BEAZER HOMES USA INC
Form 10-Q
July 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016
or

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

Commission File Number 001-12822

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

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

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

Class	Outstanding at July 25, 2016
Common Stock, $0.001 par value	33,083,145

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (Form 10-Q) contains forward-looking statements. These forward-looking statements represent our expectations or beliefs concerning future results, and it is possible that the results described in this Form 10-Q will not be achieved. These forward-looking statements can generally be identified by the use of statements that include words such as “estimate,” “project,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “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 Form 10-Q.

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this Form 10-Q in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A— Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015. These factors are not intended to be an all-inclusive list of risks and uncertainties that may affect the operations, performance, development and results of our business, but instead are the risks that we currently perceive as potentially being material. Such factors include:

- economic changes nationally or in local markets, changes in consumer confidence, declines in employment levels, inflation or increases in the quantity and decreases in the price of new homes and resale homes on the market;
- the cyclical nature of the homebuilding industry and a potential deterioration in homebuilding industry conditions;
- factors affecting margins, such as decreased land values underlying land option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce our production and overhead cost structure;
- our cost of and ability to access capital, due to factors such as limitations in the capital markets or adverse credit market conditions, and otherwise meet our ongoing liquidity needs, including the impact of any downgrades of our credit ratings or reductions in our tangible net worth or liquidity levels;
- our ability to reduce our outstanding indebtedness and to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;
- the availability and cost of land and the risks associated with the future value of our inventory, such as additional asset impairment charges or writedowns;
- estimates related to homes to be delivered in the future (backlog) are imprecise, as they are subject to various cancellation risks that cannot be fully controlled;
- shortages of or increased prices for labor, land or raw materials used in housing production and the level of quality and craftsmanship provided by our subcontractors;
- a substantial increase in mortgage interest rates, increased disruption in the availability of mortgage financing, a change in tax laws regarding the deductibility of mortgage interest for tax purposes or an increased number of foreclosures;
- increased competition or delays in reacting to changing consumer preferences in home design;
- continuing severe weather conditions or other related events could result in delays in land development or home construction, increase our costs or decrease demand in the impacted areas;
- estimates related to the potential recoverability of our deferred tax assets;
- potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations or governmental policies, and possible penalties for failure to comply with such laws, regulations or governmental policies, including those related to the environment;
- the results of litigation or government proceedings and fulfillment of the obligations in the consent orders with governmental authorities and other settlement agreements;
- the impact of construction defect and home warranty claims, including water intrusion issues in Florida;
- the cost and availability of insurance and surety bonds;
- the performance of our unconsolidated entities and our unconsolidated entity partners;

- the impact of information technology failures or data security breaches;
- terrorist acts, natural disasters, acts of war or other factors over which the Company has little or no control; or
- the impact on homebuilding in key markets of governmental regulations limiting the availability of water.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2016	September 30, 2015
ASSETS		
Cash and cash equivalents	$127,209	$251,583
Restricted cash	18,846	38,901
Accounts receivable (net of allowance of $866 and $1,052, respectively)	65,905	52,379
Income tax receivable	221	419
Owned inventory	1,731,850	1,697,590
Investments in unconsolidated entities	9,361	13,734
Deferred tax assets, net	324,763	325,373
Property and equipment, net	21,008	22,230
Other assets	19,464	18,994
Total assets	$2,318,627	$2,421,203
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$109,449	$113,539
Other liabilities	138,319	148,966
Total debt (net of discounts of $4,819 and $3,639, respectively)	1,429,483	1,528,275
Total liabilities	1,677,251	1,790,780
Stockholders' equity:		
Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued)	—	—
Common stock (par value $0.001 per share, 63,000,000 shares authorized, 33,083,145 issued and outstanding and 32,660,583 issued and outstanding, respectively)	33	33
Paid-in capital	862,959	857,553
Accumulated deficit	(221,616)	(227,163)
Total stockholders' equity	641,376	630,423
Total liabilities and stockholders' equity	$2,318,627	$2,421,203

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Total revenue	$459,937	$429,438	$1,189,993	$994,561
Home construction and land sales expenses	370,367	353,081	980,094	829,073
Inventory impairments and abandonments	11,917	249	15,098	249
Gross profit	77,653	76,108	194,801	165,239
Commissions	17,500	17,246	45,856	40,141
General and administrative expenses	40,457	37,669	111,024	101,837
Depreciation and amortization	3,387	3,497	9,434	8,619
Operating income	16,309	17,696	28,487	14,642
Equity in income of unconsolidated entities	62	153	71	377
Gain (loss) on extinguishment of debt	429	—	(2,030)	—
Other expense, net	(5,344)	(5,763)	(18,467)	(23,670)
Income (loss) from continuing operations before income taxes	11,456	12,086	8,061	(8,651)
Expense (benefit) from income taxes	5,349	(135)	2,067	(726)
Income (loss) from continuing operations	6,107	12,221	5,994	(7,925)
Loss from discontinued operations, net of tax	(325)	(46)	(447)	(4,236)
Net income (loss)	$5,782	$12,175	$5,547	$(12,161)
Weighted average number of shares:				
Basic	31,813	26,482	31,793	26,473
Diluted	31,820	31,800	31,797	26,473
Basic income (loss) per share:				
Continuing operations	$0.19	$0.46	$0.19	$(0.30)
Discontinued operations	$(0.01)	$—	$(0.01)	$(0.16)
Total	$0.18	$0.46	$0.18	$(0.46)
Diluted income (loss) per share:				
Continuing operations	$0.19	$0.38	$0.19	$(0.30)
Discontinued operations	$(0.01)	$—	$(0.01)	$(0.16)
Total	$0.18	$0.38	$0.18	$(0.46)

Consolidated Statement of Comprehensive Income (Loss)				
Net income (loss)	$5,782	$12,175	$5,547	$(12,161)
Other comprehensive income (loss), net of income tax:				
Change in unrealized loss related to available-for-sale securities	—	—	—	1,276
Comprehensive income (loss)	$5,782	$12,175	$5,547	$(10,885)

See Notes to Unaudited Consolidated Financial Statements.

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

	Nine Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income (loss)	$5,547	$(12,161)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	9,434	8,619
Stock-based compensation expense	5,844	4,546
Inventory impairments and abandonments	15,098	249
Deferred and other income tax expense (benefit)	619	(731)
Gain on sale of fixed assets	(893)	—
Change in allowance for doubtful accounts	(186)	47
Equity in (income) loss of unconsolidated entities and marketable securities	(71)	1,453
Cash distributions of income from unconsolidated entities and marketable securities	99	99
Non-cash loss on extinguishment of debt	155	—
Changes in operating assets and liabilities:		
Increase in accounts receivable	(13,340)	(10,500)
Decrease (increase) in income tax receivable	198	(216)
Increase in inventory	(35,298)	(245,169)
Increase in other assets	(1,405)	(2,287)
(Decrease) increase in trade accounts payable	(4,090)	20,826
Decrease in other liabilities	(12,580)	(2,716)
Other changes	—	(199)
Net cash used in operating activities	(30,869)	(238,140)
Cash flows from investing activities:		
Capital expenditures	(9,718)	(11,756)
Proceeds from sale of fixed assets	2,549	—
Investments in unconsolidated entities	(3,138)	(2,651)
Return of capital from unconsolidated entities and marketable securities	1,142	24,245
Increases in restricted cash	(4,679)	(3,806)
Decreases in restricted cash	24,734	28,936
Net cash provided by investing activities	10,890	34,968
Cash flows from financing activities:		
Repayment of debt	(239,312)	(11,934)
Proceeds from issuance of new debt	137,900	—
Repayment of borrowings from credit facility	(50,000)	(30,000)
Borrowings from credit facility	50,000	50,000
Debt issuance costs	(2,545)	(126)
Other financing activities	(438)	(170)
Net cash (used in) provided by financing activities	(104,395)	7,770
Decrease in cash and cash equivalents	(124,374)	(195,402)
Cash and cash equivalents at beginning of period	251,583	324,154
Cash and cash equivalents at end of period	$127,209	$128,752

See Notes to Unaudited Consolidated Financial Statements.

