BEAZER HOMES USA INC
Form 10-Q
January 28, 2013
Table of Contents

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

FORM 10-Q

---

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

For the Quarterly Period Ended December 31, 2012
or

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

Commission File Number 001-12822

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

DELAWARE (State or other jurisdiction of incorporation or organization)	58-2086934 (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 January 25, 2013
Common Stock, $0.001 par value	25,095,788

Table of Contents

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

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this quarterly report in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A— Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business, but instead are the risks that we currently perceive as potentially being material. Such factors may include:

- economic changes nationally or in local markets, including changes in consumer confidence, changes in the level of housing starts, declines in employment levels, inflation and changes in the demand and prices of new homes and resale homes in the market;
- a slower economic rebound than anticipated, coupled with persistently high unemployment and additional foreclosures;
- estimates related to homes to be delivered in the future (backlog) are imprecise as they are subject to various cancellation risks which cannot be fully controlled;
- a substantial increase in mortgage interest rates, increased disruption in the availability of mortgage financing or a change in tax laws regarding the deductibility of mortgage interest;
- factors affecting margins such as decreased land values underlying land option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce production and overhead cost structure;
- the final outcome of various putative class action lawsuits, multi-party suits and similar proceedings as well as the results of any other litigation or government proceedings and fulfillment of the obligations in the Deferred Prosecution Agreement and consent orders with governmental authorities and other settlement agreements;
- our cost of and ability to access capital and otherwise meet our ongoing liquidity needs including the impact of any downgrades of our credit ratings or reductions in our tangible net worth or liquidity levels;
- our ability to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;
- estimates related to the potential recoverability of our deferred tax assets;
- increased competition or delays in reacting to changing consumer preference in home design;
- shortages of or increased prices for labor, land or raw materials used in housing production;
- additional asset impairment charges or writedowns;
- the impact of construction defect and home warranty claims;
- the cost and availability of insurance and surety bonds;
- delays in land development or home construction resulting from adverse weather conditions;
- potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations, or governmental policies and possible penalties for failure to comply with such laws, regulations and governmental policies;
- the performance of our unconsolidated entities and our unconsolidated entity partners;

- potential exposure related to additional repurchase claims on mortgages and loans originated by Beazer Mortgage Corporation;
- effects of changes in accounting policies, standards, guidelines or principles; or
- terrorist acts, acts of war and other factors over which the Company has little or no control.

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

BEAZER HOMES USA, INC.
FORM 10-Q
INDEX

PART I. FINANCIAL INFORMATION	4
Item 1. Financial Statements	4
Unaudited Condensed Consolidated Balance Sheets, December 31, 2012 and September 30, 2012	4
Unaudited Condensed Consolidated Statements of Operations, Three Months Ended December 31, 2012	5
Unaudited Condensed Consolidated Statements of Cash Flows, Three Months Ended December 31, 2012	6
Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3. Quantitative and Qualitative Disclosures about Market Risk	37
Item 4. Controls and Procedures	37
PART II. FINANCIAL INFORMATION	38
Item 1. Legal Proceedings	38
Item 6. Exhibits	39
SIGNATURES	39

Table of Contents

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, 2012	September 30, 2012
ASSETS		
Cash and cash equivalents	$396,696	$487,795
Restricted cash	251,455	253,260
Accounts receivable (net of allowance of $2,184 and $2,235, respectively)	23,484	24,599
Income tax receivable	2,513	6,372
Inventory		
Owned inventory	1,141,691	1,099,132
Land not owned under option agreements	9,205	12,420
Total inventory	1,150,896	1,111,552
Investments in unconsolidated entities	42,029	42,078
Deferred tax assets, net	6,924	6,848
Property, plant and equipment, net	18,054	18,974
Other assets	29,473	30,740
Total assets	$1,921,524	$1,982,218
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$56,062	$69,268
Other liabilities	122,269	147,718
Obligations related to land not owned under option agreements	3,625	4,787
Total debt (net of discounts of $2,944 and $3,082, respectively)	1,496,951	1,498,198
Total liabilities	1,678,907	1,719,971
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, 100,000,000 shares authorized, 24,690,033 and 24,601,830 issued and outstanding, respectively)	25	25
Paid-in capital	834,752	833,994
Accumulated deficit	(592,160)	(571,772)
Total stockholders' equity	242,617	262,247
Total liabilities and stockholders' equity	$1,921,524	$1,982,218

