

BEAZER HOMES USA INC
Form 10-K
November 13, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2012
or

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

Commission File Number 001-12822

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Securities	Exchanges on Which Registered
Common Stock, \$.001 par value per share	New York Stock Exchange
Series A Junior Participating Preferred Stock Purchase Rights	New York Stock Exchange
7.50% Tangible Equity Units	New York Stock Exchange
7.25% Tangible Equity Units	New York Stock Exchange
7½% Mandatory Convertible Subordinated Notes due 2013	New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant (20,239,391 shares, adjusted for the Company's 1-for-5 reverse stock split, which was effective October 11, 2012) as of March 31, 2012, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was \$328,890,101.

Class	Outstanding at November 9, 2012
Common Stock, \$0.001 par value	24,601,830

DOCUMENTS INCORPORATED BY REFERENCE

	Part of 10-K where incorporated
Portions of the registrant's Proxy Statement for the 2012 Annual Meeting of Stockholders	III

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

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 annual report will not be achieved. These forward-looking statements can generally be identified by the use of statements that include words such as “estimate,” “project,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” “go” or other similar words or phrases. All forward-looking statements are based upon information available to us on the date of this annual 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 annual 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. 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:

- economic changes nationally or in local markets, including changes in consumer confidence, declines in employment levels, inflation and increases in the quantity and decreases in the price of new homes and resale homes in the market; a slower economic rebound than anticipated, coupled with persistently high unemployment and additional foreclosures;

- 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;

- a substantial increase in mortgage interest rates, increased disruption in the availability of mortgage financing or a change in tax laws regarding the deductibility of mortgage interest;

- 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 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;

- 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;

- our ability to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;

- estimates related to the potential recoverability of our deferred tax assets;

- 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;

- additional asset impairment charges or writedowns;

- the impact of construction defect and home warranty claims;

- 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;

- the performance of our unconsolidated entities and our unconsolidated entity partners;

- potential exposure related to additional repurchase claims on mortgages and loans originated by Beazer Mortgage Corporation;

• 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

Item 1. Business

We are a geographically diversified homebuilder with active operations in 16 states within three geographic regions in the United States: West, East, and Southeast. Our homes are designed to appeal to homeowners at various price points across various demographic segments and are generally offered for sale in advance of their construction. Our objective is to provide our customers with homes that incorporate exceptional value and quality while seeking to maximize our return on invested capital over time.

Our principal executive offices are located at 1000 Abernathy Road, Suite 260, Atlanta, Georgia 30328, telephone (770) 829-3700. We also provide information about our active communities through our Internet website located at www.beazer.com. Information on our website is not a part of and shall not be deemed incorporated by reference in this report.

Industry Overview and Current Market Conditions

The sale of new homes has been and will likely remain a large industry in the United States for four primary reasons: historical growth in both population and households, demographic patterns that indicate an increased likelihood of home ownership as age and income increase, job creation within geographic markets that necessitate new home construction and consumer demand for home features that can be more easily provided in a new home than an existing home.

In any year, the demand for new homes is closely tied to job growth, the availability and cost of mortgage financing, the supply of new and existing homes for sale and, importantly, consumer confidence. Consumer confidence is perhaps the most important of these demand variables and is the hardest one to predict accurately because it is a function of, among other things, consumers' views of their employment and income prospects, recent and likely future home price trends, localized new and existing home inventory, the level of current and near-term interest and mortgage rates, the availability of consumer credit, valuations in stock and bond markets, and other geopolitical factors. In general, high levels of employment, low mortgage interest rates and low new home and resale inventories contribute to a strong and growing homebuilding market environment.

The supply of new homes within specific geographic markets consists of both new homes built pursuant to pre-sale arrangements and speculative homes (frequently referred to as "spec homes") built by home builders prior to their sale. The ratio of pre-sold to spec homes differs both by geographic market and over time within individual markets based on a wide variety of factors, including the availability of land and lots, access to construction financing, the availability and cost of construction labor and materials, the inventory of existing homes for sale and job growth characteristics.