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

(1) Description of Business

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

For an additional description of our business, refer to Item 1 within our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (2015 Annual Report).

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

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such unaudited financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments (consisting primarily of normal recurring adjustments) necessary for a fair presentation have been included in the accompanying unaudited financial statements. The results of our consolidated operations presented herein for the three and nine months ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year due to seasonal variations in our operations and other items. For further information and a discussion of our significant accounting policies other than as discussed below, refer to Note 2 to the audited consolidated financial statements within our 2015 Annual Report.

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

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

Our fiscal 2016 began on October 1, 2015 and ends on September 30, 2016. Our fiscal 2015 began on October 1, 2014 and ended on September 30, 2015. Our fiscal 2014 began on October 1, 2013 and ended on September 30, 2014.

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

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

Inventory Valuation. We assess our inventory assets no less than quarterly for recoverability in accordance with the policies described in Notes 2 and 5 to the audited consolidated financial statements within our 2015 Annual Report. Our homebuilding inventories that are accounted for as held for development (development projects in progress) include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. For those communities that have been idled (land held for future development), all applicable interest and real estate taxes are expensed as incurred, and the inventory is stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We record assets held for sale at the lower of the carrying value or fair value less costs to sell.

Recent Accounting Pronouncements.

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU

2014-09 requires entities to recognize revenue at an amount that the entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under the existing revenue recognition guidance. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for one year, which makes the guidance effective for the Company's first fiscal year beginning after December 15, 2017. Additionally, the FASB is permitting entities to early adopt the

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standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of ASU 2014-09 on our consolidated financial statements and have been involved in industry-specific discussions with the FASB on the treatment of certain items.

Presentation of Debt Issuance Costs. In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 requires debt issuance costs to be presented on the balance sheet as a direct deduction from the related debt liability, similar to the presentation of debt discounts or premiums. Additionally, in August 2015, the FASB issued related guidance in ASU 2015-15 pertaining to debt issuance costs incurred in connection with line-of-credit arrangements, which states that an objection would not be made to an entity deferring such costs and continuing to present them as an asset until the costs are amortized ratably over the term of the line-of-credit agreement. In all cases, debt issuance costs will continue to be amortized to interest expense. ASU 2015-03 requires retrospective application to all prior periods presented in the financial statements. Upon transition, an entity is required to comply with the applicable disclosures for a change in accounting principle. The guidance within ASU 2015-03 will be effective for the Company's first fiscal year beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. We only expect our balance sheet presentation of debt issuance costs that are not related to line-of-credit agreements to change as a result of the adoption of this guidance.

Leases. In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires lessees to record most leases on their balance sheets. The timing and classification of lease-related expenses for lessees will depend on whether a lease is determined to be a finance lease or an operating lease using updated criteria within ASU 2016-02. Operating leases will result in straight-line expense (similar to current operating leases), while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Regardless of lease type, the lessee will recognize a right-of-use asset, representing the right to use the identified asset during the lease term, and a related lease liability, representing the present value of the lease payments over the lease term. Lessor accounting will be largely similar to that under the current lease accounting rules. The guidance within ASU 2016-02 will be effective for the Company's first fiscal year beginning after December 15, 2018, with early adoption permitted. ASU 2016-02 must be adopted using a modified retrospective approach, which requires application of the standard at the beginning of the earliest comparative period presented, with certain optional practical expedients. ASU 2016-02 also requires significantly enhanced disclosures around an entity's leases and the related accounting. We are currently evaluating the impact of ASU 2016-02 on our consolidated financial statements.

Stock Compensation. In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (ASU 2016-09). ASU 2016-09 simplifies several aspects of accounting for employee stock-based compensation transactions. First, ASU 2016-09 requires that all tax benefits and deficiencies related to share-based payments be recorded as income tax expense in the income statement, thereby eliminating the concept of the “APIC pool” contained in current guidance. This change is required to be applied prospectively to all excess tax benefits (“windfalls”) and tax deficiencies (“shortfalls”) resulting from settlements after the date of the adoption of the ASU. Second, ASU 2016-09 permits entities to make an election to either estimate forfeitures or recognize them when they occur. If elected, the change to recognize forfeitures when they occur needs to be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to opening retained earnings. Third, ASU 2016-09 modifies the current exception to liability classification of an award when the employer withholds shares to meet tax withholding requirements. Finally, the classification of certain transactions related to share-based payments within the statement of cash flows is clarified within the ASU. The guidance within ASU 2016-09 will be effective for the Company's first fiscal year beginning after December 15, 2016. We are currently evaluating the impact of ASU 2016-09 on our consolidated financial statements, but do not expect a material impact upon adoption.

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(3) Supplemental Cash Flow Information

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

(In thousands)	Nine Months Ended June 30, 2016	2015
Supplemental disclosure of non-cash activity:		
Decrease in obligations related to land not owned under option agreements	$ —	$ (2,916)
Non-cash land acquisitions [(a)]	8,216	12,904
Non-cash capital expenditure	—	674
Supplemental disclosure of cash activity:		
Interest payments	95,916	91,434
Income tax payments	1,214	479
Tax refunds received	198	—

[(a)] For the nine months ended June 30, 2016, non-cash land acquisitions were comprised of lot takedowns from one of our unconsolidated land development joint ventures. For the nine months ended June 30, 2015, non-cash land acquisitions were comprised of $7.8 million related to non-cash seller financing and $5.1 million in lot takedowns from one of our unconsolidated land development joint ventures.

(4) Investments in Marketable Securities and Unconsolidated Entities

Marketable Securities

During the fourth quarter of our fiscal 2014, the Company acquired shares of American Homes 4 Rent (AMH) in exchange for the Company's interest in a real estate investment trust (REIT). The shares represented marketable equity securities with a readily available fair value and were classified as available-for-sale securities. In March 2015, the Company sold the shares and recorded a loss of $1.8 million (approximately $0.5 million of which was attributable to fair value changes in our fiscal 2015) that was recorded within other expense, net in our unaudited consolidated statements of income. During the nine months ended June 30, 2015, the Company recorded an unrealized gain of $1.3 million, which was reflected in other comprehensive income (loss), representing a reduction of the overall loss incurred on the securities since acquired.

Unconsolidated Entities

As of June 30, 2016, we participated in certain joint ventures and other unconsolidated entities in which Beazer had less than a controlling interest. The following table presents our investment in these unconsolidated entities, as well as the total equity and outstanding borrowings of these unconsolidated entities as of June 30, 2016 and September 30, 2015:

(In thousands)	June 30, 2016	September 30, 2015
Beazer’s investment in unconsolidated entities	$ 9,361	$ 13,734
Total equity of unconsolidated entities	31,096	52,118
Total outstanding borrowings of unconsolidated entities	16,146	12,206

For the three and nine months ended June 30, 2016 and 2015, there were no impairments related to our investments in these unconsolidated entities.

Our equity in income from unconsolidated entity activities is as follows for the periods presented:

(In thousands)	Three Months Ended June 30, 2016	2015	Nine Months Ended June 30, 2016	2015
Equity in income of unconsolidated entities	$ 62	$ 153	$ 71	$ 377

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South Edge/Inspirada. During our fiscal 2014, we and other members of the Inspirada joint venture (Inspirada) received land in exchange for our investment in Inspirada. During our fiscal 2015, we paid $3.3 million to the joint venture related to infrastructure and development costs. In the current fiscal year, we paid additional amounts, bringing our remaining obligation for our portion of future infrastructure and other development costs to $1.1 million as of June 30, 2016.

