of March 31, 2012, we had no assets or liabilities in our unaudited condensed consolidated balance sheets that were required to be measured at fair value on a recurring basis. Certain of our assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value may not be recovered. We use a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value as follows: Level 1 – Quoted prices in active markets for identical assets or liabilities; Level 2 – Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly through corroboration with market data; Level 3 – Unobservable inputs that reflect our own estimates about the assumptions market participants would use in pricing the asset or liability.

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The following table presents our assets measured at fair value on a non-recurring basis for each hierarchy level and represents only those assets whose carrying values were adjusted to fair value during the six months ended March 31, 2012 and 2011 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Six Months Ended March 31, 2012 | | | | |
| Development projects in progress | — | — | 9,669 | 9,669 |
| Land held for sale | — | — | 1,600 | 1,600 |
| Right to purchase land | — | — | — | |
| Joint venture investments | — | — | — | — |
| Six Months Ended March 31, 2011 | | | | |
| Development projects in progress | — | — | 29,244 | 29,244 |
| Land held for sale | — | — | — | — |
| Right to purchase land | — | — | 13,184 | 13,184 |
| Joint venture investments | — | — | — | — |

As previously disclosed, we review our long-lived assets, including inventory for recoverability when factors that indicate an impairment may exist, but no less than quarterly. Fair value is based on estimated cash flows discounted for market risks associated with the long-lived assets. The fair values of our investments in unconsolidated joint ventures are determined primarily using a discounted cash flow model to value the underlying net assets of the respective entities. During the six months ended March 31, 2012, including discontinued operations, we recorded impairments for development projects in process of $3.2 million, land held for sale impairments of $0.2 million, and impairments of joint venture investments of $36,000. During the six months ended March 31, 2011, including discontinued operations, we recorded impairments for development projects in process of $18.2 million, land held for sale impairments of $0.2 million, and impairments of joint venture investments of $0.4 million. See Notes 1, 3 and 4 for additional information related to the fair value accounting for the assets listed above. Determining which hierarchical level an asset or liability falls within requires significant judgment. We evaluate our hierarchy disclosures each quarter.

The fair value of our cash and cash equivalents, restricted cash, accounts receivable, trade accounts payable, other liabilities, cash secured loan and other secured notes payable approximate their carrying amounts due to the short maturity of these assets and liabilities.

Obligations related to land not owned under option agreements approximate fair value. The carrying values and estimated fair values of other financial assets and liabilities were as follows (in thousands):

| | As of March 31, 2012 | | As of September 30, 2011 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Senior Notes | $1,124,487 | $1,068,682 | $1,132,152 | $856,634 |
| Mandatory Convertible Subordinated Notes | 9,402 | 7,055 | 57,500 | 22,747 |
| Junior Subordinated Notes | 50,570 | 50,570 | 49,537 | 49,537 |
| | $1,184,459 | $1,126,307 | $1,239,189 | $928,918 |

The estimated fair values shown above for our publicly held Senior Notes and Mandatory Convertible Subordinated Notes have been determined using quoted market rates (Level 2). Since there is no trading market for our junior subordinated notes, the fair value of these notes is estimated by discounting scheduled cash flows through maturity (Level 3). The discount rate is estimated using market rates currently being offered on loans with similar terms and credit quality. Judgment is required in interpreting market data to develop these estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange.

(11) Stock-based Compensation

For the three months ended March 31, 2012, our total stock-based compensation, included in general and administrative expenses (G&A), was approximately $1.2 million ($0.8 million net of tax). The fair value of each option/stock-based stock

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appreciation right (SSAR) grant is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of each performance-based, nonvested stock grant is estimated on the date of grant using the Monte Carlo valuation method. The cash-settled component of any awards granted to employees are accounted for as a liability award and the liability is adjusted to fair value each reporting period until vested. Non-performance based, nonvested stock is valued based on the market price of the common stock on the date of the grant.

During the six months ended March 31, 2012 and 2011, employees surrendered 12,553 and 15,080 shares, respectively, to us in payment of minimum tax obligations upon the vesting of stock awards under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of approximately $34,000 and $64,000 for the six months ended March 31, 2012 and 2011, respectively.

