BEAZER HOMES USA INC
Form 10-Q
February 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended December 31, 2010

or

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

Commission File Number 001-12822

BEAZER HOMES USA, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	58-2086934 (I.R.S. employer Identification no.)
1000 Abernathy Road, Suite 1200, Atlanta, Georgia (Address of principal executive offices)	30328 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

YES þ NO o

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 o NO o

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

YES o NO þ

Class	Outstanding at January 31, 2011
Common Stock, $0.001 par value	76,372,805 shares

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

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FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this quarterly report in the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations. Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. Such factors may include:

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

- the cost and availability of insurance and surety bonds;
- delays in land development or home construction resulting from adverse weather conditions;
- potential delays or increased costs in obtaining necessary permits and possible penalties for failure to comply with laws, regulations and governmental policies;
- potential exposure related to additional repurchase claims on mortgages and loans originated by Beazer Mortgage Corporation;
- estimates related to the potential recoverability of our deferred tax assets;
- effects of changes in accounting policies, standards, guidelines or principles; or
- terrorist acts, acts of war and other factors over which the Company has little or no control.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2010	September 30, 2010
ASSETS		
Cash and cash equivalents	$ 451,744	$ 537,121
Restricted cash	70,624	39,200
Accounts receivable (net of allowance of $3,576 and $3,567, respectively)	27,546	32,647
Income tax receivable	5,965	7,684
Inventory		
Owned inventory	1,207,941	1,153,703
Land not owned under option agreements	37,908	49,958
Total inventory	1,245,849	1,203,661
Investments in unconsolidated joint ventures	9,081	8,721
Deferred tax assets, net	7,714	7,779
Property, plant and equipment, net	24,499	23,995
Other assets	58,396	42,094
Total assets	$ 1,901,418	$ 1,902,902
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	$ 32,310	$ 53,418
Other liabilities	190,855	210,170
Obligations related to land not owned under option agreements	22,271	30,666
Total debt (net of discounts of $26,242 and $23,617, respectively)	1,306,334	1,211,547
Total liabilities	1,551,770	1,505,801
Stockholders equity:		
Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued)		
Common stock (par value $0.001 per share, 180,000,000 shares authorized, 76,392,976 and 75,669,381 issued and outstanding, respectively)	76	76
Paid-in capital	619,967	618,612
Accumulated deficit	(270,395)	(221,587)
Total stockholders equity	349,648	397,101
Total liabilities and stockholders equity	$ 1,901,418	$ 1,902,902

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31,	
	2010	2009
Total revenue	**$ 110,299**	$ 213,073
Home construction and land sales expenses	**98,225**	186,144
Inventory impairments and option contract abandonments	**686**	8,550
Gross profit	**11,388**	18,379
Selling, general and administrative expenses	**37,798**	44,866
Depreciation and amortization	**1,913**	3,276
Operating loss	**(28,323)**	(29,763)
Equity in income (loss) of unconsolidated joint ventures	**238**	(30)
Loss on extinguishment of debt	**(2,902)**	
Other expense, net	**(18,066)**	(19,526)
Loss from continuing operations before income taxes	**(49,053)**	(49,319)
Benefit from income taxes	**(593)**	(93,826)
(Loss) income from continuing operations	**(48,460)**	44,507
(Loss) income from discontinued operations, net of tax	**(348)**	3,492
Net (loss) income	**$ (48,808)**	$ 47,999
Weighted average number of shares:		
Basic	**73,878**	38,827
Diluted	**73,878**	41,939
(Loss) earnings per share:		
Basic (loss) earnings per share from continuing operations	**$ (0.66)**	$ 1.15
Basic (loss) earnings per share from discontinued operations	**$**	$ 0.09
Basic (loss) earnings per share	**$ (0.66)**	$ 1.24
Diluted (loss) earnings per share from continuing operations	**$ (0.66)**	$ 1.09
Diluted (loss) earnings per share from discontinued operations	**$**	$ 0.08
Diluted (loss) earnings per share	**$ (0.66)**	$ 1.17