Guarantees. Our joint ventures typically obtain secured acquisition, development and construction financing. Historically, Beazer and our joint venture partners have provided varying levels of guarantees of debt and other debt-related obligations for these unconsolidated entities. However, as of June 30, 2016 and September 30, 2015, we had no outstanding guarantees or other debt-related obligations related to our investments in unconsolidated entities.

We and our joint venture partners generally provide unsecured environmental indemnities to land development joint venture project lenders. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the three and nine months ended June 30, 2016 and 2015, we were not required to make any payments related to environmental indemnities.

In assessing the need to record a liability for the contingent aspect of these guarantees, we consider our historical experience in being required to perform under the guarantees, the fair value of the collateral underlying these guarantees and the financial condition of the applicable unconsolidated entities. In addition, we monitor the fair value of the collateral of these unconsolidated entities to ensure that the related borrowings do not exceed the specified percentage of the value of the property securing the borrowings. We have not recorded a liability for the contingent aspects of any guarantees that we determined were reasonably possible but not probable.

(5) Inventory

The components of our owned inventory are as follows as of June 30, 2016 and September 30, 2015:

(In thousands)	June 30, 2016	September 30, 2015
Homes under construction	$520,313	$ 377,281
Development projects in progress	736,587	809,900
Land held for future development	221,148	270,990
Land held for sale	38,791	44,555
Capitalized interest	142,398	123,457
Model homes	72,613	71,407
Total owned inventory	$1,731,850	$ 1,697,590

Homes under construction include homes substantially finished and ready for delivery and homes in various stages of construction. We had 172 (with a cost of $47.3 million) and 128 (with a cost of $40.1 million) substantially completed homes that were not subject to a sales contract (spec homes) as of June 30, 2016 and September 30, 2015, respectively. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a customer deposit or sales contract. Land held for future development consists of communities for which construction and development activities are expected to occur in the future or have been idled, and are stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. All applicable interest and real estate taxes on land held for future development are expensed as incurred. Land held for sale is recorded at the lower of the carrying value or fair value less costs to sell. The amount of interest we are able to capitalize is dependent upon our qualified inventory balance, which considers the status of our inventory holdings. Our qualified inventory balance includes the majority of our homes under construction and development projects in progress, but excludes land held for future development and land held for sale (refer to Note 6 for additional information on capitalized interest).

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Total owned inventory, by reportable segment, is presented by category in the table below as of June 30, 2016 and September 30, 2015:

(In thousands)	Projects in Progress [a]		Land Held for Future Development	Land Held for Sale	Total Owned Inventory
June 30, 2016					
West Segment	$651,000		$ 180,233	$ 5,413	$836,646
East Segment	316,779		29,918	26,339	373,036
Southeast Segment	309,886		10,997	5,939	326,822
Corporate and unallocated	194,246	[b]	—	1,100	195,346
Total	$1,471,911		$ 221,148	$ 38,791	$1,731,850
September 30, 2015					
West Segment	$583,210		$ 230,778	$ 6,941	$820,929
East Segment	353,054		29,280	30,927	413,261
Southeast Segment	277,351		10,932	5,587	293,870
Corporate and unallocated	168,430	[b]	—	1,100	169,530
Total	$1,382,045		$ 270,990	$ 44,555	$1,697,590

[a] Projects in progress include homes under construction, development projects in progress, capitalized interest and model home categories from the preceding table.
[b] Includes capitalized interest and indirect costs that are maintained within Corporate and unallocated.

Inventory Impairments. When conducting our community level review for the recoverability of our inventory related to projects in progress, we establish a quarterly “watch list” of communities that carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability, as well as recent closings that have gross margins less than a specific threshold. Each community is first evaluated qualitatively to determine if there are temporary factors driving the low profitability levels. Following our qualitative evaluation, communities with more than 10 homes remaining to close are subjected to substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to profit margins below our watch list threshold. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. For certain communities, we determine that it is prudent to reduce sales prices or further increase sales incentives in response to a variety of factors, including competitive market conditions in those specific submarkets for the product and location of these communities. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information. Market deterioration that exceeds our initial estimates may lead us to incur impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if markets deteriorate. For the quarter ended June 30, 2016, there were three communities on our watch list, two in our West segment and the other in our East segment, that required further analysis to be performed after considering the number of lots remaining in each community and certain other qualitative factors. This additional analysis led to an impairment charge for two of these communities, principally due to a reduction in price taken at each community that is other than temporary based on current competitive and market dynamics. For the quarter ended June 30, 2015, there were no communities on our quarterly watch list and therefore no further impairment analysis was performed.

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The table below summarizes the results of our undiscounted cash flow analysis by reportable segment, where applicable, for the quarter ended June 30, 2016:

($ in thousands)		Undiscounted Cash Flow Analyses Prepared			
Segment [(a)]	# of Communities on Watch List [(b)]	# of Communities	Pre-analysis Book Value (BV)	Aggregate Undiscounted Cash Flow as a % of BV [(c)]	
Three Months Ended June 30, 2016					
West	2	2	$ 22,969	124.0	%
East	1	1	22,469	88.5	%
Corporate and unallocated [(d)]	—	—	2,794	N/A [(e)]	
Total	3	3	$ 48,232		

(a) 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.
(b) Totals in this column exclude communities that are closing out (and have less than 10 closings remaining), as well as communities that are excluded due to certain qualitative considerations that would imply that low profitability levels are temporary in nature.
(c) An aggregate undiscounted cash flow as a percentage of book value under 100% would indicate a possible impairment and is consistent with our “watch list” methodology. While this metric for the communities in the West segment was above 100% for the current quarter in total, the community that we ultimately impaired was below 100%, while the community we did not impair was above 100%.
(d) Amount represents capitalized interest and indirects balance related to the communities for which an undiscounted cash flow analysis was prepared. Capitalized interest and indirects are maintained within our Corporate and unallocated segment.
(e) N/A - not applicable.

The following table presents, by reportable segment, details around the impairment charges taken on projects in progress for the three and nine months ended June 30, 2016:

($ in thousands)	Three Months Ended June 30, 2016				Nine Months Ended June 30, 2016			
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
West	1	179	$ 5,216	$ 10,827	2	213	$ 6,729	$ 16,345
East	1	78	5,894	18,073	1	78	5,894	18,073
Corporate and unallocated [(a)]	—	—	789	—	—	—	1,101	—
Total	2	257	$ 11,899	$ 28,900	3	291	$ 13,724	$ 34,418

(a) Amount represents capitalized interest and indirects balance that was impaired. Capitalized interest and indirects are maintained within our Corporate and unallocated segment.

The following table presents the ranges or values of significant quantitative unobservable inputs we used in determining the fair value of the communities we impaired during the periods presented:

	Three Months Ended June 30,		Nine Months Ended June 30,	
Unobservable Inputs	2016	2015	2016	2015
Average selling price (in thousands)	$355 - $560	—	$355 - $560	—
Closings per community per month	2 - 4	—	2 - 4	—

Discount rate	14.15	% —	14.15% - 15.33%	—

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

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calculate the estimated fair value of land held for sale based on current market conditions and assumptions made by management, which may differ materially from actual results and may result in additional impairments if market conditions deteriorate.

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

The following table presents, by reportable segment, our total impairment and abandonment charges for the periods presented:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Projects in Progress:				
West	$5,216	$—	$6,729	$—
East	5,894	—	5,894	—
Corporate and unallocated	789	—	1,101	—
Total impairment charges on projects in progress	$11,899	$—	$13,724	$—
Land Held for Sale:				
East	$18	$249	$215	$249
Southeast	—	—	371	—
Total impairment charges on land held for sale	$18	$249	$586	$249
Abandonments:				
Southeast	$—	$—	$788	$—
Total impairment and abandonment charges	$11,917	$249	$15,098	$249

Lot Option Agreements and Variable Interest Entities (VIEs). As previously discussed, we also have access to land inventory through lot option contracts, which generally enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our lot option. The majority of our lot option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land for the right to acquire lots during a specified period of time at a specified price. Under lot option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our liability under option contracts is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred. We expect to exercise, subject to market conditions and seller satisfaction of contract terms, most of our remaining option contracts. Various factors, some of which are beyond our control, such as market conditions, weather conditions and the timing of the completion of development activities, will have a significant impact on the timing of option exercises or whether lot options will be exercised at all.