Stock Options: We used the following assumptions for our options granted during the six months ended March 31, 2012:

| | | |
|---|---|---|
| Expected life of options | 5.0 years | |
| Expected volatility | 44.77 | % |
| Expected discrete dividends | — | |
| Weighted average risk-free interest rate | 0.90 | % |
| Weighted average fair value | $0.86 | |

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

The intrinsic value of a stock option/SSAR is the amount by which the market value of the underlying stock exceeds the exercise price of the option/SSAR. At March 31, 2012, our SSAR/stock options outstanding had an intrinsic value of $0.6 million. The intrinsic value of SSARs/stock options vested and expected to vest in the future was $0.6 million. The SSARS/stock options vested and expected to vest in the future had a weighted average expected life of 3.0 years. There was no aggregate intrinsic value of exercisable SSARs/stock options as of March 31, 2012.

The following table summarizes stock options and SSARs outstanding as of March 31, 2012, as well as activity during the three and six months then ended:

| | Three Months Ended March 31, 2012 | | | Six Months Ended March 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Shares | | Weighted-Average Exercise Price | Shares | | Weighted-Average Exercise Price |
| Outstanding at beginning of period | 2,360,882 | | $8.08 | 1,876,238 | | $9.77 |
| Granted | — | | — | 547,536 | | 2.16 |
| Expired | (43,835 | ) | 16.77 | (47,303 | ) | 18.33 |
| Forfeited | (35,363 | ) | 4.91 | (94,787 | ) | 4.97 |
| Outstanding at end of period | 2,281,684 | | $7.96 | 2,281,684 | | $7.96 |
| Exercisable at end of period | 779,936 | | $12.47 | 779,936 | | $12.47 |
| Vested or expected to vest in the future | 2,259,086 | | $7.99 | 2,259,086 | 7.99 | $7.99 |

Nonvested Stock Awards: Compensation cost arising from nonvested stock awards granted to employees is recognized as an expense using the straight-line method over the vesting period. As of March 31, 2012 and September 30, 2011, there was $3.6 million and $4.0 million, respectively, of total unrecognized compensation cost related to nonvested stock awards included in paid-in capital. The cost remaining at March 31, 2012 is expected to be recognized over a weighted average period of 1.3 years.

During the six months ended March 31, 2012, we issued 547,536 shares of performance-based restricted stock (Performance Shares) to our executive officers and certain corporate employees. 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. The

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number of shares that will vest at the end of the three-year performance period will depend upon the level to which the following two performance criteria are achieved 1) Beazer's total shareholder return (TSR) relative to a group of peer companies and 2) the compound annual growth rate (CAGR) during the three-year performance period of Beazer common stock. The target number of Performance Shares that vest may be increased by up to 50% based on the level of achievement of the above criteria as defined in the award agreement. Payment for Performance Shares in excess of the target number (547,536) will be settled in cash. Any portion of the Performance Shares that do not vest at the end of the period will be forfeited. The grants of the performance-based, nonvested stock were valued using the Monte Carlo valuation method and had an estimated fair value of $1.13 per share, a portion of which is attributable to the potential cash-settled liability aspect of the grant which is included in Other Liabilities.

A Monte Carlo simulation model requires the following inputs: 1) expected dividend yield on the underlying stock, 2) expected price volatility of the underlying stock, 3) risk-free interest rate for the period corresponding with the expected term of the award and 4) 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 simulation model to determine the fair value as of the grant date for the Performance Shares: 0% dividend yield for the Company, expected price volatility ranging from 36.0% to 61.1% and a risk-free interest rate of 0.43%. The methodology used to determine these assumptions is similar to that for the Black-Scholes Model used for stock option grants discussed above; however the expected term is determined by the model in the Monte Carlo simulation.

Activity relating to nonvested stock awards, including the Performance Shares for the three and six months ended March 31, 2012 is as follows:

| | Three Months Ended March 31, 2012 | | Six Months Ended March 31, 2012 | |
|---|---|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Beginning of period | 2,236,975 | $4.74 | 1,440,397 | $6.77 |
| Granted | — | — | 870,146 | 1.39 |
| Vested | (26,527) | 30.01 | (54,768) | 17.11 |
| Forfeited | (51,480) | 3.81 | (96,807) | 4.40 |
| End of period | 2,158,968 | $4.45 | 2,158,968 | $4.45 |