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009
Cash flows from operating activities:		
Net (loss) income	**$ (48,808)**	$ 47,999
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	**1,967**	3,424
Stock-based compensation expense	**2,911**	2,733
Inventory impairments and option contract abandonments	**921**	8,877
Deferred income tax provision (benefit)	**65**	(125)
Provision for doubtful accounts	**9**	(2,454)
Excess tax benefit from equity-based compensation	**1,557**	1,982
Equity in (income) loss of unconsolidated joint ventures	**(63)**	2,774
Cash distributions of income from unconsolidated joint ventures	**38**	
Loss on extinguishment of debt	**1,967**	
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**5,092**	1,325
Decrease (increase) in income tax receivable	**1,719**	(98,964)
(Increase) decrease in inventory	**(47,566)**	26,848
Decrease in other assets	**663**	1,918
Decrease in trade accounts payable	**(21,108)**	(25,690)
Decrease in other liabilities	**(36,342)**	(30,755)
Other changes	**(65)**	823
Net cash used in operating activities	**(137,043)**	(59,285)
Cash flows from investing activities:		
Capital expenditures	**(2,405)**	(1,346)
Investments in unconsolidated joint ventures	**(1,106)**	(4,515)
Increases in restricted cash	**(32,819)**	(15,359)
Decreases in restricted cash	**1,395**	17,084
Distributions from unconsolidated joint ventures		75
Net cash used in investing activities	**(34,935)**	(4,061)
Cash flows from financing activities:		
Repayment of debt	**(185,696)**	(8,829)
Proceeds from issuance of new debt	**246,387**	
Proceeds from issuance of cash secured loan	**32,591**	
Debt issuance costs	**(5,060)**	(323)
Common stock redeemed	**(64)**	(134)
Excess tax benefit from equity-based compensation	**(1,557)**	(1,982)

Net cash provided by (used in) financing activities	**86,601**	(11,268)
Decrease in cash and cash equivalents	**(85,377)**	(74,614)
Cash and cash equivalents at beginning of period	**537,121**	507,339
Cash and cash equivalents at end of period	**$ 451,744**	$ 432,725

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(1) Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Beazer Homes USA, Inc. (Beazer Homes or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments (consisting solely of normal recurring accruals) necessary for a fair presentation have been included in the accompanying financial statements. For further information and a discussion of our significant accounting policies other than as discussed below, refer to our audited consolidated financial statements appearing in the Beazer Homes Annual Report on Form 10-K for the fiscal year ended September 30, 2010 (the 2010 Annual Report). Results from our mortgage origination business, our title insurance services and our exit markets are reported as discontinued operations in the accompanying unaudited condensed consolidated statements of operations for all periods presented (see Note 13 for further discussion of our Discontinued Operations). We evaluated events that occurred after the balance sheet date but before the financial statements were issued or were available to be issued for accounting treatment and disclosure in accordance with Accounting Standards Codification, *Subsequent Events* (ASC 855).

Inventory Valuation Held for Development. Our homebuilding inventories that are accounted for as held for development include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We assess these assets no less than quarterly for recoverability. Generally, upon the commencement of land development activities, it may take three to five years (depending on, among other things, the size of the community and its sales pace) to fully develop, sell, construct and close all the homes in a typical community. However, the impact of the recent downturn in our business has significantly lengthened the estimated life of many communities. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If the expected undiscounted cash flows generated are expected to be less than its carrying amount, an impairment charge is recorded to write down the carrying amount of such asset to its estimated fair value based on discounted cash flows.

We conduct a review of the recoverability of our homebuilding inventories held for development at the community level as factors indicate that an impairment may exist. Events and circumstances that might indicate impairment include, but are not limited to, (1) adverse trends in new orders, (2) higher than anticipated cancellations, (3) declining margins which might result from the need to offer incentives to new homebuyers to drive sales or price reductions or other actions taken by our competitors, (4) economic factors specific to the markets in which we operate, including fluctuations in employment levels, population growth, or levels of new and resale homes for sale in the marketplace and (5) a decline in the availability of credit across all industries.