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended December 31,	
	2012	2011
Total revenue	$246,902	$188,548
Home construction and land sales expenses	210,614	162,776
Inventory impairments and option contract abandonments	204	3,503
Gross profit	36,084	22,269
Commissions	10,642	8,371
General and administrative expenses	26,328	28,194
Depreciation and amortization	2,715	2,403
Operating loss	(3,601)	(16,699)
Equity in income (loss) of unconsolidated entities	36	(77)
Other expense, net	(15,627)	(18,273)
Loss from continuing operations before income taxes	(19,192)	(35,049)
Benefit from income taxes	(253)	(35,747)
(Loss) income from continuing operations	(18,939)	698
(Loss) income from discontinued operations, net of tax	(1,449)	41
Net (loss) income	$(20,388)	$739
Weighted average number of shares:		
Basic	24,294	14,833
Diluted	24,294	17,421
(Loss) earnings per share:		
Basic (loss) earnings per share from continuing operations	$(0.78)	$0.05
Basic (loss) earnings per share from discontinued operations	$(0.06)	$—
Basic (loss) earnings per share	$(0.84)	$0.05
Diluted (loss) earnings per share from continuing operations	$(0.78)	$0.04
Diluted (loss) earnings per share from discontinued operations	$(0.06)	$—
Diluted (loss) earnings per share	$(0.84)	$0.04

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net (loss) income	$(20,388)	$739
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,715	2,424
Stock-based compensation expense	784	1,279
Inventory impairments and option contract abandonments	221	3,535
Deferred and other income tax benefit	(102)	(36,065)
Provision for doubtful accounts	(51)	3
Equity in (income) loss of unconsolidated entities	(36)	106
Cash distributions of income from unconsolidated entities	200	—
Changes in operating assets and liabilities:		
Decrease in accounts receivable	1,166	333
Decrease in income tax receivable	3,859	1,742
(Increase) decrease in inventory	(38,703)	12,097
Decrease in other assets	1,093	1,485
Decrease in trade accounts payable	(13,206)	(26,300)
Decrease in other liabilities	(24,982)	(32,448)
Other changes	(23)	(17)
Net cash used in operating activities	(87,453)	(71,087)
Cash flows from investing activities:		
Capital expenditures	(1,772)	(8,636)
Investments in unconsolidated entities	(115)	(477)
Increases in restricted cash	(278)	(672)
Decreases in restricted cash	2,083	489
Net cash used in investing activities	(82)	(9,296)
Cash flows from financing activities:		
Repayment of debt	(1,902)	(1,522)
Debt issuance costs	(1,136)	(97)
Settlement of unconsolidated entity debt obligation	(500)	(15,862)
Payments for other financing activities	(26)	(15)
Net cash used in financing activities	(3,564)	(17,496)
Decrease in cash and cash equivalents	(91,099)	(97,879)
Cash and cash equivalents at beginning of period	487,795	370,403
Cash and cash equivalents at end of period	$396,696	$272,524

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

(1) Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Beazer Homes USA, Inc. (Beazer Homes or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments (consisting primarily of normal recurring accruals) necessary for a fair presentation have been included in the accompanying financial statements. Certain items in prior period financial statements have been reclassified to conform to the current presentation. For further information and a discussion of our significant accounting policies other than as discussed below, refer to our audited consolidated financial statements appearing in the Beazer Homes' Annual Report on Form 10-K for the fiscal year ended September 30, 2012 (the 2012 Annual Report). Over the past few years, we have discontinued homebuilding operations in certain of our markets. Results from our title services business and our exit markets are reported as discontinued operations in the accompanying unaudited condensed consolidated statements of operations for all periods presented (see Note 14 for further discussion of our Discontinued Operations). On October 11, 2012, the Company announced the effectiveness of a one-for-five reverse stock split. All historic share and per share information, including earnings per share, in this Form 10-Q have been retroactively adjusted to reflect this reverse stock split. Certain items in prior period financial statements have been revised to conform to the current presentation. Our net loss is equivalent to our comprehensive loss so we have not presented a separate statement of comprehensive loss. We evaluated events that occurred after the balance sheet date but before the financial statements were issued or were available to be issued for accounting treatment and disclosure.