(12) Segment Information

We have three homebuilding segments operating in 16 states and beginning in the second quarter of fiscal 2011, we introduced our Pre-Owned Homes division which operates in Arizona and Nevada. Revenues in our homebuilding segments are derived from the sale of homes which we construct and from land and lot sales. Revenues from our Pre-Owned segment are derived from the rental and ultimate sale of previously owned homes purchased and improved by the Company. Our reportable segments have been determined on a basis that is used internally by management for evaluating segment performance and resource allocations. During the third quarter of fiscal 2011, in order to further optimize capital and resource allocations and based on our evaluation of both external market factors and our position in each market, we decided to discontinue our homebuilding operations in Northwest Florida. As a result, the information below for continuing operations and the Southeast segment, excludes results from our Northwest Florida market. The reportable homebuilding segments and all other homebuilding operations, not required to be reported separately, include operations conducting business in the following states:

West: Arizona, California, Nevada and Texas

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

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

Management’s evaluation of segment performance is based on segment operating income. Operating income for our homebuilding segments is defined as homebuilding, land sale and other revenues less home construction, land development and land sales expense, commission expense, depreciation and amortization and certain general and administrative expenses which are incurred by or allocated to our homebuilding segments. Operating income for our Pre-Owned segment is defined as rental and home sale revenues less home repairs and operating expenses, home sales expense, depreciation and amortization and certain general and administrative expenses which are incurred by or allocated to the segment. The accounting policies of our

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segments are those described in Note 1 above and Note 1 to our consolidated financial statements in our 2011 Annual Report. The following information is in thousands:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | | | | |
| West | $77,857 | $36,791 | $148,634 | $76,339 |
| East | 75,192 | 58,418 | 157,010 | 108,632 |
| Southeast | 38,070 | 30,507 | 73,638 | 49,697 |
| Pre-Owned | 524 | — | 909 | — |
| Continuing Operations | $191,643 | $125,716 | $380,191 | $234,668 |

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Operating income/(loss) | | | | |
| West | $3,377 | $(22,853) | $2,786 | $(26,025) |
| East | (659) | (503) | 147 | (443) |
| Southeast | 1,180 | 294 | 1,965 | (813) |
| Pre-Owned | (62) | (243) | (200) | (243) |
| Segment total | 3,836 | (23,305) | 4,698 | (27,524) |
| Corporate and unallocated (a) | (21,530) | (21,402) | (39,091) | (45,319) |
| Total operating loss | (17,694) | (44,707) | (34,393) | (72,843) |
| Equity in income (loss) of unconsolidated joint ventures | 4 | 71 | (73) | 309 |
| Loss on extinguishment of debt | (2,747) | (102) | (2,747) | (3,004) |
| Other expense, net (d) | (18,265) | (11,466) | (36,538) | (29,531) |
| Loss from continuing operations before income taxes | $(38,702) | $(56,204) | $(73,751) | $(105,069) |

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Depreciation and amortization | | | | |
| West | $1,090 | $570 | $1,870 | $1,122 |
| East | 805 | 470 | 1,310 | 973 |
| Southeast | 374 | 132 | 713 | 251 |
| Pre-Owned | 154 | 1 | 273 | 1 |
| Segment total | 2,423 | 1,173 | 4,166 | 2,347 |
| Corporate and unallocated (a) | 767 | 889 | 1,427 | 1,620 |
| Continuing Operations | $3,190 | $2,062 | $5,593 | $3,967 |

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| | Six Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| Capital Expenditures | | |
| West | $1,415 | $1,830 |
| East | 1,883 | 1,242 |
| Southeast | 1,078 | 825 |
| Pre-Owned (b) | 7,906 | — |
| Corporate and unallocated | 206 | 1,104 |
| Consolidated total | $12,488 | $5,001 |

| | March 31, 2012 | September 30, 2011 |
|---|---|---|
| Assets | | |
| West | $640,769 | $649,057 |
| East | 361,404 | 372,984 |
| Southeast | 176,373 | 162,135 |
| Pre-Owned (b) | 20,451 | 12,315 |
| Corporate and unallocated (c) | 658,947 | 780,986 |
| Consolidated total | $1,857,944 | $1,977,477 |

(a) Corporate and unallocated includes amortization of capitalized interest and numerous shared services functions that benefit all segments, the costs of which are not allocated to the operating segments reported above including information technology, national sourcing and purchasing, treasury, corporate finance, legal, branding and other national marketing costs. For the six months ended March 31, 2012, corporate and unallocated also includes an $11 million recovery related to old water intrusion warranty and related legal expenditures.