As a result, we evaluate, among other things, the following information for each community:

- Actual Net Contribution Margin (defined as homebuilding revenues less homebuilding costs and direct selling expenses) for homes closed in the current fiscal quarter, fiscal year to date and prior two fiscal quarters. Homebuilding costs include land and land development costs (based upon an allocation of such costs, including costs to complete the development, or specific lot costs), home construction costs (including an estimate of costs, if any, to complete home construction), previously capitalized indirect costs (principally for construction supervision), capitalized interest and estimated warranty costs. Direct selling expenses included commission, closing costs, and amortization related to model home furnishings and improvements;
- Projected Net Contribution Margin for homes in backlog;
- Actual and trending new orders and cancellation rates;
- Actual and trending base home sales prices and sales incentives for home sales that occurred in the prior two fiscal quarters that remain in backlog at the end of the fiscal quarter and expected future homes sales prices and sales incentives and absorption over the expected remaining life of the community;

A comparison of our community to our competition to include, among other things, an analysis of various product offerings including the size and style of the homes currently offered for sale, community amenity levels, availability of lots in our community and our competition s, desirability and uniqueness of our community and other market factors; and

Other events that may indicate that the carrying value may not be recoverable.

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In determining the recoverability of the carrying value of the assets of a community that we have evaluated as requiring a test for impairment, significant quantitative and qualitative assumptions are made relative to the future home sales prices, sales incentives, direct and indirect costs of home construction and land development and the pace of new home orders. In addition, these assumptions are dependent upon the specific market conditions and competitive factors for each specific community and may differ greatly between communities within the same market and communities in different markets. Our estimates are made using information available at the date of the recoverability test, however, as facts and circumstances may change in future reporting periods, our estimates of recoverability are subject to change.

For assets in communities for which the undiscounted future cash flows are less than the carrying value, the carrying value of that community is written down to its then estimated fair value based on discounted cash flows. The carrying value of assets in communities that were previously impaired and continue to be classified as held for development is not written up for future estimates of increases in fair value in future reporting periods. Market deterioration that exceeds our estimates may lead us to incur additional impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if the market continues to deteriorate.

The fair value of the homebuilding inventory held for development is estimated using the present value of the estimated future cash flows using discount rates commensurate with the risk associated with the underlying community assets. The discount rate used may be different for each community. The factors considered when determining an appropriate discount rate for a community include, among others: (1) community specific factors such as the number of lots in the community, the status of land development in the community, the competitive factors influencing the sales performance of the community and (2) overall market factors such as employment levels, consumer confidence and the existing supply of new and used homes for sale. The assumptions used in our discounted cash flow models are specific to each community tested for impairment. We have assumed limited market improvements in some communities beginning in fiscal 2011 and continuing improvement in these communities in subsequent years. We have assumed the remaining communities would have market improvements beginning in fiscal 2012.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in our historical analyses. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. We calculated the estimated fair values of inventory held for development that were evaluated for impairment based on current market conditions and assumptions made by management relative to future results. Because our projected cash flows are significantly impacted by changes in market conditions, it is reasonably possible that actual results could differ materially from our estimates and result in additional impairments.

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

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

- management has the authority and commits to a plan to sell the land;
- the land is available for immediate sale in its present condition;
- there is an active program to locate a buyer and the plan to sell the property has been initiated;
- the sale of the land is probable within one year;
- the property is being actively marketed at a reasonable sale price relative to its current fair value; and

it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made. Additionally, in certain circumstances, management will re-evaluate the best use of an asset that is currently being accounted for as held for development. In such instances, management will review, among other things, the current and projected competitive circumstances of the community, including the level of supply of new and used inventory, the level of sales absorptions by us and our competition, the

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level of sales incentives required and the number of owned lots remaining in the community. If, based on this review and the foregoing criteria have been met at the end of the applicable reporting period, we believe that the best use of the asset is the sale of all or a portion of the asset in its current condition, then all or portions of the community are accounted for as held for sale.