Over the past few years, we have undertaken numerous actions to allow the Company to generate or conserve liquidity while maintaining a substantial homebuilding presence in large markets. During fiscal 2012, we have taken steps to broaden and deepen our local management teams, reduce our annualized interest expense, further strengthen our balance sheet and improve our existing community performance. We expect to continue this disciplined approach to managing our business and executing our path-to-profitability strategy which is comprised of the following four key components:

- Increase sales (new orders) per community;
- Gradually expand our active communities;
- Leverage our fixed costs; and

Improve homebuilding gross margins as sales per community metrics improve.

We believe that long-term fundamentals for new home construction remain intact and are encouraged by evidence of strengthening conditions in the housing market. After several years of exceptionally weak demand for new homes, the U.S. housing industry showed some signs of improvement during fiscal 2012. Single family starts were up and most major public homebuilders reported significant growth in year-over-year new orders. Prices are up modestly in most of the markets in which we operate and we are pleased with the recent trajectory of our new order and closings results for fiscal 2012.

Long-Term Business Strategy

We have developed a long-term business strategy which focuses on the following elements in order to provide a wide range of homebuyers with quality homes while maximizing returns on our invested capital over the course of a housing cycle:

Geographic Diversification in Growth Markets. We compete in a large number of geographically diverse markets in an attempt to reduce our exposure to any particular regional economy. Within these markets, we build homes in a variety of new home communities. We continually review our selection of markets based on both aggregate demographic information and our own operating results. We use the results of these reviews to re-allocate our investments to those markets where we believe we can maximize our profitability

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and return on capital over the next several years.

Diversity of Product Offerings. Our product strategy further entails addressing the needs of an increasingly diverse profile of home buyers. Within each of our markets we determine the profile of buyers we hope to address and design neighborhoods and homes with the specific needs of those buyers in mind. Depending on the market, we attempt to address one or more of the following types of home buyers: entry-level, move-up or retirement-oriented. Within these buyer groups, we have developed detailed targeted buyer profiles based on demographic and psychographic data including information about their marital and family status, employment, age, affluence, special interests, media consumption and distance moved. Recognizing that our customers want to choose certain components of their new home, we offer limited customization through the use of design studios in most of our markets. These design studios allow the customer to select certain non-structural options for their homes such as cabinetry, flooring, fixtures, appliances and wall coverings.

Differentiated Process. Our strategy has three specific tenets: energy efficiency, personalization and lender choice. We engineer our homes for energy-efficiency, cost savings and comfort. Using the ENERGYSTAR™ standards as our minimum performance criteria, our homes reduce the impact on the environment while decreasing our homebuyers' annual operating costs. In response to consumers' desire to reflect their personal preferences and lifestyle in their homes, we continue to evolve our floor plans based on market opportunity and demand. We create base plans that meet most homebuyers' needs but also give the homebuyer the flexibility to change how the home lives through choices in structural and design options. To address the homebuyers' perceived challenge of securing a mortgage, we facilitate the process by making available a small number of preferred lenders who offer a comprehensive set of mortgage products, competitive rates and outstanding customer service.

Consistent Use of National Brand. Our homebuilding and marketing activities are conducted under the name of Beazer Homes in each of our markets. We believe that the Beazer Homes® trademark has significant value and is an important factor in the marketing of our homebuilding activities and business. We utilize a single brand name across our markets in order to better leverage our national and local marketing activities. Using a single brand has allowed us to execute successful national marketing campaigns and online marketing practices.

Operational Scale Efficiencies. Beyond marketing advantages, we attempt to create both national and local scale efficiencies as a result of the scope of our operations. On a national basis we are able to achieve volume purchasing advantages in certain product categories, share best practices in construction, marketing, planning and design among our markets, respond to telephonic and electronic customer inquiries and leverage our fixed costs in ways that improve profitability. On a local level, while we are not generally the largest builder within our markets, we do attempt to be a major participant within our selected submarkets and targeted buyer profiles. There are further design, construction and cost advantages associated with having strong market positions within particular markets.

Balanced Land Policies. We seek to maximize our return on capital by carefully managing our investment in land. To reduce the risks associated with investments in land, we sometimes use options to control land. We generally do not speculate in land which does not have the benefit of entitlements providing basic development rights to the owner.

Reportable Business Segments

In our homebuilding operations, we design, sell and build single-family and multi-family homes in the following geographic regions which are presented as reportable segments.