(b) Pre-owned assets include the cost of previously owned homes, net of accumulated depreciation, totaling $19.0 million (190 homes) and $11.3 million (120 homes) as of March 31, 2012 and September 30, 2011, respectively. Capital expenditures represent the purchase of previously owned homes during the quarter.

(c) Primarily consists of cash and cash equivalents, consolidated inventory not owned, deferred taxes, capitalized interest and other corporate items that are not allocated to the segments.

(d) The three and six months ended March 31, 2011, includes a $6.8 million benefit related to the cash reimbursement from our former CEO in connection with his consent agreement with the Securities and Exchange Commission.

(13) Pre-owned Homes Business

Beazer began its pre-owned homes business for the purpose of acquiring, improving, renting and ultimately reselling, previously owned homes within select communities in markets in which we operate. We purchased our first home in March 2011. As of March 31, 2012, we owned 190 homes in Arizona and Nevada, of which 183 were leased. The cost, net of accumulated depreciation, of the previously owned homes acquired by our pre-owned homes business was $19.0 million and is reported separately and excluded from inventory. These assets are depreciated over the asset's estimated remaining useful life. For the three and six months ended March 31, 2012, our pre-owned homes business generated $524,000 and $909,000 of revenue, respectively and had operating losses of $62,000 and $200,000, respectively.

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(14) Supplemental Guarantor Information

As discussed in Note 7, our obligations to pay principal, premium, if any, and interest under certain debt are guaranteed on a joint and several basis by substantially all of our subsidiaries. Certain of our immaterial subsidiaries do not guarantee our Senior Notes or our Secured Revolving Credit Facility. The guarantees are full and unconditional and the guarantor subsidiaries are 100% owned by Beazer Homes USA, Inc. We have revised the prior period presentation for intercompany amounts included in the financial statements below to be consistent with the current year presentation.

Beazer Homes USA, Inc.
Unaudited Consolidating Balance Sheet Information
March 31, 2012
(in thousands)

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | $252,555 | $5,002 | $745 | $(1,274) | $257,028 |
| Restricted cash | 276,934 | 461 | — | — | 277,395 |
| Accounts receivable (net of allowance of $4,099) | — | 21,690 | 11 | — | 21,701 |
| Income tax receivable | 2,399 | — | — | — | 2,399 |
| Owned inventory | — | 1,191,572 | — | — | 1,191,572 |
| Consolidated inventory not owned | — | 14,405 | — | — | 14,405 |
| Investments in unconsolidated joint ventures | 773 | 20,618 | — | — | 21,391 |
| Deferred tax assets, net | 6,145 | — | — | — | 6,145 |
| Property, plant and equipment, net | — | 21,895 | — | — | 21,895 |
| Previously owned rental homes, net | — | 18,980 | — | — | 18,980 |
| Investments in subsidiaries | 100,068 | — | — | (100,068) | — |
| Intercompany | 1,055,867 | — | 3,008 | (1,058,875) | — |
| Other assets | 16,083 | 6,680 | 2,270 | — | 25,033 |
| Total assets | $1,710,824 | $1,301,303 | $6,034 | $(1,160,217) | $1,857,944 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Trade accounts payable | $— | $54,947 | $— | $— | $54,947 |
| Other liabilities | 59,525 | 82,786 | 2,478 | — | 144,789 |
| Intercompany | 1,106 | 1,059,043 | — | $(1,060,149) | — |
| Obligations related to land not owned under option agreements | — | 6,260 | — | — | 6,260 |
| Total debt (net of discounts of $21,313) | 1,431,827 | 1,755 | — | — | 1,433,582 |
| Total liabilities | 1,492,458 | 1,204,791 | 2,478 | $(1,060,149) | 1,639,578 |
| Stockholders' equity | 218,366 | 96,512 | 3,556 | (100,068) | 218,366 |
| Total liabilities and stockholders' equity | $1,710,824 | $1,301,303 | $6,034 | $(1,160,217) | $1,857,944 |

Beazer Homes USA, Inc.