Inventory Valuation — We assess our inventory assets no less than quarterly for recoverability in accordance with the policies as described in Notes 1 and 4 to the consolidated financial statements in our 2012 Annual Report. Our homebuilding inventories that are accounted for as held for development include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. For those communities for which construction and development activities are expected to occur in the future or have been idled (land held for future development), all applicable interest and real estate taxes are expensed as incurred and the inventory is stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We record assets held for sale at the lower of the carrying value or fair value less costs to sell.

Other Liabilities. Other liabilities include the following:

(In thousands)	December 31, 2012	September 30, 2012
Income tax liabilities	$22,160	$22,225
Accrued warranty expenses	14,342	15,477
Accrued interest	16,097	28,673
Accrued and deferred compensation	13,812	24,612
Customer deposits	9,706	8,830
Other	46,152	47,901
Total	$122,269	$147,718

Recent Accounting Pronouncements. In May 2011, the Financial Accounting Standard Board (FASB) issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and International Financial Reporting Standards (IFRS), and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a

consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. The adoption of ASU 2011-04 effective with our second quarter of fiscal 2012 did not have a material effect on our operating results or financial position.

Table of Contents

(2) Supplemental Cash Flow Information

(In thousands)	Three Months Ended December 31, 2012	2011
Supplemental disclosure of non-cash activity:		
(Decrease) increase in obligations related to land not owned under option agreements	$(1,162)	$1,485
Decrease in future land purchase rights	—	(11,651)
Contribution of future land purchase rights to unconsolidated entities	—	11,651
Supplemental disclosure of cash activity:		
Interest payments	39,024	50,733
Income tax payments	15	179
Tax refunds received	3,925	1,966

(3) Investments in Unconsolidated Entities

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

(In thousands)	December 31, 2012	September 30, 2012
Beazer's investment in unconsolidated entities	$42,029	$42,078
Total equity of unconsolidated entity	443,526	383,482
Total outstanding borrowings of unconsolidated entities	64,281	64,912
Beazer's estimate of its maximum exposure to our repayment guarantees	—	696

For the three months ended December 31, 2012 and 2011, our income (loss) from unconsolidated entity activities, the impairments of our investments in certain of our unconsolidated entities, and the overall equity in income (loss) of unconsolidated entities is as follows:

(In thousands)	Three Months Ended December 31, 2012	2011
Continuing operations:		
Income (loss) from unconsolidated entity activity	$36	$(77)
Impairment of unconsolidated entity investment	—	—
Equity in income (loss) of unconsolidated entities - continuing operations	$36	$(77)
Reported in loss from discontinued operations, net of tax:		
Loss from unconsolidated entity activity	$—	$—
Impairment of unconsolidated entity investment	—	(29)
Equity in loss of unconsolidated entities - discontinued operations	$—	$(29)

South Edge/Inspirada

The Company holds a minority (less than 10%) interest in Inspirada Builders LLC which was formed in connection with the bankruptcy and subsequent plan of reorganization of the South Edge joint venture. During the quarter ended December 31, 2011, we paid $15.9 million in connection with this plan of reorganization. Our right to acquire land from Inspirada is a component of our investment. As such, we have recorded an investment in Inspirada, which includes the $11.7 million we previously estimated for our future right to purchase land and our cash contributions to the joint venture, primarily for organization costs. In addition to our initial payment, we, as a member of the Inspirada joint venture, will have obligations for a portion of future infrastructure and other development costs. At this time,

these costs cannot be quantified due to, among other things, uncertainty over the future

Table of Contents

development configuration of the project and the related costs, market conditions, uncertainty over the remaining infrastructure costs and potential recoveries from previously filed bankruptcies of certain other South Edge members. In addition, there are uncertainties with respect to the location and density of the land we will receive as a result of our investment in Inspirada, the products we will build on such land and the estimated selling prices of such homes. Because there are uncertainties with respect to development costs, in future periods, we may be required to record adjustments to the carrying value of this Inspirada investment as better information becomes available.

Pre-Owned Rental Homes

Effective May 3, 2012, we contributed $0.3 million in cash and our Pre-Owned Homes business at cost, including 190 homes in Arizona and Nevada, of which 187 were leased, for a 23.5% equity method investment in an unconsolidated real estate investment trust (the REIT). The Company also received grants of restricted units in the REIT, of which a portion vested during the year ended September 30, 2012 and the quarter ended December 31, 2012. As of December 31, 2012, we held a 15.14% investment in the REIT.