The following table provides a summary of our interests in lot option agreements as of June 30, 2016 and September 30, 2015:

(In thousands)	Deposits & Non-refundable Pre-acquisition Costs Incurred	Remaining Obligation
As of June 30, 2016		

Unconsolidated lot option agreements	$ 76,968	$ 438,498
As of September 30, 2015		
Unconsolidated lot option agreements	$ 51,475	$ 420,070

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(6) Interest

Our ability to capitalize interest incurred during the three and nine months ended June 30, 2016 and 2015 was limited by our inventory eligible for capitalization. The following table presents certain information regarding interest for the periods presented:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Capitalized interest in inventory, beginning of period	$140,139	$112,476	$123,457	$87,619
Interest incurred	28,758	30,748	89,313	91,290
Capitalized interest impaired	(626)	—	(710)	—
Interest expense not qualified for capitalization and included as other expense [a]	(5,406)	(5,954)	(19,471)	(23,396)
Capitalized interest amortized to house construction and land sales expenses [b]	(20,467)	(13,558)	(50,191)	(31,801)
Capitalized interest in inventory, end of period	$142,398	$123,712	$142,398	$123,712

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

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

(7) Borrowings

As of June 30, 2016 and September 30, 2015, we had the following debt, net of discounts:

(In thousands)	Maturity Date	June 30, 2016	September 30, 2015
8 1/8% Senior Notes	June 2016	$—	$ 170,879
6 5/8% Senior Secured Notes	April 2018	300,000	300,000
9 1/8% Senior Notes	May 2019	215,925	235,000
5 3/4% Senior Notes	June 2019	321,393	325,000
7 1/2% Senior Notes	September 2021	200,000	200,000
7 1/4% Senior Notes	February 2023	200,000	200,000
Unamortized debt discounts		(3,069)	(3,639)
Total Senior Notes, net		$1,234,249	$ 1,427,240
Term Loan (net of unamortized discount of $1,750)	March 2018	120,750	—
Junior Subordinated Notes (net of unamortized accretion of $41,420 and $42,970, respectively)	July 2036	59,353	57,803
Cash Secured Loans	Not Applicable	—	22,368
Other Secured Notes payable	Various Dates	15,131	20,864
Total debt, net		$1,429,483	$ 1,528,275

Secured Revolving Credit Facility. Our Secured Revolving Credit Facility (the Facility) provides us with working capital and letter of credit capacity. On November 6, 2015, we executed a Second Amendment (the Second Amendment) to our Second Amended and Restated Credit Agreement originally dated September 24, 2012. The Second Amendment, among other things, increased the maximum aggregate amount of the Facility from $130.0 million to $145.0 million and extended its termination date to January 15, 2018. The Facility continues to be with three lenders. As of June 30, 2016 and September 30, 2015, we had no borrowings outstanding under the Facility.

The Facility allows us to issue letters of credit against the undrawn capacity. Subject to our option to cash collateralize our obligations under the Facility upon certain conditions, our obligations under the Facility are secured by liens on substantially all of our personal property and a significant portion of our owned real property. We have also pledged

approximately $1 billion of inventory assets to the Facility to collateralize potential future borrowings or letters of credit (in addition to the letters of credit already issued under the Facility). As of June 30, 2016, we had $29.9 million in letters of credit outstanding under the Facility,
leaving us with $115.1 million in remaining capacity. The Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. As of June 30, 2016, we were in compliance with all such covenants.
Letter of Credit Facilities. We have entered into stand-alone, cash-secured letter of credit agreements with banks to maintain our pre-existing letters of credit and to provide for the issuance of new letters of credit (in addition to the letters of credit issued under the Facility). As of June 30, 2016 and September 30, 2015, we had letters of credit outstanding under these additional facilities of $15.6 million and $14.4 million, respectively, all of which were secured by cash collateral in restricted accounts. The Company may enter into additional arrangements to provide further letter of credit capacity.
Senior Notes. Our Senior Notes are unsecured 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 Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes. See Note 15 for further information.
The Company's Senior Notes are issued under indentures that contain certain restrictive covenants which, among other things, restrict our ability to pay dividends, repurchase our common stock, incur additional indebtedness and to make certain investments. Specifically, the majority of our Senior Notes contain covenants that restrict our ability to incur additional indebtedness unless it is refinancing indebtedness, non-recourse indebtedness and certain other allowed indebtedness. The incurrence of refinancing indebtedness and non-recourse indebtedness, as defined in the applicable indentures, is exempted from the covenant test. Compliance with our Senior Note covenants does not significantly impact our operations. We were in compliance with the covenants contained in the indentures of all of our Senior Notes as of June 30, 2016.
All unsecured Senior Notes rank equally in right of payment with all of our existing and future senior unsecured obligations, senior to all of the Company's existing and future subordinated indebtedness and effectively subordinated to the Company's existing and future secured indebtedness, including indebtedness under the Facility, the Term Loan (defined below) and our 6.625% Senior Secured Notes due April 2018, to the extent of the value of the assets securing such indebtedness. The unsecured Senior Notes and related guarantees are structurally subordinated to all indebtedness and other liabilities of all of the Company's subsidiaries that do not guarantee these notes. The unsecured Senior Notes are fully and unconditionally guaranteed jointly and severally on a senior basis by the Company's wholly-owned subsidiaries party to each applicable indenture.
The table below summarizes the redemption terms for our Senior Notes:

Senior Note Description	Issuance Date	Maturity Date	Redemption Terms
6 5/8% Senior Secured Notes	July 2012	April 2018	Callable at any time, in whole or in part, at a set redemption price equal to 101.656% of the principal amount
9 1/8% Senior Notes	November 2010	May 2019	Callable at any time prior to November 15, 2016, in whole or in part, at a redemption price equal to 102.281% of the principal amount; redeemable after November 15, 2016 at par
5 3/4% Senior Notes	April 2014	June 2019	Callable at any time before March 15, 2019, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium
7 1/2% Senior Notes	September 2013	September 2021	Callable at any time prior to September 15, 2016, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; after September 15, 2016, callable at a redemption price equal to 105.625% of the principal amount; after September 15, 2017, callable at a redemption price equal to 103.75% of the principal amount; after September 15, 2018, callable at a redemption price equal to 101.875% of the principal amount

7 1/4% Senior Notes	February 2013	February 2023	Callable at any time prior to February 1, 2018, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; after February 1, 2018, callable at a redemption price equal to 103.625% of the principal amount; after February 1, 2019, callable at a redemption price equal to 102.41% of the principal amount; after February 1, 2020, callable at a redemption price equal to 101.208% of the principal amount

During the current quarter, we redeemed $9.3 million and $3.0 million of our Senior Notes due May 2019 and June 2019, respectively. This debt repurchase activity resulted in a gain on extinguishment of debt of $0.4 million during the three months ended June 30, 2016.

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During the nine months ended June 30, 2016, we redeemed our remaining Senior Notes due 2016 (the 2016 Notes) outstanding, mainly by utilizing the proceeds received from the term loan issued during the current fiscal year, which is discussed below. We also redeemed $19.1 million and $3.6 million of our Senior Notes due May 2019 and June 2019, respectively. This debt repurchase activity resulted in a total net loss on extinguishment of debt of $2.0 million for the nine months ended June 30, 2016.

Term Loan. On March 11, 2016, we entered into a credit agreement (the Credit Agreement) that provided us with a $140 million, two-year secured term loan (the Term Loan). The Term Loan requires quarterly principal payments of $17.5 million starting on June 30, 2016, the first payment of which was paid during the current quarter, and bears interest at the London Interbank Offered Rate (LIBOR) plus 550 basis points. The proceeds from the Term Loan were used to fund the redemption of the 2016 Notes. The Term Loan will mature and all remaining amounts outstanding thereunder will be due and payable on March 11, 2018, but can be pre-paid at any time without penalty.

Substantially all of our subsidiaries are guarantors of the obligations under the Credit Agreement. Collectively, we granted security interests and mortgage liens on substantially all of our tangible and intangible assets on a second lien basis, with such security interests and liens ranking equal in priority to those granted as security for our 6.625% Senior Secured Notes due April 2018.

The Credit Agreement contains covenants which, subject to certain exceptions, limit the ability of the Company and its restricted subsidiaries (as defined in the Credit Agreement) to, among other things, incur additional indebtedness, engage in certain asset sales, make certain types of restricted payments and create liens on assets of the Company or its restricted subsidiaries; these covenants are similar to existing covenants under our Senior Notes. In addition, the Credit Agreement requires that the Company’s inventory (as defined in the Credit Agreement) to be no less than $1.25 billion as of the last day of any fiscal quarter. The Credit Agreement also includes customary events of default, including, but not limited to, the failure to pay any interest, principal or fees when due; the failure to perform or the violation of any covenant or agreement; inaccurate or false representations or warranties; a default on other material indebtedness, insolvency or bankruptcy; a change of control; and the occurrence of certain material judgments against the Company. As of June 30, 2016, we were in compliance with all such covenants.

Junior Subordinated Notes. Our unsecured junior subordinated notes (Junior Subordinated Notes) in the amount of $103.1 million mature on July 30, 2036. The Junior Subordinated Notes are redeemable at par and pay interest at a fixed rate of 7.987% for the first 10 years ending July 30, 2016. Thereafter, the securities have a floating interest rate as defined in the Junior Subordinated Notes Indenture; based on current interest rates, we expect the floating interest rate to be lower than our current fixed rate. The obligations relating to these notes are subordinated to the Facility and the Senior Notes. In January 2010, we modified the terms of $75.0 million of these notes and recorded them at their then estimated fair value. Over the remaining life of the Junior Subordinated Notes, we will increase their carrying value until this carrying value equals the face value of the notes. As of June 30, 2016, the unamortized accretion was $41.4 million and will be amortized over the remaining life of the notes. As of June 30, 2016, we were in compliance with all covenants under our Junior Subordinated Notes.

Cash Secured Loans. In March 2016, we redeemed the entire balance of our cash secured loan facilities using the cash that fully secured the borrowings under these facilities. This secured cash was reflected as restricted cash on our consolidated balance sheets.

Other Secured Notes Payable. We periodically acquire land through the issuance of notes payable. As of June 30, 2016 and September 30, 2015, we had outstanding secured notes payable of $15.1 million and $20.9 million, respectively, primarily related to these land acquisitions. The secured notes payable related to land acquisitions have varying expiration dates between 2016 and 2019 and have a weighted average fixed interest rate of 3.27% as of June 30, 2016. These notes are secured by the real estate to which they relate.

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

(8) Contingencies

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

Warranty Reserves. We currently provide a limited warranty (ranging from one to two years) covering workmanship and materials per our defined performance quality standards. In addition, we provide a limited warranty (generally ranging from a minimum of

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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.

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

Our warranty reserves are included in other liabilities on our unaudited consolidated balance sheets and the provision for warranty accruals is included in home construction expenses in our unaudited consolidated statements of income. We record reserves covering anticipated warranty expense for each home we close. Management reviews the adequacy of warranty reserves each reporting period based on historical experience and management's estimate of the costs to remediate the claims and adjusts these provisions accordingly. Our review includes a quarterly analysis of the historical data and trends in warranty expense by division. An analysis by division allows us to consider market specific factors such as our warranty experience, the number of home closings, the prices of homes, product mix and other data in estimating our warranty reserves. In addition, our analysis also contemplates the existence of any non-recurring or community-specific warranty-related matters that might not be included in our historical data and trends. While we adjust our estimated warranty liabilities each reporting period to the extent required as a result of our quarterly analyses, historical data and trends may not accurately predict actual warranty costs which could lead to a significant change in the reserve.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Balance at beginning of period	$ 40,903	$ 28,794	$ 27,681	$ 16,084
Accruals for warranties issued [a]	3,567	2,935	9,269	6,090
Changes in liability related to warranties existing in prior periods [b]	11,148	7,058	41,801	27,813
Payments made [b]	(15,028)	(7,963)	(38,161)	(19,163)
Balance at end of period	$ 40,590	$ 30,824	$ 40,590	$ 30,824

[a] Accruals for warranties issued are a function of the number of home closings in the period, the average selling prices of the homes closed and the rates of accrual per home estimated as a percentage of the selling price of the home. The increase in the amount of accrual in the current three and nine-month periods compared to the comparable prior-year periods is due to an increase in the number of closings and the sales prices of homes closed in the current periods, as well as increases in certain divisions' accrual rates.

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

Florida and New Jersey Water Intrusion Issues

In the latter portion of fiscal 2014, we began to experience an increase in calls from homeowners reporting stucco and water intrusion issues in certain of our communities in Florida and one community in New Jersey. These issues continued to be reported to us in Florida throughout our fiscal 2015 and into our fiscal 2016. In New Jersey, while the calls were initially isolated to one community, we received calls from a second community with similar issues during the current fiscal year. Through June 30, 2016, we have cumulatively recorded $71.5 million in charges related to these issues, of which $70.2 million related to the communities in Florida and $1.3 million related to the two communities in New Jersey. Refer to discussion below for further detail.

Florida. The water intrusion issues in Florida (the Florida stucco issues) relate to stucco installation in multiple communities that first became known during our fiscal 2014. Other builders were also dealing with stucco issues, some of which received local media coverage. Throughout fiscal 2015, with many homeowners seeing an increased level of warranty-related activities occurring in their communities, the number of stucco and water-related warranty calls in Florida increased significantly. This led us to expand the scope of our inspections, including to homes and communities from which no warranty calls had been received. This enhanced review resulted in us determining that more homes and communities in Florida were likely to be adversely affected, leading to higher repair costs. Based on all of these activities and our resulting analysis, we recorded additional warranty expense of $26.3 million during the year ended September 30, 2015 related to the Florida stucco issues (of which $6.1 million and $24.0 million was recorded in the three and nine months ended June 30, 2015, respectively), in addition to the $4.3 million recorded during our

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fiscal 2014. As of September 30, 2015, the accrual to cover outstanding payments and potential repair costs for the impacted homes was $14.5 million, after considering the repair costs already paid.

During our fiscal 2016, we received additional homeowner calls beyond those anticipated based on our procedures and previous call history and increased our cost estimates, causing us to record additional warranty expense related to the Florida stucco issues of $11.0 million and $39.6 million during the three and nine months ended June 30, 2016, respectively. Our cost estimates to repair homes discovered in more recent periods are considerably higher than initial estimates, as these homes require more extensive repairs. As of June 30, 2016, 724 homes have been identified as likely to require repairs (an increase of 192 homes to those that were anticipated to require repairs as of the end of our fiscal 2015), of which 352 homes have been repaired. We made payments related to the Florida stucco issues of $11.0 million and $27.8 million during the three and nine months ended June 30, 2016, respectively, including payments on fully repaired homes, as well as payments on homes for which remediation is not yet complete, bringing the remaining accrual to $26.3 million as of June 30, 2016, which is included in our overall warranty liability detailed above. As of June 30, 2016, additional homes in the impacted communities remain within the period specified by the applicable statute of repose but are not yet deemed likely to require repairs and have not been reserved for. The cost to repair these additional homes would be approximately $6.0 million if the current cost estimates were applied to these additional homes.

Our assessment of the Florida stucco issues is ongoing. As a result, we anticipate that the ultimate magnitude of our liability may change as additional information is obtained. Certain visual and other inspections of the homes that could be subject to defect often do not reveal the severity or extent of the defects, which can only be discovered once we receive a homeowner call and begin repairs. The current quarter and current fiscal year charges were offset by additional insurance recoveries from our insurers; for a discussion of the amounts we have already recovered or anticipate recovering from our insurer, refer to “Insurance Recoveries” section below. In addition, we believe that we will also recover a portion of such repair costs from sources other than our own insurer, including the subcontractors involved with the construction of these homes and their insurers; however, no amounts related to subcontractor recoveries have been recorded in our unaudited consolidated financial statements as of June 30, 2016.

New Jersey. Initially, the water intrusion issues in New Jersey related to flashing and stone installation in one specific community, for which we recorded $0.6 million in charges during our fiscal 2014. During our fiscal 2016, we began to receive homeowner calls related to one additional community citing similar issues, causing us to inspect the homes within the community and record an additional reserve of $0.7 million during the first nine months of the current fiscal year (a decrease of $0.5 million during the current fiscal quarter due to the impact of this issue being less costly than initially anticipated), which is also included in our overall warranty liability as of June 30, 2016. Similar to the Florida stucco issues discussed above, the costs recorded during the current year period were fully offset by additional insurance recoveries from our third-party insurance, which is described below.

Insurance Recoveries

The Company has insurance policies that provide for the reimbursement of certain warranty costs incurred by us above a specified threshold for each period covered. We have surpassed these thresholds for certain policy years, particularly those that cover most of the homes impacted by the water intrusion issues discussed above. As such, we expect a substantial majority of additional costs incurred after the first quarter of our fiscal 2015 for warranty work on homes within these policy years to be reimbursed by our insurers. For one policy year, we are approaching the insurable claim limit for one Division under our first layer of coverage. In the event that we incur additional related losses that exceed this first layer policy limit, we expect to claim and recover such amounts under our excess insurance coverage.

Warranty expense beyond the thresholds set in our insurance policies was recorded related to homes impacted by the Florida stucco issues and the water intrusion issues in New Jersey, as well as other various warranty issues, resulting in our recognition of $11.7 million and $47.9 million in insurance recoveries during the three and nine months ended June 30, 2016, respectively, that we deem probable of receiving. For the three and nine months ended June 30, 2015, $7.3 million and $13.0 million was recorded in insurance recoveries. Amounts recorded for anticipated insurance recoveries are reflected within our unaudited consolidated statements of income as a reduction of our home construction expenses, and associated amounts not yet received from our insurer were recorded on a gross basis (i.e.

not net of any associated warranty expense) as a receivable within accounts receivable on our unaudited consolidated balance sheets.

As of June 30, 2016, we have cumulatively recorded $66.8 million in insurance recoveries related to insurance policy years for which we have surpassed our deductible. We have received multiple payments under these policies from our insurance provider during fiscal 2015 and during the nine months ended June 30, 2016, reducing our insurance recovery receivable related to insurance policy years for which we have surpassed our deductible to $30.1 million as of June 30, 2016. The total recovery amount recorded during the current quarter of $11.7 million offsets the impact of the incremental expense recorded during the current quarter related to the Florida stucco issues, with the remainder related to expenditures for other warranty issues that are in excess of our insurance deductibles. For the nine months ended June 30, 2016, while the recoveries of $47.9 million recorded offset the incremental expense recorded related to the water intrusion issues in New Jersey, the recoveries recorded related to the Florida stucco issues

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were $3.6 million greater than the underlying expense, as we began to recover more costs than initially anticipated. The remaining insurance recovery amount for the nine months ended June 30, 2016 beyond the water intrusion issues in New Jersey and the Florida stucco issues related to expenditures for warranty issues that are individually immaterial but are also in excess of our insurance thresholds.

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

Additionally, we entered into agreements with our third-party insurer during the current quarter to resolve certain issues related to the extent of our insurance coverage for multiple policy years. These agreements resulted in our recognition of $15.5 million in further insurance recoveries (in addition to those discussed above), which was recorded within our unaudited consolidated statements of income as a reduction of our home construction expenses, as the signing of the agreements settled a dispute with our insurers and made this recovery probable. Of the total settlement, we received $7.0 million in payments, reducing our receivable related to this matter to $8.5 million. This receivable, which is in addition to the insurance receivable discussed above, was recorded within accounts receivable on our unaudited consolidated balance sheet as of June 30, 2016, and will be collected during the fourth quarter of our current fiscal year, in accordance with these agreements.

Litigation

From time-to-time, we have received claims from institutions that have acquired mortgages originated by our subsidiary, Beazer Mortgage Corporation (BMC), demanding damages or indemnity arising from BMC's activities or that we repurchase such mortgages. BMC stopped originating mortgages in 2008. We have been able to resolve these claims at no cost or for amounts that are not material to our consolidated financial statements. We currently have no such claims outstanding. However, we cannot rule out the potential for additional mortgage loan repurchase or indemnity claims in the future from other investors. At this time, we do not believe that the exposure related to any such claims would be material to our consolidated financial condition, results of operations or cash flows. As of June 30, 2016, no liability has been recorded for any additional claims related to this matter, as such exposure is not both probable and reasonably estimable.

A purported class action lawsuit was filed on July 7, 2016 against the Company in Maricopa County Arizona Superior Court on behalf of all homeowners in Arizona that purchased homes from the Company that included a certain roof underlayment. The complaint alleges various construction defects, but principally claims that the roof underlayment used in these homes is susceptible to leaks and was not installed in accordance with best practices. The monetary damage the plaintiff seeks has not been quantified. The Company believes these allegations are without merit and that class action treatment is inappropriate. The Company intends to vigorously defend itself against these claims, and believes at this time that any potential exposure is not probable nor able to be estimated.

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

Other Matters

On July 1, 2009, we entered into a Deferred Prosecution Agreement and associated Bill of Information (the “DPA”) with the United States Attorney for the Western District of North Carolina and a separate but related agreement with the United States Department of Housing and Urban Development (the HUD Agreement) and the Civil Division of the United States Department of Justice. We have satisfied our obligations under the DPA and in July 2014 the United States District Court for the Western Division of North Carolina dismissed the Bill of Information. However, under these agreements, we are obligated to make payments equal to 4% of “adjusted EBITDA,” as defined in the agreements, until the earlier of (a) September 30, 2016 or (b) the date that a cumulative $48.0 million has been paid pursuant to the DPA and the HUD Agreement. As of June 30, 2016, we have paid a cumulative $28.1 million related to the DPA and the HUD Agreement. Additionally, we have a liability of $6.2 million recorded on our unaudited consolidated balance sheet as of June 30, 2016 related to the HUD Agreement, $1.9 million and $4.2 million of which was accrued for during the three and nine months ended June 30, 2016, respectively.

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

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covered in whole or in part by insurance. In our opinion, based on our current assessment, the ultimate resolution of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows.
We have accrued $9.1 million and $12.6 million in other liabilities on our consolidated balance sheets related to litigation and other matters, excluding warranty, as of June 30, 2016 and September 30, 2015, respectively.
We had outstanding letters of credit and performance bonds of approximately $45.5 million and $190.4 million, respectively, as of June 30, 2016, related principally to our obligations to local governments to construct roads and other improvements in various developments. We have an immaterial amount of outstanding letters of credit relating to our land option contracts as of June 30, 2016.

(9) Fair Value Measurements

As of the dates presented, we had assets on our consolidated balance sheets that were required to be measured at fair value on a recurring or non-recurring basis. We use a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly through corroboration with market data; and
- Level 3 – Unobservable inputs that reflect our own estimates about the assumptions market participants would use in pricing the asset or liability.