Unaudited Consolidating Balance Sheet Information
September 30, 2011
(in thousands)

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | $360,723 | $10,488 | $418 | $(1,226) | $370,403 |
| Restricted cash | 276,678 | 380 | — | — | 277,058 |
| Accounts receivable (net of allowance of $3,872) | — | 28,292 | 11 | — | 28,303 |
| Income tax receivable | 4,823 | — | — | — | 4,823 |
| Owned inventory | — | 1,192,380 | — | — | 1,192,380 |
| Consolidated inventory not owned | — | 11,753 | — | — | 11,753 |
| Investments in unconsolidated joint ventures | 773 | 8,694 | — | — | 9,467 |
| Deferred tax assets | 2,760 | — | — | — | 2,760 |
| Property, plant and equipment, net | — | 22,613 | — | — | 22,613 |
| Previously owned rental homes, net | — | 11,347 | — | — | 11,347 |
| Investments in subsidiaries | 100,996 | — | — | (100,996) | — |
| Intercompany | 1,013,753 | — | 4,773 | (1,018,526) | — |
| Other assets | 18,550 | 25,190 | 2,830 | — | 46,570 |
| Total assets | $1,779,056 | $1,311,137 | $8,032 | $(1,120,748) | $1,977,477 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Trade accounts payable | $— | $72,695 | $— | $— | $72,695 |
| Other liabilities | 93,047 | 116,210 | 2,930 | — | 212,187 |
| Intercompany | 1,072 | 1,018,680 | — | (1,019,752) | — |
| Obligations related to consolidated inventory not owned | — | 5,389 | — | — | 5,389 |
| Total debt (net of discounts of $23,243) | 1,486,557 | 2,269 | — | — | 1,488,826 |
| Total liabilities | 1,580,676 | 1,215,243 | 2,930 | (1,019,752) | 1,779,097 |
| Stockholders' equity | 198,380 | 95,894 | 5,102 | (100,996) | 198,380 |
| Total liabilities and stockholders' equity | $1,779,056 | $1,311,137 | $8,032 | $(1,120,748) | $1,977,477 |

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Beazer Homes USA, Inc.

Unaudited Consolidating Statement of Operations Information
(in thousands)

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Three Months Ended March 31, 2012 | | | | | |
| Total revenue | $— | $191,643 | $241 | $(241) | $191,643 |
| Home construction and land sales expenses | 12,636 | 157,888 | — | (241) | 170,283 |
| Inventory impairments and option contract abandonments | 25 | 1,145 | — | — | 1,170 |
| Gross (loss) profit | (12,661) | 32,610 | 241 | — | 20,190 |
| Commissions | — | 8,375 | — | — | 8,375 |
| General and administrative expenses | — | 26,285 | 34 | — | 26,319 |
| Depreciation and amortization | — | 3,190 | — | — | 3,190 |
| Operating (loss) income | (12,661) | (5,240) | 207 | — | (17,694) |
| Equity in income of unconsolidated joint ventures | — | 4 | — | — | 4 |
| Loss on extinguishment of debt | (2,747) | — | — | — | (2,747) |
| Other (expense) income, net | (18,798) | 524 | 9 | — | (18,265) |
| (Loss) income before income taxes | (34,206) | (4,712) | 216 | — | (38,702) |
| (Benefit from) provision for income taxes | (13,296) | 12,385 | 75 | — | (836) |
| Equity in (loss) income of subsidiaries | (16,956) | — | — | 16,956 16,956 | — |
| (Loss) income from continuing operations | (37,866) | (17,097) | 141 | 16,956 | (37,866) |
| Loss from discontinued operations | — | (2,078) | (4) | — | (2,082) |
| Equity in (loss) income of subsidiaries | (2,082) | — | — | 2,082 | — |
| Net (loss) income | $(39,948) | $(19,175) | $137 | $19,038 | $(39,948) |

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Three Months Ended March 31, 2011 | | | | | |
| Total revenue | $— | $125,716 | $282 | $(282) | $125,716 |
| Home construction and land sales expenses | 8,279 | 101,241 | — | (282) | 109,238 |
| Inventory impairments and option contract abandonments | 1,409 | 16,413 | — | — | 17,822 |
| Gross (loss) profit | (9,688) | 8,062 | 282 | — | (1,344) |
| Commissions | — | 5,233 | — | — | 5,233 |
| General and administrative expenses | — | 36,036 | 32 | — | 36,068 |
| Depreciation and amortization | — | 2,062 | — | — | 2,062 |
| Operating (loss) income | (9,688) | (35,269) | 250 | — | (44,707) |
| Equity in income of unconsolidated joint ventures | — | 71 | — | — | 71 |