Subsequent to the initial REIT offering, we entered into a transition services agreement with the REIT under which we provide interim Chief Financial Officer and various back office and administrative support on an as needed basis. These services may include treasury operations and cash management services, accounting and financial reporting services, human resources support, environmental and safety services, and tax support. Fees received related to the transition services agreement billed at our cost and recognized as other income were not material to our consolidated financial results.

Guarantees

Our land development joint ventures typically obtain secured acquisition, development and construction financing. Generally, Beazer and our land development joint ventures partners provide varying levels of guarantees of debt and other obligations for these unconsolidated entities.

As of September 30, 2012, we had recorded $0.7 million in Other Liabilities related to one repayment guarantee. During the quarter ended December 31, 2012, we entered into a guarantee release agreement and paid $0.5 million to settle our liability and recognized the remaining $0.2 million as other income.

We and our joint venture partners generally provide unsecured environmental indemnities to land development joint ventures project lenders. In each case, we have performed due diligence on potential environmental risks. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the three months ended December 31, 2012 and 2011, we were not required to make any payments related to environmental indemnities.

In assessing the need to record a liability for the contingent aspect of these guarantees, we consider our historical experience in being required to perform under the guarantees, the fair value of the collateral underlying these guarantees and the financial condition of the applicable unconsolidated 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.

(4) Inventory

(In thousands)	December 31, 2012	September 30, 2012
Homes under construction	$261,062	$251,828
Development projects in progress	422,262	391,019
Land held for future development	367,245	367,102
Land held for sale	8,576	10,149
Capitalized interest	41,922	38,190
Model homes	40,624	40,844
Total owned inventory	$1,141,691	$1,099,132

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 147 ($33.6 million) and 174 ($39.7 million) substantially completed homes that were not subject to a sales contract (spec homes) at December 31, 2012 and September 30, 2012, respectively. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a deposit or sales contract. Land held

Table of Contents

for future development consists of communities for which construction and development activities are expected to occur in the future or have been idled and are stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. All applicable interest and real estate taxes on land held for future development are expensed as incurred. Land held for sale in Unallocated and Other includes land held for sale in the markets we have decided to exit including Jacksonville, Florida, Charlotte, North Carolina and Detroit, Michigan.
Total owned inventory, by reportable segment, is set forth in the table below:

(In thousands)	Projects in Progress	Held for Future Development	Land Held for Sale	Total Owned Inventory
December 31, 2012				
West Segment	$273,964	$318,350	$2,553	$594,867
East Segment	274,709	25,274	3,326	303,309
Southeast Segment	150,685	23,621	75	174,381
Unallocated & Other	66,512	—	2,622	69,134
Total	$765,870	$367,245	$8,576	$1,141,691
September 30, 2012				
West Segment	$261,239	$318,351	$2,553	$582,143
East Segment	279,954	25,130	3,204	308,288
Southeast Segment	118,853	23,621	1,675	144,149
Unallocated & Other	61,835	—	2,717	64,552
Total	$721,881	$367,102	$10,149	$1,099,132

Inventory Impairments. When conducting our community level review for the recoverability of our homebuilding inventories held for development, we establish a quarterly “watch list” of communities with more than 10 homes remaining that carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability. Assets on the quarterly watch list are subject to substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to profit margins below our threshold. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information.
In our impairment analyses for the quarter ended December 31, 2012, we have assumed limited market improvements in some communities beginning in fiscal 2014 and continuing improvement in these communities in subsequent years. For any communities scheduled to close out in fiscal 2013, we did not assume any market improvements. The discount rate used may be different for each community and ranged from 10.9% to 13.0% for the communities analyzed in the quarter ended December 31, 2012 and 14.3% to 17.0% for the quarter ended December 31, 2011. The following tables represent the results, by reportable segment of our community level review of the recoverability of our inventory assets held for development as of December 31, 2012, and 2011. We have elected to aggregate our disclosure at the reportable segment level because we believe this level of disclosure is most meaningful to the readers of our financial statements. The aggregate undiscounted cash flow fair value as a percentage of book value for the communities represented below is consistent with our expectations given our “watch list” methodology.