Certain of our assets are required to be recorded at fair value on a recurring basis. The fair value of our deferred compensation plan assets is based on market-corroborated inputs (Level 2).
Certain of our assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value of these assets may not be recovered. We review our long-lived assets, including inventory, for recoverability when factors indicate an impairment may exist, but no less than quarterly. Fair value on assets deemed to be impaired are determined based upon the type of asset being evaluated. The fair value of our investments in unconsolidated entities is determined primarily using a discounted cash flow model to value the underlying net assets of the respective entities.
Determining which hierarchical level an asset or liability falls within requires significant judgment. We evaluate our hierarchy disclosures each quarter.
The following table presents the period-end balances of our assets measured at fair value on a recurring basis, and the impairment-date fair value of certain assets measured at fair value on a non-recurring basis, for each hierarchy level. These balances represent only those assets whose carrying values were adjusted to fair value during the periods presented:

(In thousands)	Level 1	Level 2	Level 3	Total
Nine Months Ended June 30, 2016				
Deferred compensation plan assets [a]	$ —	$ 696	$ —	$ 696
Development projects in progress [b]	—	—	34,418 [c]	34,418
Land held for sale [b]	—	—	16,473 [d]	16,473
Nine Months Ended June 30, 2015				
Deferred compensation plan assets [a]	—	618	—	618
Land held for sale [b]	—	—	1,148	1,148

[a] Measured at fair value on a recurring basis.
[b] Measured at fair value on a non-recurring basis.
[c] Amount represents the impairment-date fair value of the communities that we impaired during the nine months ended June 30, 2016. Refer to Note 5 for additional discussion.
[d] Amount represents the impairment-date fair value of certain land held for sale assets that were impaired during the nine months ended June 30, 2016.

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

The following table presents the carrying value and estimated fair value of certain of our other financial liabilities as of June 30, 2016 and September 30, 2015:

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(In thousands)	As of June 30, 2016		As of September 30, 2015	
	Carrying Amount [(a)]	Fair Value	Carrying Amount [(a)]	Fair Value
Senior Notes	$1,234,249	$1,142,060	$1,427,240	$1,412,173
Term Loan	120,750	120,750	—	—
Junior Subordinated Notes	59,353	59,353	57,803	57,803
	$1,414,352	$1,322,163	$1,485,043	$1,469,976

[(a)] Carrying amounts are net of unamortized debt discounts or accretion.

The estimated fair value shown above for our publicly-held Senior Notes has been determined using quoted market rates (Level 2). Since there is no trading market for our Term Loan and Junior Subordinated Notes, the fair value of these instruments is estimated by discounting scheduled cash flows through maturity using a discount rate that is specific to the applicable loan agreement (Level 3). Judgment is required in developing such 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.

(10) Income Taxes

Income Tax Provision. Our income tax provision for quarterly interim periods is based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Our total income tax expense, including discontinued operations, was $5.2 million and $1.8 million for the three and nine months ended June 30, 2016, respectively, compared to a tax benefit of $0.1 million and $0.7 million for the three and nine months ended June 30, 2015, respectively. The change in our income tax expense was primarily driven by (1) the level of income or loss earned during the respective periods; (2) valuation allowance changes recorded during the previous fiscal year periods that are no longer recorded in the current fiscal year periods due to the release of a significant portion of our valuation allowance during the fourth quarter of our fiscal 2015 (see below); and (3) the timing of recognizing certain tax credits.

Deferred Tax Assets and Liabilities. The Company continues to evaluate its deferred tax assets each period to determine if a valuation allowance is required based on whether it "is more likely than not" that some portion of the deferred tax assets would not be realized. As of September 30, 2015 and again as of June 30, 2016, we concluded that it is more likely than not that a substantial portion of our deferred tax assets will be realized. As of June 30, 2016, our conclusions on the valuation allowance of $57.7 million and Section 382 limitations related to our deferred tax assets remain consistent with the determinations we made during the period ended September 30, 2015 and are based on similar company specific and industry factors to those discussed in our 2015 Annual Report (refer to Note 13 to the audited consolidated financial statements within our 2015 Annual Report).

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

(11) Stock-based Compensation

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Stock options expense	$135	$171	$385	$528
Restricted stock awards expense	1,921	1,468	5,459	4,042
Before tax stock-based compensation expense	2,056	1,639	5,844	4,570
Tax benefit	(1,043)	— [(a)]	(2,891)	— [(a)]
After tax stock-based compensation expense	$1,013	$1,639	$2,953	$4,570

[a] Tax impact is zero due to the existence of a valuation allowance on our deferred tax assets in prior year periods.
During the nine months ended June 30, 2016 and 2015, employees surrendered 15,707 shares and 10,302 shares, respectively, to us in payment of minimum tax obligations upon the vesting of stock awards under our stock incentive plans. We valued this stock at the market price on the date of surrender, for an aggregate value of approximately $205,000 and $192,000 for the nine months ended June 30, 2016 and 2015, respectively.

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Stock Options. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model (Black-Scholes Model). The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price. As of June 30, 2016, the intrinsic value of our stock options outstanding and the aggregate options exercisable were both zero. As of June 30, 2016 and September 30, 2015, there was $0.6 million and $0.5 million, respectively, of total unrecognized compensation cost related to nonvested stock options. The cost remaining as of June 30, 2016 is expected to be recognized over a weighted average period of 1.6 years.

During the current quarter, the Compensation Committee of our Board of Directors approved the Employee Stock Option Program (EOP). This program is available to all full-time employees, other than our senior leadership team, and is designed to enable employees to share in potential future price appreciation of the Company's stock. The EOP matches stock purchases made by eligible employees meeting certain conditions with an option to purchase an additional share of the Company's shares on a one-to-one basis. The exercise price of the options granted is equal to the closing price of the Company's stock on the day the underlying stock is purchased. The options will vest on the second anniversary of the date of grant, but are forfeited if (1) the eligible employee no longer works for the Company or (2) the underlying shares are sold before the two-year vesting period is over. The total number of options available under the EOP is limited to 100,000, of which 74,474 options were granted during the current quarter.

During the nine months ended June 30, 2016, we issued 115,074 stock options, each for one share of the Company's stock. These stock options typically vest ratably over three years from the date of grant, or two years from the date of grant if issued under the EOP. We used the following assumptions for stock options granted, which derived the weighted average fair value shown, for the period presented:

	Nine Months Ended June 30, 2016	
Expected life of options	4.9 years	
Expected volatility	46.50	%
Expected dividends	—	
Weighted average risk-free interest rate	1.38	%
Weighted average fair value	$ 3.98	

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

	Three Months Ended June 30, 2016		Nine Months Ended June 30, 2016	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	681,273	$ 17.89	643,907	$ 18.13
Granted	74,474	7.53	115,074	9.90
Forfeited	(500)	7.32	(3,734)	17.03
Outstanding at end of period	755,247	$ 16.88	755,247	$ 16.88

Exercisable at end of period	590,200	$ 18.04	590,200	$ 18.04
Vested or expected to vest in the future	755,247	$ 16.88	755,247	$ 16.88

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

As of June 30, 2016 and September 30, 2015, there was $13.1 million and $11.7 million, respectively, of total unrecognized compensation cost related to nonvested restricted stock awards. The cost remaining as of June 30, 2016 is expected to be recognized over a weighted average period of 2.0 years.

During the nine months ended June 30, 2016, we issued 231,624 shares of performance-based restricted stock (2016 Performance Shares) to our executive officers and certain other employees that also have market conditions. The 2016 Performance Shares are structured to be awarded based on the Company's performance under three pre-determined financial metrics at the end of the three-year performance period. After determining the number of shares earned based on the financial metrics, which can range from 0% to 175% of the targeted number of shares, the award will be subject to further upward or downward adjustment by as much as 20% based on the Company's relative total shareholder return (TSR) compared against the S&P Homebuilders Select Industry

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Index during the three-year performance period. The 2016 Performance Shares were valued using the Monte Carlo valuation model due to the existence of the TSR market condition and had an estimated fair value of $15.43 per share on the date of grant.