| | | | | | |
|---|---|---|---|---|---|
| Loss on extinguishment of debt | (102) | — | — | — | (102) |
| Other (expense) income, net | (19,058) | 7,575 | 17 | — | (11,466) |
| (Loss) income before income taxes | (28,848) | (27,623) | 267 | — | (56,204) |
| (Benefit from) provision for income taxes | (11,213) | 8,694 | 93 | — | (2,426) |
| Equity in (loss) income of subsidiaries | (36,143) | — | — | 36,143 | — |
| (Loss) income from continuing operations | (53,778) | (36,317) | 174 | 36,143 | (53,778) |
| Income (loss) from discontinued operations | — | 26 | (3) | — | 23 |
| Equity in income (loss) of subsidiaries | 23 | — | — | (23) | — |
| Net (loss) income | $(53,755) | $(36,291) | $ 171 | $36,120 | $(53,755) |

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Beazer Homes USA, Inc.

Unaudited Consolidating Statement of Operations Information
(in thousands)

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Six Months Ended March 31, 2012 | | | | | |
| Total revenue | $— | $380,191 | $460 | $(460) | $380,191 |
| Home construction and land sales expenses | 25,479 | 308,040 | — | (460) | 333,059 |
| Inventory impairments and option contract abandonments | 53 | 4,620 | — | — | 4,673 |
| Gross (loss) profit | (25,532) | 67,531 | 460 | — | 42,459 |
| Commissions | — | 16,746 | — | — | 16,746 |
| General and administrative expenses | — | 54,451 | 62 | — | 54,513 |
| Depreciation and amortization | — | 5,593 | — | — | 5,593 |
| Operating (loss) income | (25,532) | (9,259) | 398 | — | (34,393) |
| Equity in loss of unconsolidated joint ventures | — | (73) | — | — | (73) |
| Loss on extinguishment of debt | (2,747) | — | — | — | (2,747) |
| Other (expense) income, net | (37,914) | 1,357 | 19 | — | (36,538) |
| (Loss) income before income taxes | (66,193) | (7,975) | 417 | — | (73,751) |
| (Benefit from) provision for income taxes | (25,729) | (11,000) | 146 | — | (36,583) |
| Equity in income (loss) of subsidiaries | 3,296 | — | — | (3,296) | — |
| (Loss) income from continuing operations | (37,168) | 3,025 | 271 | (3,296) | (37,168) |
| (Loss) from discontinued operations | — | (2,034) | (7) | — | (2,041) |
| Equity in loss of subsidiaries | (2,041) | — | — | 2,041 | — |
| Net income | $(39,209) | $991 | $264 | $(1,255) | $(39,209) |

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Six Months Ended March 31, 2011 | | | | | |
| Total revenue | $— | $234,668 | $533 | $(533) | $234,668 |
| Home construction and land sales expenses | 15,173 | 191,649 | — | (533) | 206,289 |
| Inventory impairments and option contract abandonments | 1,409 | 17,052 | — | — | 18,461 |
| Gross (loss) profit | (16,582) | 25,967 | 533 | — | 9,918 |
| Commissions | — | 10,223 | — | — | 10,223 |
| General and administrative expenses | — | 68,507 | 64 | — | 68,571 |
| Depreciation and amortization | — | 3,967 | — | — | 3,967 |
| Operating (loss) income | (16,582) | (56,730) | 469 | — | (72,843) |
| | — | 309 | — | — | 309 |

| | | | | | |
|---|---|---|---|---|---|
| Equity in income of unconsolidated joint ventures | | | | | |
| Loss on extinguishment of debt | (3,004) | — | — | — | (3,004) |
| Other (expense) income, net | (37,981) | 8,406 | 44 | — | (29,531) |
| (Loss) income before income taxes | (57,567) | (48,015) | 513 | — | (105,069) |
| (Benefit from) provision for income taxes | (22,376) | 19,178 | 179 | — | (3,019) |
| Equity in (loss) income of subsidiaries | (66,859) | — | — | 66,859 | — |
| (Loss) income from continuing operations | (102,050) | (67,193) | 334 | 66,859 | (102,050) |
| Loss from discontinued operations | — | (507) | (6) | — | (513) |
| Equity in loss of subsidiaries | (513) | — | — | 513 | — |
| Net (loss) income | $(102,563) | $(67,700) | $328 | $67,372 | $(102,563) |

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Beazer Homes USA, Inc.