Table of Contents

($ in thousands)		Undiscounted Cash Flow Analyses Prepared		
Segment	# of Communities on Watch List	# of Communities	Pre-analysis Book Value (BV)	Aggregate Undiscounted Cash Flow as a % of BV
Quarter Ended December 31, 2012				
West	—	—	$—	n/a
East	3	3	9,588	107.0 %
Southeast	1	1	5,257	128.6 %
Unallocated	—	—	752	n/a
Total	4	4	$15,597	114.0 %
Quarter Ended December 31, 2011				
West	7	4	$15,543	96.7 %
East	4	1	1,711	100.8 %
Southeast	2	—	—	n/a
Unallocated	—	—	2,044	n/a
Total	13	5	$19,298	97.4 %

There were no impairments recorded during the three months ended December 31, 2012 related to our discounted cash flow analyses. The table below summarizes the results of our discounted cash flow analysis for the three months ended December 31, 2011. The impairment charges below include impairments taken as a result of these discounted cash flow analyses and impairment charges recorded for individual homes sold and in backlog with net contribution margins below a minimum threshold of profitability in communities that were not otherwise impaired through our discounted cash flow analyses. The estimated fair value of the impaired inventory is determined immediately after a community's impairment.

($ in thousands)	Communities Impaired As a Result of Discounted Cash Flow Analyses Prepared			
Segment	# of Communities Impaired	# of Lots Impaired	Impairment Charge	Estimated Fair Value of Impaired Inventory at Period End
Quarter Ended December 31, 2011				
West	1	51	$1,996	$6,377
East	—	—	—	—
Southeast	—	—	—	—
Unallocated	—	—	—	—
Continuing Operations	1	51	$1,996	$6,377
Discontinued Operations	—	—	—	—
Total	1	51	$1,996	$6,377

Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. During the quarter ended December 31, 2011, for certain communities we determined that it was prudent to reduce sales prices or further increase sales incentives in response to factors including competitive market conditions in those specific submarkets for the product and locations of these communities. Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including decreased sales prices, the change in sales prices and changes in absorption estimates based on current market conditions and management's assumptions relative to future results led to an impairment in one community in our West segment for the quarter

ended December 31, 2011. There were no comparable impairments in the quarter ended December 31, 2012. 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 markets deteriorate.

The impairments on land held for sale represent further write downs of these properties to net realizable value, less estimated costs to sell and are as a result of challenging market conditions and our review of recent comparable transactions. Our assumptions

Table of Contents

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 deteriorate.

Also, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to not exercise certain options and to write-off the deposits securing the option takedowns and pre-acquisition costs, as applicable. In determining whether to abandon a lot option contract, we evaluate the lot option primarily based upon the expected cash flows from the property that is the subject of the option. If we intend to abandon or walk-away from a lot option contract, we record a charge to earnings in the period such decision is made for the deposit amount and any related capitalized costs associated with the lot option contract. Abandonment charges relate to our decision to abandon or not exercise certain option contracts that are not projected to produce adequate results or no longer fit in our long-term strategic plan.

The following table sets forth, by reportable homebuilding segment, the inventory impairments and lot option abandonment charges recorded for the three months ended December 31, 2012 and 2011:

	Quarter Ended December 31,	
(In thousands)	2012	2011
Development projects and homes in process (Held for Development)		
West	$46	$1,996
East	13	122
Southeast	—	118
Unallocated	—	48
Subtotal	$59	$2,284
Land Held for Sale		
West	$—	$—
East	—	—
Southeast	—	208
Subtotal	$—	$208
Lot Option Abandonments		
West	$74	$2
East	22	474
Southeast	49	534
Unallocated	—	1
Subtotal	$145	$1,011
Continuing Operations	$204	$3,503
Discontinued Operations		
Held for Development	$—	$16
Land Held for Sale	17	—
Lot Option Abandonments	—	16
Subtotal	$17	$32
Total Company	$221	$3,535

Lot Option Agreements and Variable Interest Entities (VIE). As previously discussed, we also have access to land inventory through lot option contracts, which generally enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our lot option. A majority of our lot option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land for the right to acquire lots during a specified period of time at a certain price. Under lot option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our liability under option contracts is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred. 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.