A Monte Carlo valuation model requires the following inputs: (1) the expected dividend yield on the underlying stock; (2) the expected price volatility of the underlying stock; (3) the risk-free interest rate for the period corresponding with the expected term of the award; and (4) the fair value of the underlying stock. For the Company and each member of the peer group, the following inputs were used, as applicable, in the Monte Carlo valuation model to determine the fair value as of the grant date for the 2016 Performance Shares: 0% dividend yield for the Company, expected price volatility ranging from 29.9% to 151.2% and a risk-free interest rate of 1.21%. The methodology used to determine these assumptions is similar to the Black-Scholes Model; however, the expected term is determined by the model in the Monte Carlo simulation.

Any 2016 Performance Shares earned in excess of the target number of 231,624 shares may be settled in cash or additional shares at the discretion of the Compensation Committee of our Board of Directors. Any portion of these that do not vest at the end of the period will be forfeited.

During nine months ended June 30, 2016, we also issued 259,819 shares of time-based restricted stock (Restricted Shares) to our directors, executive officers and certain other employees. The Restricted Shares granted to our non-employee directors vest on the first anniversary of the grant, while the Restricted Shares granted to our executive officers and other employees vest ratably over three years from the date of grant.

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

	Three Months Ended June 30, 2016		Nine Months Ended June 30, 2016	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of period	1,281,662	$ 17.23	956,283	$ 18.27
Granted	—	—	491,443	14.69
Vested	(4,156)	18.15	(125,145)	18.61
Forfeited	(8,099)	17.11	(53,174)	9.42
End of period	1,269,407	$ 17.23	1,269,407	$ 17.23

(12) Earnings Per Share

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

The Company reported net income for the three and nine months ended June 30, 2016, and for the three months ended June 30, 2015. For the nine months ended June 30, 2015, the Company reported a net loss. Accordingly, all common stock equivalents were excluded during the nine months ended June 30, 2015 from the computation of diluted loss per share because inclusion would have resulted in anti-dilution. For both the three and nine months ended June 30, 2016, 1.5 million shares related to nonvested stock-based compensation awards were excluded from our calculation of diluted income per share as a result of their anti-dilutive effect. For the three and nine months ended June 30, 2015, 1.2 million and 1.4 million common stock equivalents, respectively, were excluded from our calculation of diluted income per share as a result of their anti-dilutive effect.

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

(in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Basic shares	31,813	26,482	31,793	26,473
Shares issuable upon conversion of TEUs	—	5,221	—	N/A [(a)]
Shares issuable upon vesting/exercise of stock awards/options	7	97	4	N/A [(a)]
Diluted shares	31,820	31,800	31,797	26,473

[(a)] N/A - Not applicable, as the Company reported a net loss for the period.

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(13) Other Liabilities

Other liabilities include the following as of June 30, 2016 and September 30, 2015:

(In thousands)	June 30, 2016	September 30, 2015
Accrued warranty expense	$40,590	$ 27,681
Accrued interest	19,835	31,632
Accrued bonuses and deferred comp	19,364	25,076
Customer deposits	14,384	13,757
Litigation accrual	9,083	12,607
Income tax liabilities	2,264	1,998
Other	32,799	36,215
Total Other Liabilities	$138,319	$ 148,966

(14) Segment Information

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

West: Arizona, California, Nevada and Texas

East: Delaware, Indiana, Maryland, New Jersey[a], Tennessee and Virginia

Southeast: Florida, Georgia, North Carolina and South Carolina

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

Management’s evaluation of segment performance is based on segment operating income. Operating income for our homebuilding segments is defined as homebuilding, land sale and other revenues less home construction, land development and land sale expense, commission expense, depreciation and amortization and certain G&A expenses that are incurred by or allocated to our homebuilding segments. The accounting policies of our segments are described in Note 2 to the consolidated financial statements within our 2015 Annual Report.

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(In thousands)	2016	2015	2016	2015
Revenue				
West	$205,983	$149,129	$543,109	$351,975
East	140,717	155,160	348,109	363,152
Southeast	113,237	125,149	298,775	279,434
Total revenue	$459,937	$429,438	$1,189,993	$994,561

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(In thousands)	Three Months Ended June 30, 2016	2015	Nine Months Ended June 30, 2016	2015
Operating income				
West	$23,822	$16,246	$59,535	$33,628
East	7,097	15,344	19,577	28,457
Southeast [a]	10,022	14,382	28,417	15,200
Segment total	40,941	45,972	107,529	77,285
Corporate and unallocated [b]	(24,632)	(28,276)	(79,042)	(62,643)
Total operating income	$16,309	$17,696	$28,487	$14,642

(In thousands)	Three Months Ended June 30, 2016	2015	Nine Months Ended June 30, 2016	2015
Depreciation and amortization				
West	$1,475	$1,267	$4,025	$3,299
East	764	900	2,195	2,094
Southeast	603	793	1,599	1,817
Segment total	2,842	2,960	7,819	7,210
Corporate and unallocated [b]	545	537	1,615	1,409
Total depreciation and amortization	$3,387	$3,497	$9,434	$8,619

[a] Operating income for our Southeast segment for the nine months ended June 30, 2016 and 2015 was impacted by unexpected warranty costs related to the Florida stucco issues, net of expected insurance recoveries. This impact was a credit of $3.6 million in the current year period, and expense of $13.6 million in the prior year period.
[b] Corporate and unallocated operating loss includes amortization of capitalized interest; movement in capitalized indirects; expenses related to numerous shared services functions that benefit all segments but are not allocated to the operating segments reported above, including information technology, treasury, corporate finance, legal, branding and national marketing; and certain other amounts that are not allocated to our operating segments. For the three and nine months ended June 30, 2016, the Corporate and unallocated operating loss includes a $15.5 million reduction in cost of sales resulting from an agreement entered into during the current quarter with our third-party insurer to resolve certain issues related to the extent of our insurance coverage (refer to Note 8).
Corporate and unallocated depreciation and amortization represents depreciation and amortization related to assets held by corporate functions that benefit all segments.
The following table contains our capital expenditures by segment for the periods presented:

(In thousands)	Nine Months Ended June 30, 2016	2015
Capital Expenditures		
West	$5,189	$4,959
East	1,928	2,996
Southeast	2,323	2,653
Corporate and unallocated	278	1,822
Total capital expenditures	$9,718	$12,430

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The following table contains our asset balance by segment as of June 30, 2016 and September 30, 2015:

(In thousands)	June 30, 2016	September 30, 2015
Assets		
West	$855,537	$ 843,564
East	380,897	436,346
Southeast	365,610	317,295
Corporate and unallocated [a]	716,583	823,998
Total assets	$2,318,627	$ 2,421,203

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

(15) Supplemental Guarantor Information

As discussed in Note 7, our obligations to pay principal, premium, if any, and interest under certain debt issuances are guaranteed on a joint and several basis by substantially all of our subsidiaries. Certain of our immaterial subsidiaries do not guarantee our Senior Notes, Term Loan or the Facility. The guarantees are full and unconditional and the guarantor subsidiaries are 100% owned by Beazer Homes USA, Inc. The following unaudited financial information presents the line items of our unaudited consolidated financial statements separated by amounts related to the parent issuer, guarantor subsidiaries, non-guarantor subsidiaries and consolidating adjustments as of or for the periods presented.

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Beazer Homes USA, Inc.
Unaudited Consolidating Balance Sheet Information
June 30, 2016
(In thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	$ 129,927	$ 1,702	$ 873	$ (5,293)	$ 127,209
Restricted cash	17,101	1,745	—	—	18,846
Accounts receivable (net of allowance of $866)	—	65,903	2	—	