Unaudited Consolidating Statements of Cash Flow Information
(in thousands)

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Six Months Ended March 31, 2012 | | | | | |
| Net cash (used in) provided by operating activities | $ (102,064) | $ 21,676 | $ 362 | $ — | $ (80,026) |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (12,488) | — | — | (12,488) |
| Investments in unconsolidated joint ventures | — | (810) | — | — | (810) |
| Return of capital from joint ventures | — | 428 | — | — | 428 |
| Increases in restricted cash | (255) | (633) | — | — | (888) |
| Decreases in restricted cash | 551 | — | — | — | 551 |
| Net cash provided by (used in) investing activities | 296 | (13,503) | — | — | (13,207) |
| Cash flows from financing activities: | | | | | |
| Repayment of debt | (2,385) | (514) | — | — | (2,899) |
| Settlement of unconsolidated JV debt obligations | (15,862) | — | — | — | (15,862) |
| Debt issuance costs | (97) | — | — | — | (97) |
| Equity issuance costs | (1,212) | — | — | — | (1,212) |
| Common stock redeemed | (34) | — | — | — | (34) |
| Excess tax benefit from equity-based compensation | (38) | — | — | — | (38) |
| Dividends paid | (1,800) | — | 1,800 | — | — |
| Advances to/from subsidiaries | 15,028 | (13,145) | (1,835) | (48) | — |
| Net cash used in financing activities | (6,400) | (13,659) | (35) | (48) | (20,142) |
| (Decrease) increase in cash and cash equivalents | (108,168) | (5,486) | 327 | (48) | (113,375) |
| Cash and cash equivalents at beginning of period | 360,723 | 10,488 | 418 | (1,226) | 370,403 |
| Cash and cash equivalents at end of period | $ 252,555 | $ 5,002 | $ 745 | $ (1,274) | $ 257,028 |

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Six Months Ended March 31, 2011 | | | | | |
| Net cash (used in) provided by operating activities | $ (14,602) | $ (172,292) | $ 182 | $ — | $ (186,712) |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (5,001) | — | — | (5,001) |
| Investments in unconsolidated joint ventures | — | (1,431) | — | — | (1,431) |
| Increases in restricted cash | (33,742) | (340) | — | — | (34,082) |
| Decreases in restricted cash | 1,894 | 370 | — | — | 2,264 |
| Net cash used in investing activities | (31,848) | (6,402) | — | — | (38,250) |
| Cash flows from financing activities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Repayment of debt | (199,700) | (464) | — | — | (200,164) |
| Proceeds from issuance of new debt | 246,388 | — | — | — | 246,388 |
| Proceeds from issuance of cash secured loan | 32,591 | — | — | — | 32,591 |
| Debt issuance costs | (5,130) | — | — | — | (5,130) |
| Common stock redeemed | (64) | — | — | — | (64) |
| Excess tax benefit from equity-based compensation | (3,584) | — | — | — | (3,584) |
| Advances to/from subsidiaries | (169,519) | 172,118 | 11 | (2,610) | — |
| Net cash (used in) provided by financing activities | (99,018) | 171,654 | 11 | (2,610) | 70,037 |
| (Decrease) increase in cash and cash equivalents | (145,468) | (7,040) | 193 | (2,610) | (154,925) |
| Cash and cash equivalents at beginning of period | 530,847 | 8,343 | 200 | (2,269) | 537,121 |
| Cash and cash equivalents at end of period | $ 385,379 | $ 1,303 | $ 393 | $ (4,879) | $ 382,196 |

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(15) Discontinued Operations

We continually review each of our markets in order to refine our overall investment strategy and to optimize capital and resource allocations in an effort to enhance our financial position and to increase shareholder value. This review entails an evaluation of both external market factors and our position in each market and over time has resulted in the decision to discontinue certain of our homebuilding operations. During the third quarter of fiscal 2011, we decided to discontinue our homebuilding operations in Northwest Florida which has historically been reported in our Southeast segment.

We have classified the results of operations of our discontinued operations in the accompanying unaudited condensed consolidated statements of operations for all periods presented. There were no material assets or liabilities related to our discontinued operations as of March 31, 2012 or September 30, 2011. Discontinued operations were not segregated in the unaudited condensed consolidated statements of cash flows. Therefore, amounts for certain captions in the unaudited con