Table of Contents

For the VIEs in which we are the primary beneficiary, we have consolidated the VIE and reflected such assets and liabilities as land not owned under option agreements in our balance sheets. For VIEs we were required to consolidate, we recorded the remaining contractual purchase price under the applicable lot option agreement to land not owned under option agreements with an offsetting increase to obligations related to land not owned under option agreements. Also, to reflect the purchase price of this inventory consolidated, we reclassified the related option deposits from land under development to land not owned under option agreement in the accompanying unaudited condensed consolidated balance sheets. Consolidation of these VIEs has no impact on the Company's results of operations or cash flows.
The following provides a summary of our interests in lot option agreements as of December 31, 2012 and September 30, 2012:

(In thousands)	Deposits & Non-refundable Preacquisition Costs Incurred	Remaining Obligation	Land Not Owned - Under Option Agreements
As of December 31, 2012			
Consolidated VIEs	$5,289	$2,650	$ 7,939
Other consolidated lot option agreements (a)	291	975	1,266
Unconsolidated lot option agreements	18,812	209,401	—
Total lot option agreements	$24,392	$213,026	$ 9,205
As of September 30, 2012			
Consolidated VIEs	$7,203	$3,346	$ 10,549
Other consolidated lot option agreements (a)	430	1,441	1,871
Unconsolidated lot option agreements	17,290	193,711	—
Total lot option agreements	$24,923	$198,498	$ 12,420

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

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

	Quarter Ended December 31,	
(In thousands)	2012	2011
Capitalized interest in inventory, beginning of period	$38,190	$45,973
Interest incurred	28,418	32,525
Capitalized interest impaired	—	(28)
Interest expense not qualified for capitalization and included as other expense	(16,211)	(19,117)
Capitalized interest amortized to house construction and land sales expenses	(8,475)	(12,843)
Capitalized interest in inventory, end of period	$41,922	$46,510

Table of Contents

(6) Earnings Per Share

Diluted earnings per share is calculated as follows (in thousands, except per share amounts):

	Quarter Ended December 31,	
	2012	2011
Diluted:		
(Loss) income from continuing operations	$(18,939)	$698
(Loss) Income from discontinued operations, net of tax	(1,449)	41
Net (loss) income	$(20,388)	$739
Weighted average number of shares outstanding - basic	24,294	14,833
Effect of dilutive securities:		
Shares issuable upon vesting of performance-based restricted stock	—	6
Shares issuable upon conversion of TEU prepaid stock purchase contracts	—	2,582
Weighted average number of shares outstanding-diluted	24,294	17,421
Diluted (loss) earnings per share from continuing operations	$(0.78)	$0.04
Diluted (loss) earnings per share from discontinued operations	(0.06)	—
Diluted (loss) earnings per share	$(0.84)	$0.04

In computing diluted loss per share for the quarter ended December 31, 2012 , all common stock equivalents were excluded from the computation of diluted loss per share as a result of their anti-dilutive effect, including options/stock-settled appreciation rights (SSARs) to purchase 0.6 million shares of common stock and 0.4 million and 8.1 million shares issuable upon the conversion of our Mandatory Convertible Notes and our TEU prepaid stock purchase contracts (based on the maximum potential shares upon conversion), respectively.

In computing diluted earnings per share for the three months ended December 31, 2011, 2.5 million common shares issuable upon conversion of our Mandatory Convertible Subordinated Notes and options/SSARs to purchase 0.5 million of common stock were excluded from the computation of diluted earnings per share as a result of their anti-dilutive effect.

During the quarter ended March 31, 2012, we exchanged 2.2 million shares of our common stock for $48.1 million of our Mandatory Convertible Subordinated Notes and 2.8 million shares of our common stock for 2.8 million TEUs comprised of prepaid stock purchase contracts and senior amortizing notes. During the quarter ended September 30, 2012, we issued an additional 4.6 million TEUs. As of December 31, 2012, there were $9.4 million of Mandatory Convertible Subordinated Notes and 4.8 million TEUs outstanding (including $22.0 million of amortizing notes). In January 2013, we issued 0.4 million shares of our common stock upon conversion of the Mandatory Convertible Subordinated Notes. If the remaining TEU instruments were converted at the maximum settlement factor under their respective agreements, we would be required to issue approximately 8.1 million shares of common stock to the instrument holders upon conversion. See Note 7 below for additional information related to the March 2012 conversion transactions and July 2012 TEU issuance.

Table of Contents

(7) Borrowings

At December 31, 2012 and September 30, 2012 we had the following long-term debt, net of discounts:

(In thousands)	Maturity Date	December 31, 2012	September 30, 2012
6 7/8% Senior Notes	July 2015	$172,454	$172,454
8 1/8% Senior Notes	June 2016	172,879	172,879
6 5/8% Senior Secured Notes	April 2018	300,000	300,000
9 1/8% Senior Notes	June 2018	300,000	300,000
9 1/8% Senior Notes	May 2019	235,000	235,000
TEU Senior Amortizing Notes	August 2013	239	316
TEU Senior Amortizing Notes	August 2015	21,716	23,500
Unamortized debt discounts		(2,944)	(3,082)
Total Senior Notes, net		1,199,344	1,201,067
Mandatory Convertible Subordinated Notes	January 2013	9,402	9,402
Junior subordinated notes	July 2036	52,120	51,603
Cash Secured Loan	November 2017	227,368	227,368
Other secured notes payable	Various Dates	8,717	8,758
Total debt, net		$1,496,951	$1,498,198

Secured Revolving Credit Facility — In September 2012, we amended and expanded our Secured Revolving Credit Facility from $22 million to $150 million. The amended three-year amended Secured Revolving Credit Facility provides for future working capital and letter of credit needs collateralized by substantially all of the Company's personal property (excluding cash and cash equivalents) and real property. This facility is subject to various financial, collateral-based and negative covenants with which we are required to comply. As of December 31, 2012, we were in compliance with all such covenants and had $150 million of available borrowings under the Secured Revolving Credit Facility. We have elected to cash collateralize all letters of credit; however, as of December 31, 2012, we have pledged approximately $1 billion of inventory assets to our Senior Secured Revolving Credit Facility to collateralize potential future borrowings or letters of credit. The Secured Revolving Credit Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. Subject to our option to cash collateralize our obligations under the Secured Revolving Credit Facility upon certain conditions, our obligations under the Secured Revolving Credit Facility are secured by liens on substantially all of our personal property and a significant portion of our owned real properties. There were no outstanding borrowings under the Secured Revolving Credit Facility as of December 31, 2012 or September 30, 2012.

We have entered into stand-alone, cash-secured letter of credit agreements with banks to maintain our pre-existing letters of credit and to provide for the issuance of new letters of credit. The letter of credit arrangements combined with our Secured Revolving Credit Facility provide a total letter of credit capacity of approximately $220.0 million. As of December 31, 2012 and September 30, 2012, we have letters of credit outstanding of $23.0 million and $24.7 million, respectively, which are secured by cash collateral in restricted accounts. The Company may enter into additional arrangements to provide additional letter of credit capacity.

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

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At December 31, 2012, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. The indentures provide that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding

Senior Notes. Specifically, certain indentures require us to offer to purchase 10% of the original amount of the Senior Notes at par if our consolidated tangible net worth (defined as stockholders' equity less intangible assets) is less than $85 million at the end of any two consecutive fiscal quarters. If triggered and fully subscribed, this could result in our having to purchase $62.5 million of notes, based on the original amounts of the

15

applicable notes; however, this amount may be reduced by certain Senior Note repurchases (potentially at less than par) made after the triggering date. As of December 31, 2012, our consolidated tangible net worth was $216.7 million.
In July 2012, we issued and sold $300 million aggregate principal amount of our 6.625% Senior Secured Notes due 2018 (Senior Secured Notes) through a private placement to qualified institutional buyers. The Senior Secured Notes were issued at par (before underwriting and other issuance costs). Interest on the Senior Secured Notes is payable semi-annually in cash in arrears, beginning October 15, 2012. The Senior Secured Notes will mature on April 15, 2018. The Senior Secured Notes were issued under an Indenture, dated as of July 18, 2012 (the "2012 Indenture") which contains covenants which, subject to certain exceptions, limit the ability of the Company and its restricted subsidiaries 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 the guarantors. The 2012 Indenture contains customary events of default.

Upon a change of control (as defined in the 2012 Indenture), the 2012 Indenture requires the Company to make an offer to repurchase the Senior Secured Notes at 101% of their principal amount, plus accrued and unpaid interest. If we sell certain assets and do not reinvest the net proceeds in compliance with the Indenture, then we must use the net proceeds to offer to repurchase the Senior Notes at 100% of their principal amount, plus accrued and unpaid interest. We may redeem the Senior Notes at any time prior to July 15, 2015, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium, plus accrued and unpaid interest to the redemption date. In addition, at any time on or prior to July 15, 2015, we may redeem up to