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Segment/State	Market(s)/Year Entered
Homebuilding - West:	
Arizona	Phoenix (1993)
California	Los Angeles County (1993), Orange County (1993), Riverside and San Bernardino Counties (1993), San Diego County (1992), Ventura County (1993), Sacramento (1993), Kern County (2005)
Nevada	Las Vegas (1993)
Texas	Dallas/Ft. Worth (1995), Houston (1995)
Homebuilding - East:	
Indiana	Indianapolis (2002)
Maryland/Delaware	Baltimore (1998), Metro-Washington, D.C. (1998), Delaware (2003)
New Jersey/Pennsylvania/New York	Central and Southern New Jersey (1998), Bucks County, PA (1998), Orange County, NY (2011)
Tennessee	Nashville (1987)
Virginia	Fairfax County (1998), Loudoun County (1998), Prince William County (1998)
Homebuilding - Southeast:	
Florida	Tampa/St. Petersburg (1996), Orlando (1997)
Georgia	Atlanta (1985), Savannah (2005)
North Carolina	Raleigh/Durham (1992)
South Carolina	Charleston (1987), Myrtle Beach (2002)

The results of operations of all of the homebuilding markets we have exited over the past few years are reported as discontinued operations in our Consolidated Statements of Operations. Beginning in the second quarter of fiscal 2011, through May 2, 2012, we operated our Pre-Owned Homes business in Arizona and Nevada. Effective May 3, 2012, we contributed our Pre-Owned Homes business for an investment in an unconsolidated entity (see Note 3 for additional information).

Seasonal and Quarterly Variability

Our homebuilding operating cycle generally reflects higher levels of new home order activity in the second and third fiscal quarters and increased closings in the third and fourth fiscal quarters. However, during periods of an economic downturn in the industry such as we have experienced in recent years, decreased revenues and closings as compared to prior periods including prior quarters, will typically reduce seasonal patterns. Specifically, the expiration of the \$8,000 First-time Homebuyer Tax Credit on June 30, 2010 incentivized homebuyers to purchase homes during the first half of fiscal 2010. This resulted in a change to our typical seasonal variations, as we experienced increased closings in our third quarter of fiscal 2010 as compared to our fourth quarter of fiscal 2010 and third quarter of fiscal 2011 or 2012.

Markets and Product Description

We evaluate a number of factors in determining which geographic markets to enter as well as which consumer segments to target with our homebuilding activities. We attempt to anticipate changes in economic and real estate conditions by evaluating such statistical information as the historical and projected growth of the population; the number of new jobs created or projected to be created; the number of housing starts in previous periods; building lot availability and price; housing inventory; level of competition; and home sale absorption rates.

We generally seek to differentiate ourselves from our competition in a particular market with respect to customer service, product type, incorporating energy efficient features, and design and construction quality. We maintain the flexibility to alter our product mix within a given market, depending on market conditions. In determining our product mix, we consider demographic trends, demand for a particular type of product, consumer preferences, margins, timing and the economic strength of the market. Although some of our homes are priced at the upper end of the market, and we offer a selection of amenities and home customization options, we generally do not build “custom homes.” We attempt to maximize efficiency by using standardized design plans whenever possible. In all of our home offerings, we attempt to maximize customer satisfaction by incorporating quality and energy-efficient materials, distinctive design features, convenient locations and competitive prices.

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The following table summarizes certain operating information of our reportable homebuilding segments and our discontinued homebuilding operations as of and for the fiscal years ended September 30, 2012, 2011 and 2010. Please see “Management's Discussion and Analysis of Results of Operations and Financial Condition” in Item 7 below for additional information.

(\$ in thousands)	2012		2011		2010	
	Number of Homes Closed	Average Closing Price	Number of Homes Closed	Average Closing Price	Number of Homes Closed	Average Closing Price
West	1,883	\$205.3	1,115	\$195.9	1,777	\$203.0
East	1,506	266.8	1,316	258.1	1,729	258.5
Southeast	1,039	199.9	818	189.0	915	190.4
Continuing Operations	4,428	\$224.9	3,249	\$219.4	4,421	\$222.1
Discontinued Operations	19	\$219.6	101			