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

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

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

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

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

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

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

The following provides a summary of our interests in lot option agreements as of December 31, 2010 (in thousands):

	Deposits & Non-refundable Preacquisition Costs Incurred	Remaining Obligation	Land Not Owned - Under Option Agreements
Consolidated VIEs	$ 13,765	$ 12,164	$ 25,929
Other consolidated lot option agreements (a)	1,872	10,107	11,979
Unconsolidated lot option agreements	22,379	199,200	
Total lot option agreements	$ 38,016	$ 221,471	$ 37,908

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

Stock-Based Compensation. Compensation cost arising from nonvested stock awards granted to employees and from non-employee stock awards is recognized as an expense using the straight-line method over the vesting period. As of December 31, 2010 and September 30, 2010, there was $11.8 million and $10.0 million, respectively, of total unrecognized compensation cost related to nonvested stock awards included in paid-in capital. The cost remaining at December 31, 2010 is expected to be recognized over a weighted average period of 2.4 years. For the three months ended December 31, 2010 and 2009, our total stock-based compensation expense, included in selling, general and administrative expenses (SG&A), was approximately $2.9 million ($2.0 million net of tax) and $2.7 million ($1.9 million net of tax), respectively.

Activity relating to nonvested stock awards for the three months ended December 31, 2010 is as follows:

	Three Months Ended December 31, 2010	
	Shares	Weighted Average Grant Date Fair Value
Beginning of period	1,839,987	$ 14.41
Granted	729,265	4.73
Vested	(86,135)	51.13
Forfeited	(232)	4.16
End of period	2,482,885	$ 10.29

In addition, during the three months ended December 31, 2010 and 2009, employees surrendered 15,080 and 27,310 shares, respectively, to us in payment of minimum tax obligations upon the vesting of stock awards under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of approximately $64,000 and $134,000 for the three months ended December 31, 2010 and 2009, respectively.

The fair value of each option/stock-based stock appreciation right (SSAR) grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following table summarizes stock options and SSARs outstanding as of December 31, 2010, as well as activity during the three months then ended:

	Three Months Ended December 31, 2010	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	2,578,354	$ 22.69
Granted	729,265	4.73
Forfeited		
Outstanding at end of period	3,307,619	$ 18.73
Exercisable at end of period	770,643	$ 41.59
Vested or expected to vest in the future	3,152,850	$ 19.42

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. We used the following assumptions for our options granted during the three months ended December 31, 2010:

Expected life of options	**4.8 years**
Expected volatility	**51.7%**
Expected discrete dividends	**-**
Weighted average risk-free interest rate	**1.20%**
Weighted average fair value	**$ 2.11**

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

The intrinsic value of a stock option/SSAR is the amount by which the market value of the underlying stock exceeds the exercise price of the option/SSAR. At December 31, 2010, the aggregate intrinsic value of SSARs/stock options outstanding was approximately $1.4 million. The aggregate intrinsic value of SSARs/stock options vested and expected to vest in the future was approximately $1.3 million and had a weighted average expected life of 3.1 years. The aggregate intrinsic value of exercisable SSARs/stock options was approximately $0.3 million.

During the first quarter of fiscal 2010, certain executive officers and directors elected to relinquish 465,933 vested and outstanding options that had exercise prices above $20 per share in order to provide additional shares for use in the Company s January 2010 public stock offering.

Other Liabilities. Other liabilities include the following:

(In thousands)	**December 31, 2010**	September 30, 2010
Income tax liabilities	**$ 54,559**	$ 53,508
Accrued warranty expenses	**21,643**	25,821
Accrued interest	**19,650**	35,477
Accrued and deferred compensation	**20,255**	31,474
Customer deposits	**4,472**	3,678
Other	**70,276**	60,212

Total	**$**	**190,855**	$	210,170

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(2) Supplemental Cash Flow Information

(In thousands)	Three Months Ended December 31, **2010**	2009
Supplemental disclosure of non-cash activity:		
(Decrease) increase in obligations related to land not owned under option agreements	**$ (8,395)**	$ 8,179
Increase in obligation for future land purchase	**15,100**	
Non-cash land acquisitions	**770**	
Issuance of stock under deferred bonus stock plans	**3,258**	2,158
Supplemental disclosure of cash activity:		
Interest payments	**45,461**	37,200
Income tax payments	**62**	55
Tax refunds received	**1,824**	656

(3) Investments in Unconsolidated Joint Ventures

As of December 31, 2010, we participated in certain land development joint ventures in which Beazer Homes had less than a controlling interest. The following table presents our investment in our unconsolidated joint ventures, the total equity and outstanding borrowings of these joint ventures, and our guarantees of these borrowings, as of December 31, 2010 and September 30, 2010: