

BEAZER HOMES USA INC

Form 10-Q

May 15, 2008

**Table of Contents**

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

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

For the Quarterly Period Ended March 31, 2008  
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 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  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  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

Class  
Common Stock, \$0.001 par value

Outstanding at May 9, 2008  
39,234,305 shares

**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 within the meaning of the Private Securities Litigation Reform Act of 1995. 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, likely, will, goal, target or other similar terms. These 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, 2007. Such factors may include:

- the timing and final outcome of the United States Attorney investigation, the Securities and Exchange Commission's (SEC) investigation and other state and federal agency investigations, the putative class action lawsuits, the derivative claims, multi-party suits and similar proceedings as well as the results of any other litigation or government proceedings;

- material weaknesses in our internal control over financial reporting;

- additional asset impairment charges or writedowns;

- economic changes nationally or in local markets, including changes in consumer confidence, volatility of mortgage interest rates and inflation;

- continued or increased downturn in the homebuilding industry;

- estimates related to sales to be delivered in the future (backlog) are imprecise as they are subject to various cancellation risks which cannot be fully controlled;

- continued or increased disruption in the availability of mortgage financing;

- our cost of and ability to access capital and otherwise meet our ongoing liquidity needs including the impact of any further downgrades of our credit ratings;

- potential inability to comply with covenants in our debt agreements;

- continued negative publicity;

- increased competition or delays in reacting to changing consumer preference in home design;

- shortages of or increased prices for labor, land or raw materials used in housing production;

- factors affecting margins such as decreased land values underlying land option agreements, increased land development costs on projects 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 and the cost and availability of insurance, including the availability of insurance for the presence of moisture intrusion;

a material failure on the part of our subsidiary Trinity Homes LLC to satisfy the conditions of the class action settlement agreement, including assessment and remediation with respect to moisture intrusion related issues;

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;

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**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	4
<b><u>Item 1. Financial Statements</u></b>	4
<u>Unaudited Condensed Consolidated Balance Sheets, March 31, 2008 and September 30, 2007</u>	4
<u>Unaudited Condensed Consolidated Statements of Operations, Three and Six Months Ended March 31, 2008 and 2007</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows, Six Months Ended March 31, 2008 and 2007</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	35
<b><u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u></b>	50
<b><u>Item 4. Controls and Procedures</u></b>	50
<b><u>PART II. OTHER INFORMATION</u></b>	54
<b><u>Item 1. Legal Proceedings</u></b>	54
<b><u>Item 6. Exhibits</u></b>	58
<b><u>SIGNATURES</u></b>	59
<u>EX-10.1 LIMITED WAIVER</u>	
<u>EX-31.1 SECTION 302 CERTIFICATION</u>	
<u>EX-31.2 SECTION 302 CERTIFICATION</u>	
<u>EX-32.1 SECTION 906 CERTIFICATION</u>	
<u>EX-32.2 SECTION 906 CERTIFICATION</u>	

**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)

	<b>March 31, 2008</b>	September 30, 2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 273,670	\$ 454,337
Restricted cash	3,592	5,171
Accounts receivable	62,108	45,501
Income tax receivable	158,150	63,981
Inventory		
Owned inventory	2,074,151	2,537,791
Consolidated inventory not owned	194,024	237,382
Total inventory	2,268,175	2,775,173
Residential mortgage loans available-for-sale	93	781
Investments in unconsolidated joint ventures	54,834	109,143
Deferred tax assets	391,458	232,949
Property, plant and equipment, net	56,342	71,682
Goodwill	20,508	68,613
Other assets	78,095	102,690
Total assets	\$ 3,367,025	\$ 3,930,021
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Trade accounts payable	\$ 85,047	\$ 118,030
Other liabilities	420,988	453,089
Obligations related to consolidated inventory not owned	138,351	177,931
Senior Notes (net of discounts of \$2,799 and \$3,033, respectively)	1,522,201	1,521,967
Junior subordinated notes	103,093	103,093
Other secured notes payable	50,507	118,073
Model home financing obligations	96,422	114,116
Total liabilities	2,416,609	2,606,299
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, 80,000,000 shares authorized, 42,572,959 and 42,597,229 issued and 39,234,305 and 39,261,721 outstanding, respectively)	43	43
Paid-in capital	548,652	543,705
Retained earnings	585,628	963,869

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Treasury stock, at cost (3,338,654 and 3,335,508 shares, respectively)	<b>(183,907)</b>	(183,895)
Total stockholders' equity	<b>950,416</b>	1,323,722
Total liabilities and stockholders' equity	<b>\$ 3,367,025</b>	\$ 3,930,021

See Notes to Unaudited Condensed Consolidated Financial Statements.

4

---

**Table of Contents**

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

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2008	2007	2008	2007
Total revenue	\$ 405,417	\$ 823,604	\$ 906,071	\$ 1,619,592
Home construction and land sales expenses	379,424	706,653	815,740	1,375,198
Inventory impairments and option contract abandonments	187,860	105,245	356,372	245,612
Gross (loss) profit	(161,867)	11,706	(266,041)	(1,218)
Selling, general and administrative expenses	74,017	96,604	162,179	205,996
Depreciation and amortization	6,226	7,619	12,204	15,065
Goodwill impairment	48,105		48,105	
Operating loss	(290,215)	(92,517)	(488,529)	(222,279)
Equity in loss of unconsolidated joint ventures	(40,361)	(3,713)	(56,501)	(6,073)
Other (expense) income, net	(4,569)	3,115	(7,418)	5,206
Loss from continuing operations before income taxes	(335,145)	(93,115)	(552,448)	(223,146)
Benefit from income taxes	(106,422)	(35,044)	(186,064)	(83,687)
Loss from continuing operations	(228,723)	(58,071)	(366,384)	(139,459)
(Loss) income from discontinued operations, net of tax	(1,170)	880	(1,745)	2,365
Net loss	(229,893)	\$ (57,191)	\$ (368,129)	\$ (137,094)
Weighted average number of shares:				
Basic	38,548	38,427	38,548	38,353
Diluted	38,548	38,427	38,548	38,353
Earnings (loss) per share:				
Basic loss per share from continuing operations	\$ (5.93)	\$ (1.51)	\$ (9.50)	\$ (3.64)
Basic (loss) earnings per share from discontinued operations	\$ (0.03)	\$ 0.02	\$ (0.05)	\$ 0.06
Basic loss per share	\$ (5.96)	\$ (1.49)	\$ (9.55)	\$ (3.57)
Diluted loss per share from continuing operations	\$ (5.93)	\$ (1.51)	\$ (9.50)	\$ (3.64)
Diluted (loss) earnings per share from discontinued operations	\$ (0.03)	\$ 0.02	\$ (0.05)	\$ 0.06
Diluted loss per share	\$ (5.96)	\$ (1.49)	\$ (9.55)	\$ (3.57)
Cash dividends per share	\$	\$ 0.10	\$	\$ 0.20



See Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents**

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

	<b>Six Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net loss	\$ (368,129)	\$ (137,094)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	12,369	15,289
Stock-based compensation expense	5,241	3,927
Inventory impairments and option contract abandonments	356,372	245,612
Goodwill impairment charge	48,105	
Deferred income tax benefit	(93,921)	(66,711)
Excess tax benefit (deficiency) from equity-based compensation	388	(3,219)
Equity in loss of unconsolidated joint ventures	56,501	6,073
Cash distributions of income from unconsolidated joint ventures	1,047	2,326
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(14,663)	267,478
Increase in income tax receivable	(94,169)	(23,423)
Decrease (increase) in inventory	170,048	(2,216)
Decrease in residential mortgage loans available-for-sale	688	81,820
Decrease (increase) in other assets	45,730	(21,432)
Decrease in trade accounts payable	(33,240)	(52,688)
Decrease in other liabilities	(113,708)	(115,611)
Other changes	(6,305)	1,016
Net cash (used in) provided by operating activities	(27,646)	201,147
Cash flows from investing activities:		
Capital expenditures	(5,921)	(16,105)
Investments in unconsolidated joint ventures	(9,665)	(16,906)
Changes in restricted cash	1,579	(768)
Distributions from unconsolidated joint ventures		1,196
Net cash used in investing activities	(14,007)	(32,583)
Cash flows from financing activities:		
Borrowings under credit facilities and warehouse line		91,258
Repayment of credit facilities and warehouse line		(176,789)
Repayment of other secured notes payable	(99,785)	(6,445)
Repurchase of senior notes		(20,563)
Borrowings under model home financing obligations		1,444
Repayment of model home financing obligations	(17,694)	(4,862)
Debt issuance costs	(21,135)	(319)
Proceeds from stock option exercises		4,009
Common stock redeemed	(12)	(140)

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Excess tax benefit (deficiency) from equity-based compensation	<b>(388)</b>	3,219
Dividends paid		(7,806)
Net cash used in financing activities	<b>(139,014)</b>	(116,994)
Decrease in cash and cash equivalents	<b>(180,667)</b>	51,570
Cash and cash equivalents at beginning of period	<b>454,337</b>	167,570
Cash and cash equivalents at end of period	<b>\$ 273,670</b>	\$ 219,140

See Notes to Unaudited Condensed Consolidated Financial Statements.

6

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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 accounting principles generally accepted in the United States of America 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, 2007 (the 2007 Annual Report ).

**Stock-Based Compensation.** In the first quarter of fiscal 2006, we adopted Statement of Financial Accounting Standards ( SFAS ) 123R, *Share-Based Payment*. SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after October 1, 2005, as well as to the unvested portion of awards outstanding as of October 1, 2005. We use the Black-Scholes model to value stock-settled appreciation rights ( SSARs ) and stock option grants under SFAS 123R, and applied the modified prospective method for existing grants which requires us to value grants made prior to our adoption of SFAS 123R under the fair value method and expense the unvested portion over the remaining vesting period. SFAS 123R also requires us to estimate forfeitures in calculating the expense related to stock-based compensation. In addition, SFAS 123R requires us to reflect the benefits of tax deductions in excess of recognized compensation cost as a financing cash inflow and an operating cash outflow.

Nonvested stock granted to employees is valued based on the market price of the common stock on the date of the grant. Performance based, nonvested stock granted to employees is valued using the Monte Carlo valuation method. No performance-based nonvested stock was granted during the six months ended March 31, 2008 or 2007.

Compensation cost arising from nonvested stock granted to employees and from non-employee stock awards is recognized as an expense using the straight-line method over the vesting period. Unearned compensation is included in paid-in capital in accordance with SFAS 123R. As of March 31, 2008, there was \$17.0 million of total unrecognized compensation cost related to nonvested stock. That cost is expected to be recognized over a weighted average period of 3.1 years. For the three and six months ended March 31, 2008, our total stock-based compensation expense, included in selling, general and administrative expenses ( SG&A ), was approximately \$3.4 million (\$2.3 million net of tax) and \$5.2 million (\$3.8 million net of tax), respectively. Stock-based compensation expense for the three and six months ended March 31, 2007 was approximately \$200,000 (\$62,000 net of tax) and \$3.9 million (\$2.7 million net of tax), respectively.

Activity relating to nonvested stock awards for the three and six months ended March 31, 2008 is as follows:

	Three Months Ended March 31, 2008		Six Months Ended March 31, 2008	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of period	854,213	\$ 47.39	905,898	\$ 48.42
Granted			26,411	8.49
Vested			(28,531)	47.75
Forfeited	(4,817)	44.02	(54,382)	45.06

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End of period	849,396	\$ 47.71	849,396	\$ 47.41
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In addition, during the six months ended March 31, 2008, employees surrendered 3,146 shares, to us in payment of minimum tax obligations upon the vesting of nonvested stock under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of approximately \$26,000, or approximately \$8.53 per share, respectively.

7

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**Table of Contents**

The fair value of each option/SSAR grant is estimated on the date of grant using the Black-Scholes option-pricing model. Expected life of options and SSARs granted is generally computed using the mid-point between the vesting period and contractual life of the options/SSARs granted. Expected volatilities are based on the historical volatility of the Beazer Homes stock and other factors. Expected discrete dividends of \$0.00 per quarter (previously \$0.10 per quarter as of September 30, 2007) are assumed in lieu of a continuously compounding dividend yield. There were no options or SSARs grants in the six months ended March 31, 2008.

The following table summarizes stock options and SSARs outstanding as of March 31, 2008, as well as activity during the three and six months then ended:

	Three Months Ended March 31, 2008		Six Months Ended March 31, 2008	
	Shares	Weighted- Average Exercise Price	Shares	Weighted- Average Exercise Price
Outstanding at beginning of period	1,950,233	\$ 45.11	2,052,379	\$ 45.01
Granted				
Exercised				
Forfeited	(25,918)	35.10	(128,064)	41.47
Outstanding at end of period	1,924,315	\$ 45.25	1,924,315	\$ 45.25
Exercisable at end of period	746,617	\$ 28.76	746,617	\$ 28.76
Vested or expected to vest in the future	1,568,126	\$ 42.05	1,568,126	\$ 42.05

At March 31, 2008, the weighted-average remaining contractual life for all options/SSARs outstanding, currently exercisable, and vested or expected to vest in the future was 4.66 years, 3.71 years and 5.47 years, respectively. At March 31, 2008, 1,568,126 SSARs/options were vested or expected to vest in the future with a weighted average exercise price of \$42.05 and a weighted average expected life of 2.77 years. At March 31, 2008, the aggregate intrinsic value of SSARs/options outstanding, vested and expected to vest in the future and SSARs/options exercisable was approximately \$62,000. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the stock option. There were no option/SSAR exercises during the three or six months ended March 31, 2008.

**Recently Adopted Accounting Pronouncements.** On October 1, 2007, the Company adopted the provisions of Emerging Issues Task Force ( EITF ) Issue No. 06-8, *Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums*. EITF 06-8 states that the adequacy of the buyer's continuing investment under SFAS 66 should be assessed in determining whether to recognize profit under the percentage-of-completion method on the sale of individual units in a condominium project. This consensus requires that additional deposits be collected by developers of condominium projects that wish to recognize profit during the construction period under the percentage-of-completion method. EITF 06-8 is effective for fiscal years beginning after March 15, 2007. The adoption of EITF 06-8 did not have a material impact on our consolidated financial position, results of operations or cash flows.

As described in Note 8, on October 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*.

***Recent Accounting Pronouncements Not Yet Adopted.*** In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations*. SFAS 141R amends and clarifies the accounting guidance for the acquirer's recognition and measurement of assets acquired, liabilities assumed and noncontrolling interests of an acquiree in a business combination. SFAS 141R is effective for our fiscal year ended September 30, 2009. We do not expect the adoption of SFAS 141R to have a material impact on our consolidated financial statements.

**Table of Contents**

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, SFAS 157 provides guidance for using fair value to measure assets and liabilities. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS 157 includes provisions that require expanded disclosure of the effect on earnings for items measured using unobservable data. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position ( FSP ) 157-2, *Effective Date of FASB Statement No. 157*, delaying the effective date of certain non-financial assets and liabilities to fiscal periods beginning after November 15, 2008. We are currently evaluating the impact of adopting SFAS 157 on our consolidated financial condition and results of operations; however, it is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. SFAS 159 permits companies to measure certain financial instruments and other items at fair value. SFAS 159 is effective for our fiscal year beginning October 1, 2008. We are currently evaluating the impact of adopting SFAS 159 on our consolidated financial condition and results of operations; however, it is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB 51*. SFAS 160 requires that a noncontrolling interest (formerly minority interest) in a subsidiary be classified as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be included in the consolidated financial statements. SFAS 160 is effective for our fiscal year beginning October 1, 2009 and its provisions will be applied retrospectively upon adoption. We are currently evaluating the impact of adopting SFAS 160 on our consolidated financial condition and results of operations.

In December 2007, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin ( SAB ) 110 which expresses the views of the Staff regarding the use of the simplified method (the mid-point between the vesting period and contractual life of the option) for plain vanilla options in accordance with SFAS 123R. SAB 110 will allow the use of the simplified method beyond December 31, 2007 under certain conditions including a company's inability to rely on historical exercise data. We will consider SAB 110 for future grants.

**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 periodically for recoverability in accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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 should be 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 inventory held for development at the community level as factors indicate that an impairment may exist. 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;



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.

## **Table of Contents**

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 for 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.

The fair value of the assets 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. As of March 31, 2008, we used discount rates of 16% to 23% in our estimated discounted cash flow impairment calculations. We recorded impairments on land held for development and homes under construction during the three and six months ended March 31, 2008 of \$119.0 million and \$227.1 million, respectively. We recorded impairments on inventory held for development of \$82.2 million and \$197.4 million during the three and six months ended March 31, 2007, respectively.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rate, 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 the 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 Sale.** We record assets held for sale at the lower of the carrying value or fair value less costs to sell in accordance with SFAS 144. 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 land has been initiated;

the sale of the land is probable within one year;

the land 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, we will re-evaluate the best use of an asset that is currently being accounted for as held for development. In such instances, we 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 level of sales incentives required and the number of owned lots remaining in the community. If, based on this review, 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. During the quarter ended and six months ended March 31, 2008, we recorded inventory impairments on land held for sale of approximately \$55.7 million and \$89.1 million, respectively. During both the quarter ended and six months ended March 31, 2007, we recorded inventory impairments on land held for sale of approximately \$4.0 million.

**Table of Contents**

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.

**Goodwill.** Goodwill represents the excess of the purchase price over the fair value of assets acquired. We test goodwill for impairment annually as of April 30 or more frequently if an event occurs or circumstances indicate that the asset might be impaired. For purposes of goodwill impairment testing, we compare the fair value of each reporting unit with its carrying amount, including goodwill. Each of our operating divisions is considered a reporting unit. The fair value of each reporting unit is determined based on expected discounted future cash flows. If the carrying amount of a reporting unit exceeds its fair value, the goodwill within the reporting unit may be potentially impaired. An impairment loss is recognized if the carrying amount of the goodwill exceeds implied fair value of that goodwill. As a result of significantly less than expected new orders in our prime selling season, which is our second fiscal quarter, significant pricing pressures and additional incentives provided to homebuyers, our reforecasting of expected future results of operations and increasing inventory impairment charges, we tested all remaining goodwill balances for impairment as of March 31, 2008. We have estimated goodwill impairment charges totaling \$48.1 million relating to our reporting units in Arizona, Southern California, New Jersey and Virginia. We will finalize our impairment calculations in the third quarter of fiscal 2008 in connection with our annual goodwill impairment test as of April 30, 2008.

Goodwill impairment charges are reported in Corporate and unallocated and are not allocated to our homebuilding segments. Goodwill balances by reportable segment as of September 30, 2007 and March 31, 2008 were as follows:

<i>(in thousands)</i>	September 30, 2007	Goodwill Impairment	March 31, 2008
West	\$ 29,034	\$ (29,034)	\$
Mid-Atlantic	23,286	(19,071)	<b>4,215</b>
Southeast	5,044		<b>5,044</b>
Other Homebuilding	11,249		<b>11,249</b>
Total	\$ 68,613	\$ (48,105)	<b>\$ 20,508</b>

Inherent in our fair value determinations are certain judgments and estimates, including projections of future cash flows, the discount rate reflecting the risk inherent in future cash flows, our interpretation of current economic indicators and market valuations and our strategic plans with regard to our operations. A change in these underlying assumptions would cause a change in the results of the tests, which could cause the fair value of one or more reporting units to be more or less than their respective carrying amounts. In addition, to the extent that there are significant changes in market conditions or overall economic conditions or our strategic plans change, it is possible that our conclusion regarding goodwill impairment could change, which could have a material adverse effect on our financial position and results of operations. Impairment charges related to reporting units which are not currently impaired may occur in the future if further market deterioration occurs resulting in a revised analysis of fair value.

**Table of Contents****(2) Supplemental Cash Flow Information**

During the six months ended March 31, we paid interest of \$87.3 million in 2008 and \$74.4 million in 2007. In addition, we paid income taxes of \$0.8 million in 2008 and \$14.7 million in 2007. We also had the following non-cash activity (in thousands):

	Six Months Ended March 31,	
	2008	2007
Supplemental disclosure of non-cash activity:		
(Decrease) Increase in consolidated inventory not owned	\$ (39,580)	\$ 4,926
Land acquired through issuance of notes payable	32,219	35,513
Issuance of stock under deferred bonus stock plans	94	98

**(3) Inventory**

<i>(in thousands)</i>	March 31, 2008	September 30, 2007
Homes under construction	\$ 669,332	\$ 787,102
Development projects in progress	1,115,854	1,546,389
Unimproved land held for future development	8,536	11,101
Land Held for Sale	163,325	49,473
Model homes	117,104	143,726
<b>Total Owned Inventory</b>	<b>\$ 2,074,151</b>	<b>\$ 2,537,791</b>

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 439 (\$94.9 million) and 862 (\$179.4 million) completed homes that were not subject to a sales contract at March 31, 2008 and September 30, 2007, 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.

Total owned inventory, by reportable segment, is set forth in the table below (in thousands):

	March 31, 2008			September 30, 2007		
	Held for Development	Land Held for Sale	Total Owned Inventory	Held for Development	Land Held for Sale	Total Owned Inventory
West Segment	\$ 673,338	\$ 34,806	\$ 708,144	\$ 868,675	\$ 35,578	\$ 904,253
Mid-Atlantic Segment	413,862	20,868	434,730	439,712		439,712
Florida Segment	128,476	13,442	141,918	203,417		203,417
Southeast Segment	247,856	60,047	307,903	373,111	1,407	374,518
Other	278,828	34,162	312,990	407,194	12,488	419,682
Unallocated	168,466		168,466	196,209		196,209
<b>Total</b>	<b>\$ 1,910,826</b>	<b>\$ 163,325</b>	<b>\$ 2,074,151</b>	<b>\$ 2,488,318</b>	<b>\$ 49,473</b>	<b>\$ 2,537,791</b>

**Table of Contents**

The following tables set forth, by reportable segment, the inventory impairments and lot option abandonment charges recorded (in thousands):

	Quarter Ended March		Six Months Ended March	
	31, 2008	2007	31, 2008	2007
Development projects and homes in process (Held for Development)				
West	\$ 59,975	\$ 32,486	\$ 125,421	\$ 82,909
Mid-Atlantic	26,877	23,809	49,878	34,979
Florida	9,046	3,341	12,139	37,973
Southeast	10,067	2,198	17,610	4,871
Other	4,225	15,550	5,324	24,490
Unallocated	8,848	4,841	16,737	12,195
Subtotal	\$ 119,038	\$ 82,225	\$ 227,109	\$ 197,417
Land Held for Sale				
West	\$ 804	\$ 3,105	\$ 804	\$ 3,105
Mid-Atlantic	9,171		9,171	
Florida	23,035		23,035	
Southeast	980	500	15,453	500
Other	21,663	350	40,630	350
Subtotal	\$ 55,653	\$ 3,955	\$ 89,093	\$ 3,955
Lot Option Abandonments				
West	\$ 783	\$ 9,002	\$ 828	\$ 11,758
Mid-Atlantic	4,862	2,410	6,658	4,697
Florida	3,273	3,761	3,748	14,272
Southeast	3,965	2,288	27,390	3,249
Other	286	1,604	1,546	10,264
Subtotal	\$ 13,169	\$ 19,065	\$ 40,170	\$ 44,240
Total	\$ 187,860	\$ 105,245	\$ 356,372	\$ 245,612

The inventory impaired during the three and six months ended March 31, 2008 represented 3,534 and 6,420 lots in 85 and 147 communities with an estimated fair value of \$205.5 million and \$392.0 million, respectively. The impairments recorded on our held for development inventory, for all segments, primarily resulted from the continued significant decline in the homebuilding environment that negatively impacted the sales prices of homes and increased the sales incentives offered to potential homebuyers in our efforts to increase home sales absorptions. Our West and Mid-Atlantic segments experienced the most significant amount of inventory impairments as compared to our other homebuilding segments due to the fact that the number of owned land and lots in the West and Mid-Atlantic segments comprise approximately 29% and 10%, respectively, of our total land and lots owned as of March 31, 2008 and approximately 35% and 22%, respectively, of the dollar value of our held for development inventory as of March 31,

2008. In addition, our homebuilding markets that comprise our West segment consist of markets that once experienced the most significant home price appreciation in the nation during the 2004 through 2006 periods which was driven in large part by speculative purchases and the availability of mortgage credit during those time periods which are no longer present in the marketplace. The decline in the availability of mortgage loan products and the exit of speculators from the market, among other factors, contributed to the significant increase in the supply of new and used homes on the market for sale.

The impairments recorded in our other segments are primarily as a result of continued price competition brought on by the significant increase in new and resale home inventory during the three and six months ended March 31, 2008 that has resulted in increased sales incentives and home sales price declines as we attempt to increase new orders and generate cash to the Company.

There was a significant increase in impairments related to properties held for sale during the three and six months ended March 31, 2008 as a result of the Company's decision to reduce its inventory risk in general and to exit markets no longer viewed as strategic.

**Table of Contents**

We acquire certain lots by means of option contracts. Option contracts generally require the payment of cash for the right to acquire lots during a specified period of time at a certain price. Under option contracts, both with and without specific performance provisions, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our obligation with respect to options with specific performance provisions is included in our consolidated balance sheets in other liabilities. Under option contracts without specific performance obligations, our liability is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which aggregated approximately \$110.4 million at March 31, 2008. This amount includes non-refundable letters of credit of approximately \$17.1 million. The total remaining purchase price, net of cash deposits, committed under all options was \$1.2 billion as of March 31, 2008. Only \$71.8 million of the total remaining purchase price contains specific performance clauses which may require us to purchase the land or lots upon the land seller meeting certain obligations.

In addition, we have also completed a strategic review of all of the markets within our homebuilding segments and the communities within each of those markets with an initial focus on the communities for which land has been secured with option purchase contracts. As a result of this review, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as preacquisition costs. The total abandonments recorded for the three months and six months ended March 31, 2008 were \$13.2 million and \$40.2 million representing 12 and 40 communities, respectively, with the Southeast segment representing 68.2% of the six-month abandonments as we made the decision to abandon certain option contracts that no longer fit in our long-term strategic plan.

We expect to exercise substantially all of our option contracts with specific performance obligations and, subject to market conditions, most of our option contracts without specific performance obligations. 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 land options will be exercised.

Certain of our option contracts are with sellers who are deemed to be variable interest entities ( VIE s) under FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*, an Interpretation of ARB No. 51 ( FIN 46R ). FIN 46R defines a VIE as an entity with insufficient equity investment to finance its planned activities without additional financial support or an entity in which the equity investors lack certain characteristics of a controlling financial interest. Pursuant to FIN 46R, an enterprise that absorbs a majority of the expected losses or receives a majority of the expected residual returns of a VIE is deemed to be the primary beneficiary of the VIE and must consolidate the VIE.

We have determined that we are the primary beneficiary of certain of these option contracts. Our risk is generally limited to the option deposits that we pay, and creditors of the sellers generally have no recourse to the general credit of the Company. Although we do not have legal title to the optioned land, for those option contracts for which we are the primary beneficiary, we are required to consolidate the land under option at fair value. We believe that the exercise prices of our option contracts approximate their fair value. Our consolidated balance sheets at March 31, 2008 and September 30, 2007 reflect consolidated inventory not owned of \$194.0 million and \$237.4 million, respectively. We consolidated \$76.5 million and \$92.3 million of lot option agreements as consolidated inventory not owned pursuant to FIN 46R as of March 31, 2008 and September 30, 2007, respectively. In addition, as of March 31, 2008 and September 30, 2007, we recorded \$117.5 million and \$145.1 million, respectively, of land under the caption consolidated inventory not owned related to lot option agreements in accordance with SFAS 49, *Product Financing Arrangements*. Obligations related to consolidated inventory not owned totaled \$138.4 million at March 31, 2008 and \$177.9 million at September 30, 2007. The difference between the balances of consolidated inventory not owned and obligations related to consolidated inventory not owned represents cash deposits paid under the option agreements.

**(4) Investments in Unconsolidated Joint Ventures**

As of March 31, 2008 we participated in 19 land development joint ventures in which Beazer Homes had less than a controlling interest. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. Equity in loss of



unconsolidated joint ventures was \$(40.4) million and \$(3.7) million for the three months ended March 31, 2008 and 2007 and \$(56.5) million and \$(6.1) million for the six months ended March 31, 2008 and 2007, respectively. Equity in loss of unconsolidated joint ventures for three and six months ended March 31, 2008 included the writedown of our investment in certain of our joint ventures, reflecting \$31.7 million and \$44.6 million, respectively, of impairments of inventory held within those ventures in accordance with APB 18, *The Equity Method of Accounting for Investments in Common Stock*. Joint venture impairments totaled \$3.1 million for the three and six months ended March 31, 2007. Our joint ventures typically obtain secured acquisition and development financing. The following table presents our investment in and guarantees under our unconsolidated joint ventures, as well as total equity and outstanding borrowings of these joint ventures as of March 31, 2008 and September 30, 2007:

**Table of Contents**

(in thousands)	<b>March 31, 2008</b>	September 30, 2007
Beazer's investment in joint ventures	\$ 54,834	\$ 109,143
Total equity of joint ventures	<b>374,979</b>	523,597
Total outstanding borrowings of joint ventures	<b>642,808</b>	785,437
Beazer's portion of loan to maintenance guarantees	<b>6,101</b>	7,717
Beazer's portion of repayment guarantees	<b>38,993</b>	42,307

The decrease in our investment in these joint ventures from September 30, 2007 to March 31, 2008 relates primarily to \$44.6 million of impairments of inventory held within the joint ventures. In connection with the exchange of our interest in these two joint ventures with our joint venture partner, we also acquired that partner's interest in two separate joint ventures. In connection with the acquisition of one of these joint ventures, we assumed the joint venture's debt of approximately \$22.7 million.

At March 31, 2008 and September 30, 2007, total borrowings outstanding above, include \$327.9 million and \$450.6 million related to one joint venture in which we are a 2.58% partner. In some instances, Beazer Homes and our joint venture partners have provided varying levels of guarantees of debt of our unconsolidated joint ventures. At March 31, 2008, these guarantees included, for certain joint ventures, construction completion guarantees, loan to value maintenance agreements, repayment guarantees and environmental indemnities. See Note 9 for further discussion of these guarantees.

During the three months ended March 31, 2008, the lender to one of the Company's joint ventures, in which the Company has a 2.58% partnership interest, notified the joint venture partners that it believes the joint venture is in default of certain joint venture loan agreements as a result of certain of the Company's joint venture partners not complying with all aspects of the joint ventures' loan agreements. The lender has not taken any action against the joint venture or the Company at this time. The joint venture partners are currently in discussions with the lender. The Company's share of the debt is approximately \$9.5 million at March 31, 2008 with a total repayment guarantee of \$15.1 million. Our equity interest at March 31, 2008 was \$7.9 million in this joint venture.

**(5) Interest**

The following table sets forth certain information regarding interest (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Capitalized interest in inventory, beginning of period	\$ 86,862	\$ 89,601	\$ 87,560	\$ 78,996
Interest incurred and capitalized	<b>21,883</b>	37,899	<b>50,987</b>	74,708
Capitalized interest impaired	<b>(5,641)</b>	(2,965)	<b>(10,593)</b>	(5,826)
Capitalized interest amortized to house construction and land sales expenses	<b>(24,439)</b>	(31,296)	<b>(49,289)</b>	(54,639)
Capitalized interest in inventory, end of period	<b>\$ 78,665</b>	\$ 93,239	<b>\$ 78,665</b>	\$ 93,239

**Table of Contents****(6) Earnings Per Share and Stockholders Equity**

Basic and diluted earnings per share were calculated as follows (in thousands, except per share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Loss from continuing operations	\$ (228,723)	\$ (58,071)	\$ (366,384)	\$ (139,459)
(Loss) income from discontinued operations, net of tax	(1,170)	880	(1,745)	2,365
Net loss	\$ (229,893)	\$ (57,191)	\$ (368,129)	\$ (137,094)
Weighted average number of shares:				
Basic	38,548	38,427	38,548	38,353
Diluted	38,548	38,427	38,548	38,353
Earnings (loss) per share:				
Basic loss per share from continuing operations	\$ (5.93)	\$ (1.51)	\$ (9.50)	\$ (3.64)
Basic (loss) earnings per share from discontinued operations	\$ (0.03)	\$ 0.02	\$ (0.05)	\$ 0.06
Basic loss per share	\$ (5.96)	\$ (1.49)	\$ (9.55)	\$ (3.57)
Diluted loss per share from continuing operations				
Diluted (loss) earnings per share from discontinued operations	\$ (0.03)	\$ 0.02	\$ (0.05)	\$ 0.06
Diluted loss per share	\$ (5.96)	\$ (1.49)	\$ (9.55)	\$ (3.57)

In computing diluted loss per share for the three and six months ended March 31, 2008 and 2007, all common stock equivalents were excluded from the computation of diluted loss per share as a result of their anti-dilutive effect.

**(7) Borrowings**

At March 31, 2008 and September 30, 2007 we had the following borrowings (*in thousands*):

	Maturity Date	March 31, 2008	September 30, 2007
Revolving Credit Facility	August 2009	\$	\$
8 5/8% Senior Notes*	May 2011	180,000	180,000
8 3/8% Senior Notes*	April 2012	340,000	340,000
6 1/2% Senior Notes*	November 2013	200,000	200,000
6 7/8% Senior Notes*	July 2015	350,000	350,000
8 1/8% Senior Notes*	June 2016	275,000	275,000
4 5/8% Convertible Senior Notes*	June 2024	180,000	180,000
Junior subordinated notes	July 2036	103,093	103,093
Other secured notes payable	Various Dates	50,507	118,073
Model home financing obligations	Various Dates	96,422	114,116

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Unamortized debt discounts	(2,799)	(3,033)
Total	\$ 1,772,223	\$ 1,857,249

\* Collectively, the  
Senior Notes

**Warehouse Line** Effective February 7, 2007, Beazer Mortgage amended its 364-day credit agreement (the Warehouse Line ) to extend its maturity date to February 8, 2008 and modify the maximum available borrowing capacity to \$100 million, subject to compliance with the mortgage loan eligibility requirements as defined in the Warehouse Line. The Warehouse Line was secured by certain mortgage loan sales and related property. The Warehouse Line was entered into with a number of banks to fund the origination of residential mortgage loans. The maximum available borrowing capacity was subsequently reduced through amendments down to \$17 million as of September 30, 2007. We had no borrowings outstanding under the Warehouse Line as of September 30, 2007. The Warehouse Line was not guaranteed by Beazer Homes USA, Inc. or any of its subsidiaries that are guarantors of the Senior Notes or Revolving Credit Facility. Effective November 14, 2007, we terminated the Warehouse Line, at which time there were no outstanding borrowings.

**Table of Contents**

**Revolving Credit Facility** In July 2007, we replaced our former credit facility with a new \$500 million, four-year unsecured revolving credit facility (the Revolving Credit Facility ) with a group of banks, which matures in 2011. The former credit facility included a \$1 billion four-year revolving credit facility which would have matured in August 2009. The Revolving Credit Facility has a \$350 million sublimit for the issuance of standby letters of credit. We have the option to elect two types of loans under the Revolving Credit Facility which incur interest as applicable based on either the Alternative Base Rate or the Applicable Eurodollar Margin (both defined in the Revolving Credit Facility). The Revolving Credit Facility contains various operating and financial covenants. Substantially all of our significant subsidiaries are guarantors of the obligations under the Revolving Credit Facility (see Note 12).

We fulfill our short-term cash requirements with cash generated from our operations and funds available from our Revolving Credit Facility. There were no amounts outstanding under the Revolving Credit Facility at March 31, 2008 or September 30, 2007; however, we had \$68.0 million and \$133.3 million of letters of credit outstanding under the Revolving Credit Facility at March 31, 2008 and September 30, 2007, respectively.

On October 10, 2007, we entered into a waiver and amendment of our Revolving Credit Facility, waiving events of default through May 15, 2008 under the facility arising from our failure to file or deliver reports or other information we would be required to file with the SEC and our decision to restate our financial statements. Under this and the October 26, 2007 amendments, any obligations under the Revolving Credit Facility will be secured by certain assets and our ability to borrow under this facility is subject to satisfaction of a secured borrowing base. We are permitted to grow the borrowing base by adding additional cash and/or real estate as collateral securing the Revolving Credit Facility. In addition, we obtained additional flexibility with respect to our financial covenants in the Revolving Credit Facility. At March 31, 2008, we had available borrowings of \$18.9 million under the Revolving Credit Facility. On May 9, 2008, we secured additional assets under the facility which increased our borrowing capacity to approximately \$55.0 million.

On May 13, 2008, we obtained a limited waiver which relaxed, through June 30, 2008, our minimum consolidated tangible net worth and maximum leverage ratio requirements under our Revolving Credit Facility. During the term of the waiver, the minimum consolidated tangible net worth shall not be less than \$700 million and the leverage ratio shall not exceed 2.50 to 1.00. We are currently negotiating an amended covenant package with our bank group and expect to enter into an amendment prior to finalizing our financial statements for the fiscal quarter ending June 30, 2008.

**Senior Notes** - The Senior Notes are unsecured 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 Revolving Credit Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes.

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At March 31, 2008, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. Each indenture provides 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.

In March 2007, we voluntarily repurchased \$10.0 million of our outstanding 8 5/8% Senior Notes and \$10.0 million of our outstanding 8 3/8% Senior Notes on the open market. The aggregate purchase price was \$20.6 million, or an average of 102.8% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest as of the purchase date. The repurchase of the notes resulted in a \$562,500 pretax loss during the second quarter of fiscal 2007. On March 28, 2007, we repurchased an additional \$10.0 million of our outstanding 8 5/8% Senior Notes which were cash settled on April 2, 2007 at a purchase price of \$9.85 million, or an average of 98.5% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest as of the purchase date. The repurchase of the notes resulted in a \$150,000 pre-tax gain during the third quarter of fiscal 2007. Gains/losses from notes repurchased are included in other (expense) income, net in the accompanying unaudited condensed consolidated statements of operations. Senior Notes purchased by the Company were cancelled.

On October 26, 2007, we obtained consents from holders of our Senior Notes to approve amendments of the indentures under which the Senior Notes were issued. These amendments restrict our ability to secure additional debt in excess of \$700 million until certain conditions are met and enable us to invest up to \$50 million in joint ventures. The consents also provided us with a waiver of any and all defaults under the Senior Notes that may have occurred or may occur on or prior to May 15, 2008 relating to filing or delivering annual and quarterly financial statements. Fees and expenses related to obtaining these consents totaled approximately \$21 million. The recording of such fees and expenses has been deferred and will be amortized as an adjustment to interest expense in accordance with EITF 96-19 Debtor s Accounting for a Modification or Exchange of Debt Instruments.

**Table of Contents**

**Junior Subordinated Notes** On June 15, 2006, we completed a private placement of \$103.1 million of unsecured junior subordinated notes which mature on July 30, 2036 and are redeemable at par on or after July 30, 2011 and pay a fixed rate of 7.987% for the first ten years ending July 30, 2016. Thereafter, the securities have a floating interest rate equal to three-month LIBOR plus 2.45% per annum, resetting quarterly. These notes were issued to Beazer Capital Trust I, which simultaneously issued, in a private transaction, trust preferred securities and common securities with an aggregate value of \$103.1 million to fund its purchase of these notes. The transaction is treated as debt in accordance with GAAP. The obligations relating to these notes and the related securities are subordinated to the Revolving Credit Facility and the Senior Notes.

On April 30, 2008, we received a default notice from The Bank of New York Trust Company, National Association, the trustee under the indenture governing these junior subordinated notes. The notice alleges that we are in default under the indenture because we have not yet furnished certain required information (including our annual audited and quarterly unaudited financial statements). The notice further alleges that this default will become an event of default under the indenture if not remedied within 30 days. We expect to be able to cure this default on or before May 15, 2008.

**Other Secured Notes Payable** We periodically acquire land through the issuance of notes payable. As of March 31, 2008 and September 30, 2007, we had outstanding notes payable of \$50.5 million and \$118.1 million, respectively, primarily related to land acquisitions. These notes payable expire at various times through 2010 and had fixed and variable rates ranging from 5.4% to 8.0% at March 31, 2008. These notes are secured by the real estate to which they relate. During the first six months of fiscal 2008, we repaid \$99.8 million of these secured notes payable. In connection with the exchange of our interest in two joint ventures to our joint venture partner, we also acquired that partner's interest in two separate joint ventures. In connection with the acquisition of one of these ventures, we assumed the joint venture's debt of approximately \$22.7 million which is included in other secured notes payable as of March 31, 2008.

**Model Home Financing Obligations** - Due to a continuing interest in certain model home sale-leaseback transactions, we have recorded \$96.4 million and \$114.1 million of debt as of March 31, 2008 and September 30, 2007, respectively, related to these financing transactions in accordance with SFAS 98 (As amended), *Accounting for Leases*. These model home transactions incur interest at a variable rate of one-month LIBOR plus 450 basis points, 7.61% as of March 31, 2008, and expire at various times through 2015.

Other than the addition of the model home financing obligations discussed above, there were no material changes to the future maturities of our borrowings.

**(8) Income Taxes**

On October 1, 2007 the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 defines the threshold for recognizing the benefits of tax return positions as well as guidance regarding the measurement of the resulting tax benefits. FIN 48 requires a company to recognize for financial statement purposes the impact of a tax position, if a tax return position is more likely than not to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of the adoption of FIN 48 was recorded as a \$10.1 million reduction to retained earnings as of October 1, 2007. The total amount of gross unrecognized tax benefits as of October 1, 2007 was \$72.5 million (which excludes interest, penalties, and the tax benefit relating to the deductibility of interest and state income tax). The adoption of FIN 48 also increased our gross deferred tax assets by approximately \$65 million. The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$26.5 million, as of October 1, 2007.

Since the adoption of FIN 48 on October 1, 2007, there have been no material changes to the components of the Company's total unrecognized tax benefit, including the amounts that, if recognized, would affect the Company's effective tax rate. It is reasonably possible that, within the next 12 months, total unrecognized tax benefits may decrease as a result of the potential resolution with the IRS relating to issues stemming from fiscal year 2003 and 2004

federal income tax returns, in addition to the resolution of various state income tax audits and/or appeals. The change that could occur within the next 12 months, however, cannot be estimated at this time. The statute of limitations for the Company's major tax jurisdictions remains open for examination for fiscal years 2003 through 2007.



**Table of Contents**

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision, consistent with the Company's historical accounting policy. After the adoption of FIN 48, the total amount of gross accrued interest and penalties was \$19.3 million. The Company recorded an additional \$0.9 million and \$1.0 million of gross interest and penalties during the three and six months ended March 31, 2008, respectively, in accordance with FIN 48, resulting in a \$21.2 million accrued balance at March 31, 2008. The Company's liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of other liabilities.

Primarily as a result of recording significant inventory impairment charges during fiscal 2007 and in the six months ended March 31, 2008, the balance of our deferred tax assets increased substantially. The net deferred tax asset of \$391.0 million as of March 31, 2008 assumes that the value of these assets will be realized. In assessing the recoverability of deferred tax assets, we analyze all evidence, both positive and negative. As of March 31, 2008, the positive evidence we considered included (1) the cyclical nature of the homebuilding industry; (2) our long history of profitability; (3) the determination that we are not in a cumulative loss position; (4) our experience that no NOLs have expired unutilized; (5) our ability to carryback NOLs; and (6) the steps we are taking to improve our future profitability. As of March 31, 2008, we considered the negative evidence including (1) our first quarter fiscal 2008 loss and the expectation of losses in the remainder of fiscal 2008 and (2) the uncertainty as to the timing of when the homebuilding industry will rebound. After consideration of this evidence, we believe that as of March 31, 2008, it is more likely than not that our net deferred tax assets are recoverable. If market conditions within the homebuilding industry do not improve or continue to worsen and/or our assessment of the positive and negative evidence changes, it may affect our ability to fully realize the value of these assets, which may require a valuation adjustment and additional income tax expense in our consolidated statements of operations, and such expense could be material. Our income tax receivable was \$158.2 million and \$64.0 million as of March 31, 2008 and September 30, 2007, respectively. This receivable relates primarily to the carryback of losses in fiscal 2007 and the six months ended March 31, 2008 to open tax years in which we previously paid significant income taxes.

**(9) Contingencies**

Beazer Homes and certain of its subsidiaries have been and continue to be named as defendants in various construction defect claims, complaints and other legal actions that include claims related to moisture intrusion.

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

Since we subcontract our homebuilding work to subcontractors who generally provide us with an indemnity and a certificate of insurance prior to receiving payments for their work, many claims relating to workmanship and materials are the primary responsibility of the subcontractors.

**Table of Contents**

Our warranty reserves at March 31, 2008 and 2007 include accruals for Trinity Homes LLC ( Trinity ) moisture intrusion issues discussed more fully below. Warranty reserves are included in other liabilities and the provision for warranty accruals is included in home construction and land sales expenses in the unaudited condensed consolidated financial statements. We record reserves covering anticipated warranty expense for each home closed. Management reviews the adequacy of warranty reserves each reporting period based on historical experience and management's estimate of the costs to remediate the claims and adjusts these provisions accordingly. While we believe that our warranty reserves are adequate, historical data and trends may not accurately predict actual warranty costs, or future developments could lead to a significant change in the reserve. Our warranty reserves, which include amounts related to the Trinity moisture intrusion issues discussed below, are as follows (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Balance at beginning of period	\$ <b>48,956</b>	\$ 93,840	\$ <b>57,053</b>	\$ 99,030
Provisions (1)	<b>4,824</b>	4,461	<b>6,232</b>	10,658
Payments	<b>(6,677)</b>	(10,834)	<b>(16,182)</b>	(22,221)
Balance at end of period	\$ <b>47,103</b>	\$ 87,467	\$ <b>47,103</b>	\$ 87,467

- (1) Upon review of the adequacy of the warranty reserves, it was determined that the warranty reserve as of March 31, 2008 and 2007, respectively, contained reserves in excess of anticipated claims related to the Trinity moisture intrusion issues. As a result, the provision for warranty reserves for the three and six months ended March 31, 2007 was reduced by \$6.0 million and the provision for

warranty reserves for the three and six months ended March 31, 2008 was reduced by \$0.4 million and \$1.0 million, respectively.

**Trinity Claims** Beazer Homes and certain of our subsidiaries have been and continue to be named as defendants in various construction defect claims, complaints and other legal actions that include claims related to moisture intrusion. We have experienced a significant number of such claims in our Midwest region and particularly with respect to homes built by Trinity, a subsidiary which was acquired in the Crossmann acquisition in 2002.

As of March 31, 2008, there were four pending lawsuits related to such complaints received by Trinity. All suits are by individual homeowners, and the cost to resolve these matters is not expected to be material, either individually or in the aggregate. Additionally, a class action suit was filed in the State of Indiana in August 2003 against Trinity Homes LLC. The parties in the class action reached a settlement agreement which was approved by the court on October 20, 2004.

The settlement class includes, with certain exclusions, the current owners of all Trinity homes that have brick veneer, where the closing of Trinity's initial sale of the home took place between June 1, 1998 and October 31, 2002. The settlement agreement establishes an agreed protocol and process for assessment and remediation of any external moisture intrusion issues at the homes which includes, among other things, that the homes will be repaired at Trinity's expense. The settlement agreement also provides for payment of plaintiffs' attorneys' fees and for Trinity to pay an agreed amount for engineering inspection costs for each home for which a claim is filed under the settlement.

Under the settlement, subject to Trinity's timely performance of the specified assessments and remediation activities for homeowners who file claims, each homeowner releases Trinity, Beazer Homes Investment, LLC and other affiliated companies, including Beazer Homes, from the claims asserted in the class action lawsuit, claims arising out of external moisture intrusion, claims of improper brick installation, including property damage claims, loss or diminution of property value claims, and most personal injury claims, among others. No appeals of the court's order approving the settlement were received by the court within the timeframe established by the court. The Company sent out the claims notices on December 17, 2004, and the class members had until February 15, 2005 to file claims. A total of 1,310 valid claims were filed (of the 2,161 total class members), of which 613 complaints had been received prior to our receipt of the claim notices. Class members who did not file a claim by February 15, 2005 are no longer able to file a class action claim under the settlement or pursue an individual claim against Trinity. As of March 31, 2008, we have completed remediation of 1,703 homes related to 1,838 total Trinity claims.

Our warranty reserves at March 31, 2008 and September 30, 2007 include accruals for our estimated costs to assess and remediate all homes for which Trinity had received complaints related to moisture intrusion. Warranty reserves also include accruals for class action claims received, pursuant to the settlement discussed above, from class members who had not previously contacted Trinity with complaints.

The cost to assess and remediate a home depends on the extent of moisture damage, if any, that the home has incurred. Homes for which we receive complaints are classified into one of three categories: 1) homes with no moisture damage, 2) homes with isolated moisture damage or 3) homes with extensive moisture damage.

**Table of Contents**

As of March 31, 2008 and September 30, 2007, we accrued for our estimated cost to remediate homes that we had assessed and assigned to one of the above categories, as well as our estimated cost to remediate those homes for which an assessment had not yet been performed. For purposes of our accrual, we have historically assigned homes not yet assessed to categories based on our expectations about the extent of damage and trends observed from the results of assessments performed to date. In addition, our cost estimation process considers the subdivision of the claimant along with the categorization discussed above. Once a home is categorized, detailed budgets are used as the basis to prepare our estimated costs to remediate such home.

During fiscal 2004, we initiated a program under which we offered to repurchase a limited number of homes from specific homeowners. The program was concluded during the first quarter of fiscal 2005. We have repurchased a total of 54 homes under the program. During the six months ended March 31, 2008, the Company sold one of the repurchased homes, bringing the total homes sold to date to 38. The remaining 15 homes were acquired for an aggregate purchase price of \$4.8 million and are included in owned inventory.

The following accruals at March 31, 2008 represent our best estimates of the costs to resolve all asserted complaints associated with Trinity moisture intrusion issues. We regularly review our estimate of these costs. Since the commencement of the remediation program, our remediation cost per home has continued to decrease as homes requiring more extensive repairs were addressed first and our internal processes and procedures, including enhanced contractor bid negotiations and inspections, improved as experience gained in addressing these issues has yielded meaningful benefits on a per home basis. Changes in the accrual for Trinity moisture intrusion issues during the period were as follows (in thousands):

	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Balance at beginning of period	<b>\$ 8,461</b>	\$ 45,711	<b>\$ 12,116</b>	\$ 47,704
Provisions (Reductions)	<b>(358)</b>	(6,000)	<b>(970)</b>	(6,000)
Payments	<b>(2,194)</b>	(2,736)	<b>(5,237)</b>	(4,729)
Balance at end of period	<b>\$ 5,909</b>	\$ 36,975	<b>\$ 5,909</b>	\$ 36,975

Actual costs to assess and remediate homes in each category and subdivision, the extent of damage to homes not yet assessed, estimates of costs to sell the remaining repurchased homes, and losses on such sales could differ from our estimates. As a result, the costs to resolve existing complaints could differ from our recorded accruals and have a material adverse effect on our earnings in the periods in which the matters are resolved. Additionally, it is possible that we will incur additional losses related to these matters, including additional losses related to homes for which we have not yet received complaints.

**Guarantees***Construction Completion Guarantees*

We and our joint venture partners are generally obligated to the project lenders to complete land development improvements and the construction of planned homes if the joint venture does not perform the required development. Provided the joint venture and the partners are not in default under any loan provisions, the project lenders would be obligated to fund these improvements through any financing commitments available under the applicable loans.

*Loan to Value Maintenance Agreements*

We and our joint venture partners generally provide credit enhancements to acquisition, development and construction borrowings in the form of loan to value maintenance agreements, which can limit the amount of additional funding provided by the lenders (although not generally requiring repayment of the borrowings) to the extent such borrowings plus construction completion costs exceed a specified percentage of the value of the property securing the borrowings. During the six months ended March 31, 2008 and 2007, we were not required to make any payments on the loan to value maintenance guarantees. At March 31, 2008, we had total loan to value maintenance guarantees of \$6.1 million

related to our unconsolidated joint venture borrowings.

*Repayment Guarantees*

We and our joint venture partners have repayment guarantees related to certain joint venture s borrowings. These repayment guarantees require the repayment of all or a portion of the debt of the unconsolidated joint venture in the event the joint venture defaults on its obligations under the borrowing or files for bankruptcy. During the six months ended March 31, 2008, we were not required to make payments related to any portion of the repayment guarantees. At March 31, 2008, we had repayment guarantees of \$39.0 million related to the borrowings on these applicable unconsolidated joint ventures, some of which are only triggered upon bankruptcy of the joint venture.

**Table of Contents***Environmental Indemnities*

Additionally, we and our joint venture partners generally provide unsecured environmental indemnities to joint venture project lenders. In each case, we have performed due diligence on potential environmental risks. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the quarters ended March 31, 2008 and 2007, we were not required to make any payments related to environmental indemnities.

In general, we have not recorded a liability for the non-contingent aspect of any of these guarantees as such amounts are not material. In assessing the need to record a liability for the contingent aspect of these guarantees in accordance with FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, we consider our historical experience in being required to perform under the guarantees, the fair value of the collateral underlying these guarantees and the financial condition of the applicable unconsolidated joint ventures. In addition, we monitor the fair value of the collateral of these unconsolidated joint ventures to ensure that the related borrowings do not exceed the specified percentage of the value of the property securing the borrowings. To date, we have not incurred any obligations related to the aforementioned guarantees. Based on these considerations, we have determined that it is remote that we will have to perform under the contingent aspects of these guarantees and, as a result, have not recorded a liability for the contingent aspects of these guarantees. To the extent the recording of a liability related to such guarantees would be required, the recognition of such liability would result in an increase to the carrying value of our investment in the associated joint venture.

**Other Contingencies** - 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 related mold claims and product liability. Certain of the liabilities resulting from these actions are covered in whole or part by insurance. In our opinion, based on our current assessment, the ultimate resolution of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows. We have accrued \$17.6 million in other liabilities related to these matters as of both March 31, 2008 and September 30, 2007.

**Other Matters**

In November 2003, Beazer Homes received a request for information from the EPA pursuant to Section 308 of the Clean Water Act seeking information concerning the nature and extent of storm water discharge practices relating to certain of our projects completed or under construction. The EPA has since requested information on additional projects and has conducted site inspections at a number of locations. In certain instances, the EPA or the equivalent state agency has issued Administrative Orders identifying alleged instances of noncompliance and requiring corrective action to address the alleged deficiencies in storm water management practices. As of March 31, 2008, no monetary penalties had been imposed in connection with such Administrative Orders. The EPA has reserved the right to impose monetary penalties at a later date, the amount of which, if any, cannot currently be estimated. Beazer Homes has taken action to comply with the requirements of each of the Administrative Orders and is working to otherwise maintain compliance with the requirements of the Clean Water Act.

In 2006, we received two Administrative Orders issued by the New Jersey Department of Environmental Protection. The Orders allege certain violations of a wetlands disturbance permits. The two Orders assess proposed fines of \$630,000 and \$678,000, respectively. We have met with the Department to discuss their concerns on the two affected projects and have requested hearings on both matters. We believe that we have significant defenses to the alleged violations and intend to contest the agency's findings and the proposed fines. We are currently pursuing settlement discussions with the Department. A hearing before the judge has been postponed pending settlement discussions. We had performance bonds and outstanding letters of credit of approximately \$470.8 million and \$66.3 million, respectively, at March 31, 2008 related principally to our obligations to local governments to construct roads and other improvements in various developments in addition to the letters of credit of approximately \$19.5 million relating to our land option contracts discussed in Note 3. We do not believe that any such letters of credit or bonds are likely to be drawn upon.

**Table of Contents****Investigations and Litigation**

We and our subsidiary, Beazer Mortgage Corporation, are under criminal and civil investigations by the United States Attorney's office in the Western District of North Carolina, the SEC and other federal and state agencies. We and certain of our current and former employees, officers and directors have been named as defendants in securities class action lawsuits, lawsuits regarding ERISA claims, and derivative shareholder actions. In addition, certain of our subsidiaries have been named in class action and multi-party lawsuits regarding claims made by homebuyers. We cannot predict or determine the timing or final outcome of the governmental investigations or the lawsuits or the effect that any adverse findings in the investigations or adverse determinations in the lawsuits may have on us. While we are cooperating with the governmental investigations, developments, including the expansion of the scope of the investigations, could negatively impact us and could divert the efforts and attention of our management team from the operation of our business, and/or result in further departures of executives or other employees. An unfavorable determination resulting from any governmental investigation could result in the filing of criminal charges, the payment of substantial criminal or civil fines, the imposition of injunctions on our conduct or the imposition of other penalties or consequences, including the Company adjusting, curtailing or terminating the conduct of certain of our business operations. Any of these outcomes could have a material adverse effect on our business, financial condition, results of operations and prospects. An unfavorable determination in any of the 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 investigations and the lawsuits and the amount of time required to be spent by management and the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our business, financial condition and results of operations. See the discussion below for details related to these investigations and related litigation.

**Investigations**

*United States Attorney, State and Federal Agency Investigations.* Beazer Homes and its subsidiary, Beazer Mortgage Corporation, are under criminal and civil investigations by the United States Attorney's Office in the Western District of North Carolina and other state and federal agencies concerning the matters that were the subject of the independent investigation by the Audit Committee of the Beazer Homes Board of Directors (the Investigation) as more fully described Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K. The Company is fully cooperating with these investigations.

*Securities and Exchange Commission Investigation.* On July 20, 2007, Beazer Homes received from the SEC a formal order of private investigation to determine whether Beazer Homes and/or other persons or entities involved with Beazer Homes have violated federal securities laws, including, among others, the anti-fraud, books and records, internal accounting controls, periodic reporting and certification provisions thereof. The SEC had previously initiated an informal investigation in this matter in May 2007. The Company is fully cooperating with the SEC investigation.

*Independent Investigation.* The Audit Committee of the Beazer Homes Board of Directors has completed an independent investigation (the Investigation) of Beazer Homes mortgage origination business, including, among other things, investigating certain evidence that the Company's subsidiary, Beazer Mortgage Corporation, violated U.S. Department of Housing and Urban Development (HUD) regulations and may have violated certain other laws and regulations in connection with certain of its mortgage origination activities. The results of the Investigation are fully described in Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K.

**Mortgage Origination Issues**

The Investigation found evidence that employees of the Company's Beazer Mortgage Corporation subsidiary may have violated certain federal and/or state regulations, including U.S. Department of Housing and Urban Development (HUD) regulations. Areas of concern uncovered by the Investigation include: down payment assistance programs; the charging of discount points; the closure of certain HUD Licenses; closing accommodations; and the payment of a number of realtor bonuses and decorator allowances in certain Federal Housing Administration (FHA) insured loans and non-FHA conventional loans originated by Beazer Mortgage dating back to at least 2000. The Investigation also uncovered limited improper practices in relation to the issuance of a number of non-FHA Stated Income Loans. We reviewed the loan documents and supporting documentations and determined that the assets were effectively isolated from the seller and its creditors (even in the event of bankruptcy). Based on that information, management continues

to believe that sale accounting at the time of the transfer of the loans to third parties was appropriate.

We intend to attempt to negotiate a settlement with prosecutors and regulatory authorities that would allow us to quantify our exposure associated with reimbursement of losses and payment of regulatory and/or criminal fines, if they are imposed. See Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K for additional discussion of this matter. At this time, we believe that although it is probable that a liability exists related to this exposure, it is not reasonably estimable and would be inappropriate to record a liability as of March 31, 2008.

Effective February 1, 2008, we exited the mortgage origination business and entered into an exclusive preferred lender arrangement with a national third-party mortgage provider. This exclusive arrangement will continue to offer our homebuyers the option of a simplified financing process while enabling us to focus on our core competency of homebuilding.



**Table of Contents****Litigation**

*Securities Class Actions.* Beazer Homes and certain of our current and former executive officers are named as defendants in a putative class action securities lawsuit filed on March 29, 2007 in the United States District Court for the Northern District of Georgia. Plaintiffs filed this action on behalf of a purported class of purchasers of Beazer Homes common stock between July 27, 2006 and March 27, 2007. The complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing materially false and misleading statements regarding our business and prospects because we did not disclose facts related to alleged improper lending practices in our mortgage origination business. Plaintiffs seek an unspecified amount of compensatory damages. Two additional lawsuits were filed subsequently on May 18, 2007 and May 21, 2007 in the United States District Court for the Northern District of Georgia making similar factual allegations and asserting class periods of July 28, 2005 through March 27, 2007, and March 30, 2005 through March 27, 2007, respectively. The court has consolidated these three lawsuits and plaintiffs are expected to file a consolidated amended complaint within thirty days after May 12, 2008, the date we filed our fiscal 2007 Form 10-K with the SEC. The Company intends to vigorously defend against these actions.

*Derivative Shareholder Actions.* Certain of Beazer Homes current and former executive officers and directors were named as defendants in a derivative shareholder suit filed on April 16, 2007 in the United States District Court for the Northern District of Georgia. The complaint also names Beazer Homes as a nominal defendant. The complaint, purportedly on behalf of Beazer Homes, alleges that the defendants (i) violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder; (ii) breached their fiduciary duties and misappropriated information; (iii) abused their control; (iv) wasted corporate assets; and (v) were unjustly enriched. Plaintiffs seek an unspecified amount of compensatory damages against the individual defendants and in favor of Beazer Homes. An additional lawsuit was filed subsequently on August 29, 2007 in the United States District Court for the Northern District of Georgia asserting similar factual allegations. A motion to consolidate the two Georgia derivative actions is pending, and the plaintiffs are expected to designate the operative complaint within five days after the Court consolidates the actions. Additionally, on September 12, 2007, another derivative suit was filed in Delaware Chancery Court, and the plaintiffs filed an amended complaint on October 26, 2007. The Delaware complaint raises similar factual and legal claims as those asserted by the plaintiffs in the Georgia derivative actions. The defendants have moved to dismiss the Delaware action, or in the alternative, to stay the case pending resolution of the derivative litigation pending in Georgia. The defendants intend to vigorously defend against these actions.

*ERISA Class Actions.* On April 30, 2007, a putative class action complaint was filed on behalf of a purported class consisting of present and former participants and beneficiaries of the Beazer Homes 401(k) Plan, naming Beazer Homes, certain of its current and former officers and directors and the Benefits Administration Committee as defendants. The complaint was filed in the United States District Court for the Northern District of Georgia. The complaint alleges breach of fiduciary duties, including those set forth in the Employee Retirement Income Security Act ( ERISA ) as a result of the investment of retirement monies held by the 401(k) Plan in common stock of Beazer Homes at a time when participants were allegedly not provided timely, accurate and complete information concerning Beazer Homes. Four additional lawsuits were filed subsequently on May 11, 2007, May 14, 2007, June 15, 2007 and July 27, 2007 in the United States District Court for the Northern District of Georgia making similar allegations. The court has consolidated these five lawsuits, and the plaintiffs are expected to file a consolidated amended complaint within thirty days after May 12, 2008, the date we filed our fiscal 2007 Form 10-K with the SEC. The Company intends to vigorously defend against these actions.

*Homeowners Class Action Lawsuits and Multi-Plaintiff Lawsuit.* Beazer Homes subsidiaries, Beazer Homes Corp. and Beazer Mortgage Corporation, were named as defendants in a putative class action lawsuit filed on March 23, 2007 in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division. The complaint was filed as a putative class action. The purported class is defined as North Carolina residents who purchased homes in subdivisions in North Carolina containing homes constructed by the defendants where the foreclosure rate is allegedly significantly higher than the state-wide average. The complaint alleged that the defendants utilized unfair trade practices to allow low-income purchasers to qualify for loans they allegedly could not afford, resulting in foreclosures

that allegedly diminished plaintiffs' property values. Plaintiffs sought an unspecified amount of compensatory damages and also requested that any damage award be trebled. On April 25, 2008, the District Court dismissed all causes of action with prejudice. If Plaintiffs appeal the judgment of the District Court, the defendants will continue to vigorously defend this action.

A second putative homeowner class action lawsuit was filed on April 23, 2007 in the United States District Court for the District of South Carolina, Columbia Division. The complaint alleged that Beazer Homes Corp. and Beazer Mortgage Corporation illegally facilitated the financing of the purchase of homes sold to low-income purchasers, who allegedly would not have otherwise qualified for the loans. Certain of the plaintiffs also alleged that the defendants' practices resulted in foreclosures that allegedly diminished plaintiffs' property values. The complaint demanded an unspecified amount of damages, including damages for alleged violations of federal RICO statutes and punitive damages. The Company filed a motion to dismiss and the District Court dismissed all causes of action with prejudice on September 10, 2007. The plaintiffs subsequently filed a motion for reconsideration which the District Court denied. The plaintiffs did not file a notice of appeal and this case is now concluded.

**Table of Contents**

An additional putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation. The Complaint alleges that Beazer violated the Real Estate Settlement Practices Act and North Carolina Gen. Stat. § 75-1.1 by (1) improperly requiring homebuyers to use Beazer-owned mortgage and settlement services as part of a down payment assistance program, and (2) illegally increasing the cost of homes and settlement services sold by Beazer Homes Corp. Plaintiff also asserts that Beazer was unjustly enriched by these alleged actions. The purported class consists of all residents of North Carolina who purchased a home from Beazer, using mortgage financing provided by and through Beazer that included seller-funded down payment assistance, between January 1, 2000 and October 11, 2007. The Complaint demands an unspecified amount of damages, various forms of equitable relief, treble damages, attorneys' fees and litigation expenses. The defendants have not yet filed a responsive pleading or motion, but we intend to vigorously defend this action.

Beazer Homes Corp. and Beazer Mortgage Corporation are also named defendants in a lawsuit filed on July 3, 2007, in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division, but remanded on April 23, 2008 to the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The complaint was filed on behalf of ten individual homeowners who purchased homes from Beazer in Mecklenburg County. The complaint alleges certain deceptive conduct by the defendants and brings various claims under North Carolina statutory and common law, including a claim for punitive damages. The Company intends to vigorously defend against this action.

Beazer Homes' subsidiaries, Beazer Homes Holdings Corp. and Beazer Mortgage Corporation, were named as defendants in a putative class action lawsuit filed on March 12, 2008 in the Superior Court of the State of California, County of Placer. The purported class is defined as all residential mortgage borrowers, who within four years of the filing of the complaint, purchased homes from Beazer with the assistance of a federally related mortgage loan in which Beazer accepted a fee or something of value from an affiliated or recommended title insurance company. The complaint alleges that the defendants violated the Real Estate Settlement Procedures Act ( RESPA ) and asserts claims under a number of state statutes alleging that defendants engaged in a uniform and systematic practice of giving and/or accepting fees and kickbacks to affiliated businesses including affiliated and/or recommended title insurance companies. The complaint also alleges a number of common law claims. Plaintiffs seek an unspecified amount of damages under RESPA, unspecified compensatory and punitive damages and injunctive and declaratory relief, as well as attorneys' fees and costs. The defendants have not yet been served in this action. We will vigorously defend against the action.

*Bond Indenture Trustee Litigation.* On September 10, 2007, we filed an Amended Complaint For Declaratory Judgment and Injunctive Relief in an action pending in the United States District Court in Atlanta, Georgia against the trustees under the indentures governing our outstanding senior and convertible senior notes. We sought, among other relief, a declaration from the court against the trustees that the delay in filing with the SEC our Form 10-Q for the quarterly period ended June 30, 2007 does not constitute a default under the applicable indentures and that the delay will not give rise to any right of acceleration on the part of the holders of the senior and convertible senior notes. On October 29, 2007, we notified the court and the trustees that we had successfully concluded a consent solicitation concerning the notes at issue. Because the consents provide us with a waiver of any and all defaults under the indentures at issue that may have occurred or may occur prior to May 15, 2008 due to our failure to file or deliver reports or other information we would be required to file with the SEC, we continued to request the court to rule on our demand for declaratory judgment. In response to our notice of successful consent solicitation, the trustees requested the court to deny our request for a ruling on the merits and dismiss the action, without prejudice, on the ground that there is no justiciable controversy ripe for determination. We opposed the trustees' suggestion of mootness and requested the court to grant us declaratory judgment.

**(10) Stock Repurchase Program**

On November 18, 2005, as part of an acceleration of Beazer Homes' comprehensive plan to enhance stockholder value, our Board of Directors authorized an increase in our stock repurchase plan to ten million shares of our common stock. Shares may be purchased for cash in the open market, on the NYSE or in privately negotiated transactions. We did not

repurchase any shares in the open market during the three or six months ended March 31, 2008 and 2007. At March 31, 2008, we are authorized to purchase approximately 5.4 million additional shares pursuant to the plan. We have currently suspended our repurchase program and any resumption of such program will be at the discretion of the Board of Directors and is unlikely in the foreseeable future.

**Table of Contents****(11) Segment Information**

As defined in SFAS 131, *Disclosures About Segments of an Enterprise and Related Information*, we have 31 homebuilding operating segments operating in 21 states and one financial services segment. Revenues in our homebuilding segments are derived from the sale of homes which we construct and from land and lot sales. Revenues in our financial services segment are derived primarily from mortgage originations provided predominantly to customers of our homebuilding operations. We have aggregated our homebuilding segments into four reportable segments, described below, for our homebuilding operations and one reportable segment for our financial services operations. The segments reported have been determined to have similar economic characteristics including similar historical and expected future operating performance, employment trends, land acquisition and land constraints, and municipality behavior and meet the other aggregation criteria in SFAS 131. The reportable homebuilding segments, and all other homebuilding operations not required to be reported separately, include operations conducting business in the following states:

West: Arizona, California, Nevada and New Mexico

Mid-Atlantic: Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia and West Virginia  
Florida

Southeast: Georgia, North Carolina, South Carolina and Nashville, Tennessee

Other Homebuilding: Colorado, Indiana, Kentucky, Ohio, Texas and Memphis, Tennessee

Management's evaluation of segment performance is based on segment operating income, which for our homebuilding segments is defined as homebuilding and land sale revenues less the cost of home construction, impairments, if any, land development and land sales, depreciation and amortization and certain selling, general and administrative expenses which are incurred by or allocated to our homebuilding segments. Segment operating income for our Financial Services segment is defined as revenues less costs associated with our mortgage operations and certain selling, general and administrative expenses incurred by or allocated to the Financial Services segment. The accounting policies of our segments are those described in Note 1 herein and the notes to the consolidated financial statements included in Item 8 of our 2007 Form 10-K. The following information is in thousands:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
<b>Revenue</b>				
West	<b>\$ 115,497</b>	\$ 268,056	<b>\$ 233,385</b>	\$ 565,962
Mid-Atlantic	<b>84,466</b>	104,070	<b>176,486</b>	195,336
Florida	<b>39,126</b>	106,409	<b>94,454</b>	197,654
Southeast	<b>71,314</b>	183,626	<b>168,809</b>	339,238
Other homebuilding	<b>94,257</b>	159,556	<b>230,878</b>	317,711
Financial Services	<b>757</b>	1,887	<b>2,059</b>	3,691
Consolidated total	<b>\$ 405,417</b>	\$ 823,604	<b>\$ 906,071</b>	\$ 1,619,592

Table of Contents

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2008	2007	2008	2007
<b><i>Operating (loss) income (a)</i></b>				
West	\$ (56,638)	\$ (33,862)	\$ (116,843)	\$ (60,188)
Mid-Atlantic	(34,538)	(15,825)	(55,085)	(25,353)
Florida	(33,386)	8,307	(34,029)	(22,394)
Southeast	(20,216)	11,394	(63,471)	19,705
Other homebuilding	(37,317)	(18,961)	(57,557)	(37,849)
Financial Services	190	1,029	810	1,956
Segment operating loss	(181,905)	(47,918)	(326,175)	(124,123)
Corporate and unallocated (b)	(108,310)	(44,599)	(162,354)	(98,156)
Total operating loss	(290,215)	(92,517)	(488,529)	(222,279)
Equity in loss of unconsolidated joint ventures	(40,361)	(3,713)	(56,501)	(6,073)
Other (expense) income, net	(4,569)	3,115	(7,418)	5,206
Loss before income taxes	\$ (335,145)	\$ (93,115)	\$ (552,448)	\$ (223,146)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2008	2007	2008	2007
<b><i>Depreciation and amortization</i></b>				
West	\$ 1,752	\$ 2,617	\$ 3,073	\$ 5,327
Mid-Atlantic	832	864	1,660	1,697
Florida	365	506	894	893
Southeast	745	1,105	1,665	2,003
Other homebuilding	1,721	1,496	3,207	2,959
Financial Services	7	17	14	35
Segment total	5,422	6,605	10,513	12,914
Corporate and unallocated (b)	804	1,014	1,692	2,151
Consolidated total	\$ 6,226	\$ 7,619	\$ 12,205	\$ 15,065

**March 31,**  
**2008**

September  
 30,  
 2007

<i>Assets (c)</i>		
West	<b>\$ 754,561</b>	\$ 940,161
Mid-Atlantic	<b>519,299</b>	546,182
Florida	<b>155,352</b>	242,733
Southeast	<b>335,152</b>	403,472
Other homebuilding	<b>349,036</b>	469,520
Financial Services	<b>35,195</b>	36,035
Corporate and unallocated (d)	<b>1,218,114</b>	1,279,017
Discontinued operations	<b>316</b>	12,901
Consolidated total	<b>\$ 3,367,025</b>	\$ 3,930,021

**Table of Contents**

- (a) Operating loss includes charges related to the abandonment of lot option agreements totaling \$13.2 million and \$19.1 million for the three months ended March 31, 2008 and 2007 and \$40.2 million and \$44.2 million for the six months ended March 31, 2008 and 2007, respectively. Operating loss also includes inventory impairment charges in the amounts of \$174.7 million and \$86.2 million for the three months ended March 31, 2008 and 2007 and \$316.2 million and \$201.4 million for the six months ended March 31, 2008 and 2007, respectively, which have been recorded in the segments to which the inventory relates (see Note 3).
- (b) Corporate and unallocated includes amortization of capitalized interest and numerous shared services functions that benefit all segments, the costs of which are not allocated to the operating segments reported above including information technology, national sourcing and purchasing, treasury, corporate finance, legal, branding and other national marketing costs. In addition, for the three and six months ended March 31, 2008, corporate and unallocated also includes \$7.5 million and \$14.3 million, respectively, of investigation and related restatement expenses.
- (c) Segment assets as of both March 31, 2008 and September 30, 2007 include goodwill assigned from prior acquisitions. See Note 1 for goodwill by segment as of March 31, 2008 and September 30, 2007.
- (d) Primarily consists of cash and cash equivalents, consolidated inventory not owned, deferred taxes, capitalized interest and other corporate items that are not allocated to the segments.

**(12) Supplemental Guarantor Information**

As discussed in Note 7, our obligation to pay principal, premium, if any, and interest under certain debt are guaranteed on a joint and several basis by substantially all of our subsidiaries. The guarantees are full and unconditional and the guarantor subsidiaries are 100% owned by Beazer Homes. We have determined that separate, full financial statements of the guarantors would not be material to investors and, accordingly, supplemental financial information for the guarantors is presented.



**Table of Contents**

**Beazer Homes USA, Inc.**  
**Condensed Consolidating Balance Sheet Information**  
**March 31, 2008**  
**(in thousands)**

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
<b>ASSETS</b>						
Cash and cash equivalents	\$ 285,334	\$	\$ 123	\$ 2,166	\$ (13,953)	\$ 273,670
Restricted cash		3,592				3,592
Accounts receivable		62,088	20			62,108
Income tax receivable	158,150					158,150
Owned inventory		2,074,151				2,074,151
Consolidated inventory not owned		194,024				194,024
Residential mortgage loans available-for-sale			93			93
Investments in unconsolidated joint ventures	3,093	51,741				54,834
Deferred tax assets	391,458					391,458
Property, plant and equipment, net		56,330	10	2		56,342
Goodwill		20,508				20,508
Investments in subsidiaries	975,237				(975,237)	
Intercompany	954,944	(1,025,115)	57,874	7,239	5,058	
Other assets	37,799	34,293	70	5,933		78,095
<b>Total assets</b>	<b>\$ 2,806,015</b>	<b>\$ 1,471,612</b>	<b>\$ 58,190</b>	<b>\$ 15,340</b>	<b>\$ (984,132)</b>	<b>\$ 3,367,025</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Trade accounts payable		85,047				85,047
Other liabilities	136,545	278,992	1,218	7,515	(3,282)	420,988
Intercompany	(2,662)			2,662		
Obligations related to consolidated inventory not owned		138,351				138,351
Senior notes (net of discounts of \$2,799)	1,522,201					1,522,201
Junior subordinated notes	103,093					103,093
Other notes payable		50,507				50,507
	96,422					96,422

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Model home financing obligations

Total liabilities	1,855,599	552,897	1,218	10,177	(3,282)	2,416,609
Stockholders equity	950,416	918,715	56,972	5,163	(980,850)	950,416
Total liabilities and stockholders equity	\$ 2,806,015	\$ 1,471,612	\$ 58,190	\$ 15,340	\$ (984,132)	\$ 3,367,025

**Table of Contents**

**Beazer Homes USA, Inc.**  
**Unaudited Consolidating Balance Sheet Information**  
**September 30, 2007**  
**(in thousands)**

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
<b>ASSETS</b>						
Cash and cash equivalents	\$ 447,296		\$ 9,700	\$ 1,559	\$ (4,218)	\$ 454,337
Restricted cash		5,171				5,171
Accounts receivable		44,449	1,038	14		45,501
Income tax receivable	63,981					63,981
Owned inventory		2,537,791				2,537,791
Consolidated inventory not owned		237,382				237,382
Residential mortgage loans available-for-sale			781			781
Investments in unconsolidated joint ventures	3,093	106,050				109,143
Deferred tax assets	232,537		412			232,949
Property, plant and equipment, net		70,979	701	2		71,682
Goodwill		68,613				68,613
Investments in subsidiaries	1,397,158				(1,397,158)	
Intercompany	956,941	(1,039,576)	50,774	6,729	25,132	
Other assets	19,650	75,812	269	6,959		102,690
<b>Total Assets</b>	<b>\$ 3,120,656</b>	<b>\$ 2,106,671</b>	<b>\$ 63,675</b>	<b>\$ 15,263</b>	<b>\$ (1,376,244)</b>	<b>\$ 3,930,021</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Trade accounts payable	\$	\$ 118,030	\$	\$	\$	\$ 118,030
Other liabilities	60,419	372,050	4,958	7,657	8,005	453,089
Intercompany	(2,661)			2,661		
Obligations related to consolidated inventory not owned		177,931				177,931
Senior Notes (net of discounts of \$3,033)	1,521,967					1,521,967
Junior subordinated notes	103,093					103,093

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Other secured notes payable		118,073					118,073
Model home financing obligations	114,116						114,116
Total Liabilities	1,796,934	786,084	4,958	10,318	8,005		2,606,299
Stockholders Equity	1,323,722	1,320,587	58,717	4,945	(1,384,249)		1,323,722
Total Liabilities and Stockholders Equity	\$ 3,120,656	\$ 2,106,671	\$ 63,675	\$ 15,263	\$ (1,376,244)		\$ 3,930,021

**Table of Contents**

**Beazer Homes USA, Inc.**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**Three Months Ended March 31, 2008**  
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	\$	\$ 405,269	\$	\$ 148	\$	\$ 405,417
Home construction and land sales expenses	21,883	349,344			8,197	379,424
Inventory impairments and option contract abandonments		187,860				187,860
Gross (loss) profit	(21,883)	(131,935)		148	(8,197)	(161,867)
Selling, general and administrative expenses		73,986		31		74,017
Depreciation and amortization		6,226				6,226
Goodwill impairment		48,105				48,105
Operating (loss) income	(21,883)	(260,252)		117	(8,197)	(290,215)
Equity in (loss) of unconsolidated joint ventures		(40,361)				(40,361)
Other income, net		(4,597)		28		(4,569)
(Loss) income before income taxes	(21,883)	(305,210)		145	(8,197)	(335,145)
(Benefit from) provision for income taxes	(8,010)	(95,442)		53	(3,023)	(106,422)
Equity in income of subsidiaries	(216,020)				216,020	
Net (loss) income from continuing operations	(229,893)	(209,768)		92	210,846	(228,723)
Net (loss) from discontinued operations			(1,170)			(1,170)
Net (loss)	\$ (229,893)	\$ (209,768)	\$ (1,170)	\$ 92	\$ 210,846	\$ (229,893)

**Beazer Homes USA, Inc.**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**Six Months Ended March 31, 2008**

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(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp. (a)	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	\$	\$ 905,719	\$	\$ 352	\$	\$ 906,071
Home construction and land sales expenses	50,987	755,858			8,895	815,740
Inventory impairments and option contract abandonments		356,372				356,372
Gross (loss) profit	(50,987)	(206,511)		352	(8,895)	(266,041)
Selling, general and administrative expenses		162,100		79		162,179
Depreciation and amortization		12,204				12,204
Goodwill impairment		48,105				48,105
Operating (loss) income	(50,987)	(428,920)		273	(8,895)	(488,529)
Equity in (loss) of unconsolidated joint ventures		(56,501)				(56,501)
Other income, net		(7,490)		72		(7,418)
(Loss) income before income taxes	(50,987)	(492,911)		345	(8,895)	(552,448)
(Benefit from) provision for income taxes	(18,810)	(164,099)		127	(3,282)	(186,064)
Equity in income of subsidiaries	(335,952)				335,952	
Net (loss) income from continuing operations	(368,129)	(328,812)		218	330,339	(366,384)
Net (loss) from discontinued operations			(1,745)			(1,745)
Net (loss)	\$ (368,129)	\$ (328,812)	\$ (1,745)	\$ 218	\$ 330,339	\$ (368,129)

**Table of Contents**

**Beazer Homes USA, Inc.**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**Three Months Ended March 31, 2007**  
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	\$	\$ 823,143	\$	\$ 461	\$	\$ 823,604
Home construction and land sales expenses	37,899	675,357			(6,603)	706,653
Inventory impairments and option contract abandonments		105,245				105,245
Gross (loss) profit	(37,899)	42,541		461	6,603	11,706
Selling, general and administrative expenses		96,390		214		96,604
Depreciation and amortization		7,619				7,619
Operating (loss) income	(37,899)	(61,468)		247	6,603	(92,517)
Equity in (loss) of unconsolidated joint ventures		(3,713)				(3,713)
Other income, net		3,070		45		3,115
(Loss) income before income taxes	(37,899)	(62,111)		292	6,603	(93,115)
(Benefit from) provision for income taxes	(14,248)	(23,396)		110	2,490	(35,044)
Equity in income of subsidiaries	(33,540)				33,540	
Net (loss) income from continuing operations	(57,191)	(38,715)		182	37,653	(58,071)
Net income from discontinued operations			880			880
Net (loss) income	\$ (57,191)	\$ (38,715)	\$ 880	\$ 182	\$ 37,653	\$ (57,191)

**Beazer Homes USA, Inc.**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**Six Months Ended March 31, 2007**  
(in thousands)

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	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	\$	\$ 1,618,704	\$	\$ 888	\$	\$ 1,619,592
Home construction and land sales expenses	74,708	1,320,559			(20,069)	1,375,198
Inventory impairments and option contract abandonments		245,612				245,612
Gross (loss) profit	(74,708)	52,533		888	20,069	(1,218)
Selling, general and administrative expenses		205,574		422		205,996
Depreciation and amortization		15,065				15,065
Operating (loss) income	(74,708)	(168,106)		466	20,069	(222,279)
Equity in (loss) of unconsolidated joint ventures		(6,073)				(6,073)
Other income, net		5,121		85		5,206
(Loss) income before income taxes	(74,708)	(169,058)		551	20,069	(223,146)
(Benefit from) provision for income taxes	(28,018)	(63,403)		207	7,527	(83,687)
Equity in income of subsidiaries	(90,404)				90,404	
Net (loss) income from continuing operations	(137,094)	(105,655)		344	102,946	(139,459)
Net income from discontinued operations			2,365			2,365
Net (loss) income	\$ (137,094)	\$ (105,655)	\$ 2,365	\$ 344	\$ 102,946	\$ (137,094)



**Table of Contents**

**Beazer Homes USA, Inc.**  
**Unaudited Condensed Consolidating Statement of Cash Flows**  
**Six Months Ended March 31, 2008**  
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Net cash (used in)/provided by operating activities	\$ (141,179)	\$ 115,421	\$ (3,004)	\$ 1,116	\$	\$ (27,646)
Cash flows from investing activities:						
Capital expenditures		(6,448)	527			(5,921)
Investments in unconsolidated joint ventures		(9,665)				(9,665)
Changes in restricted cash		1,579				1,579
Net cash used in investing activities		(14,534)	527			(14,007)
Cash flows from financing activities:						
Borrowings under credit facilities and warehouse line						
Repayment of credit facilities and warehouse line						
Repayment of other secured notes payable		(99,785)				(99,785)
Repurchase of senior notes						
Borrowings under model home financing obligations						
Repayment of model home financing obligations	(17,694)					(17,694)
Debt issuance costs	(21,135)					(21,135)
Proceeds from stock option exercises						
Common stock redeemed	(12)					(12)

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Treasury stock purchases						
Tax benefit from stock transactions	(388)					(388)
Dividends paid						
Advances to/from subsidiaries	18,446	(1,102)	(7,100)	(509)	(9,735)	
Net cash provided by (used in) financing activities	(20,783)	(100,887)	(7,100)	(509)	(9,735)	(139,014)
(Decrease)/increase in cash and cash equivalents	(161,962)		(9,577)	607	(9,735)	(180,667)
Cash and cash equivalents at beginning of period	447,296		9,700	1,559	(4,218)	454,337
Cash and cash equivalents at end of period	\$ 285,334	\$	\$ 123	\$ 2,166	\$ (13,953)	\$ 273,670

**Table of Contents**

**Beazer Homes USA, Inc.**  
**Unaudited Condensed Consolidating Statement of Cash Flows**  
**Six Months Ended March 31, 2007**  
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Net cash (used in)/provided by operating activities	\$ (149,835)	\$ 269,064	\$ 82,452	\$ (534)		\$ 201,147
Cash flows from investing activities:						
Capital expenditures		(15,966)	(139)			(16,105)
Investments in unconsolidated joint ventures		(16,906)				(16,906)
Changes in restricted cash		(768)				(768)
Distributions from unconsolidated joint ventures		1,196				1,196
Net cash used in investing activities		(32,444)	(139)			(32,583)
Cash flows from financing activities:						
Borrowings under credit facilities and warehouse line			91,258			91,258
Repayment of credit facilities and warehouse line			(176,789)			(176,789)
Repayment of other secured notes payable		(6,445)				(6,445)
Repurchase of senior notes	(20,563)					(20,563)
Borrowings under model home financing obligations	1,444					1,444
Repayment of model home financing obligations	(4,862)					(4,862)
Debt issuance costs			(319)			(319)

Proceeds from stock option exercises	4,009					4,009
Common stock redeemed	(140)					(140)
Treasury stock purchases						
Tax benefit from stock transactions	3,219					3,219
Dividends paid	(7,806)					(7,806)
Advances to/from subsidiaries	183,786	(230,175)	1,224	(111)	45,276	
Net cash provided by (used in) financing activities	159,087	(236,620)	(84,626)	(111)	45,276	(116,994)
(Decrease)/increase in cash and cash equivalents	9,252		(2,313)	(645)	45,276	51,570
Cash and cash equivalents at beginning of period	254,915		10,664	829	(98,838)	167,570
Cash and cash equivalents at end of period	\$ 264,167	\$	\$ 8,351	\$ 184	\$ (53,562)	\$ 219,140

### (13) Discontinued Operations

On February 1, 2008, the Company determined that it would discontinue its mortgage origination services through Beazer Mortgage Corporation ( BMC ). In February 2008, the Company entered into a new marketing services arrangement with Countrywide Financial Corporation ( Countrywide ), whereby the Company would market Countrywide as the preferred mortgage provider to its customers. In addition, during the three months ended March 31, 2008, the Company wrote off its entire \$7.1 million investment in Homebuilders Financial Network LLC ( HFN ). This writeoff is included in equity in loss of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations. HFN was a joint venture investment which was established to provide loan processing services to mortgage originators. The Company assigned its ownership interest to its joint venture partner. The Company's joint venture interest in HFN was not owned by Beazer Mortgage Corporation and, therefore, the associated write-off is not included in the discontinued operations information presented below.

The Company has classified the results of operations of BMC, previously included in our Financial Services segment, as discontinued operations in the accompanying unaudited condensed consolidated statements of operations for all periods presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). As of March 31, 2008, substantially all BMC operating activities have ceased.

**Table of Contents**

The results of the BMC operations classified as discontinued operations in the unaudited condensed consolidated statements of operations for the three and six months ended March 31, 2008 and 2007 were as follows (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Total revenue	\$ 1,003	\$ 5,729	\$ 3,497	\$ 12,276
Exit and disposal charges of mortgage origination business	(593)		(593)	
(Loss) income from discontinued operations before income taxes	(1,875)	1,411	(2,797)	3,784
(Benefit) provision from income taxes	(705)	531	(1,052)	1,419
Loss from discontinued operations, net of tax	\$ (1,170)	\$ 880	\$ (1,745)	\$ 2,365

The loss from discontinued operations for the three and six months ended March 31, 2008, included approximately \$0.6 million of charges directly related to the cessation of BMC operating activities. These charges consist of approximately \$480,000 for severance and termination benefits and approximately \$113,000 for other expenses directly related to the liquidation.

Assets and liabilities from discontinued operations at March 31, 2008 and September 30, 2007, which entirely relates to BMC, consist of the following (in thousands):

	March 31, 2008	September 30, 2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 123	\$ 9,700
Accounts receivable	20	1,038
Residential mortgage loans available-for-sale	93	781
Other	80	1,382
Assets of discontinued operations	\$ 316	\$ 12,901
<b>LIABILITIES</b>		
Trade accounts payable and other liabilities	\$ 1,218	\$ 4,958
Liabilities of discontinued operations	\$ 1,218	\$ 4,958

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Executive Overview and Outlook.** The homebuilding environment deteriorated during fiscal 2007 as consumer confidence declined, the availability of home mortgage credit tightened significantly and the economy began to slow down. In addition, the supply of new and resale homes in the marketplace remained excessive for the levels of consumer demand. These pressures in the marketplace resulted in the use of increased sales incentives and price reductions in an effort to generate sales and reduce inventory levels. These factors continued to be present during the second quarter of fiscal 2008 and we believe that the homebuilding market will remain challenging throughout fiscal 2008. In addition, as a result of the various ongoing investigations and litigation discussed herein and the issues relating thereto, we have been the subject of continuing negative publicity. This negative publicity has contributed to significant declines in the prices of our publicly traded securities. We believe this negative publicity has also discouraged and may continue to discourage a number of potential homebuyers from purchasing a home from us and

has adversely affected our relationships with certain of our partners, such as land sellers, contractors and suppliers. Continuing negative publicity could continue to have a material adverse effect on our business and the market price of our publicly traded securities.

We have responded to this challenging environment with a disciplined operating approach, responding to what was during the second quarter of fiscal 2008 and what we expect will continue to be a challenging environment for the homebuilding industry. We continue to make reductions in direct costs and overhead expenses and remain committed to aligning our land supply and inventory levels to current expectations for lower home closings, exercising caution with respect to further investment in inventory. We have focused on the generation of cash from our existing inventory supply as the timing of a market recovery in housing is currently uncertain.

**Table of Contents**

We have also undertaken a comprehensive review of each of our markets in order to refine our overall investment strategy and to optimize capital and resource allocations in an effort to enhance our financial position and to increase shareholder value. This review entailed an evaluation of both external market factors and our position in each market and has resulted in the decision to discontinue homebuilding operations in Charlotte, NC, Cincinnati/Dayton, OH, Columbia, SC, Columbus, OH and Lexington, KY which was announced on February 1, 2008. We intend to complete an orderly exit from each of these markets and remain committed to our remaining customer care responsibilities. We have committed to complete all homes under construction in these markets and are in the process of marketing the remaining land positions for sale. While the underlying basis for exiting each market was different, in each instance we concluded we could better serve shareholder interests by re-allocating the capital employed in these markets. As of March 31, 2008, these markets represented less than 5% of the Company's total assets.

On February 1, 2008, we exited the mortgage origination business and entered into an exclusive preferred lender relationship with a national mortgage provider. This exclusive relationship will continue to offer our homebuyers the option of a simplified financing process while enabling us to focus on our core competency of homebuilding. Our decision to exit the mortgage origination business was related to the problems identified by the Audit Committee's investigation of our mortgage origination practices, the growing complexity and cost of compliance with national, state and local lending rules, and the retrenchment among mortgage capital sources which has had the effect of reducing the profitability of many mortgage brokerage activities. Our mortgage origination business is now reported as a discontinued operation in our unaudited condensed consolidated results of operations for all periods presented.

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

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

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

**Consistent Use of National Brand.** Our homebuilding and marketing activities are conducted under the name of Beazer Homes in each of our markets. We adopted the strategy of a single brand name across our markets in 2003 in order to better leverage our national and local marketing activities. Using a single brand has allowed us to execute successful national marketing campaigns and has accelerated our adoption of emerging online marketing practices.

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

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

**Seasonal and Quarterly Variability.** Our homebuilding operating cycle generally reflects escalating new order activity in the second and third fiscal quarters and increased closings in the third and fourth fiscal quarters. However, during fiscal 2008, we continued to experience challenging conditions in most of our markets which contributed to decreased revenues and closings as compared to prior periods including prior quarters, thereby reducing typical seasonal variations.



**Table of Contents**

**Reportable Business Segments.** We design, sell and build single-family and multi-family homes in the following geographic regions which are presented as reportable segments. Those remaining homebuilding operations not separately reportable as segments are included in Other :

<i>West</i>	<i>Mid-Atlantic</i>	<i>Florida</i>	<i>Southeast</i>	<i>Other</i>
Arizona	Delaware	Florida	Georgia	Colorado
California	Maryland		Nashville, TN	Indiana
Nevada	New Jersey		North Carolina	Kentucky
New Mexico	New York		South Carolina	Memphis, TN
	Pennsylvania			Ohio
	Virginia			Texas
	West Virginia			

*Financial Services.* We provide title services to our customers in many of our markets. Financial Services operations are a reportable segment.

**Additional Products and Services for Homebuyers.** In order to maximize our profitability and provide our customers with the additional products and services that they desire, we have incorporated design centers into our business. Recognizing that our customers want to choose certain components of their new home, we offer limited customization through the use of design studios in most of our markets. These design studios allow the customer to select certain non-structural customizations for their homes such as cabinetry, flooring, fixtures, appliances and wall coverings.

**Mortgage Origination Issues.** The Investigation found evidence that employees of the Company's Beazer Mortgage Corporation subsidiary violated certain federal and/or state regulations, including U.S. Department of Housing and Urban Development ( HUD ) regulations. Areas of concern uncovered by the Investigation include: down payment assistance programs; the charging of discount points; the closure of certain HUD Licenses; closing accommodations; and the payment of a number of realtor bonuses and decorator allowances in certain Federal Housing Administration ( FHA ) insured loans and non-FHA conventional loans originated by Beazer Mortgage dating back to at least 2000. The Investigation also uncovered limited improper practices in relation to the issuance of a number of non-FHA Stated Income Loans. We reviewed the loan documents and supporting documentations and determined that the assets were effectively isolated from the seller and its creditors (even in the event of bankruptcy). Based on that information, management continues to believe that sale accounting at the time of the transfer of the loans to third parties was appropriate.

We intend to attempt to negotiate a settlement with prosecutors and regulatory authorities that would allow us to quantify our exposure associated with reimbursement of losses and payment of regulatory and/or criminal fines, if they are imposed. See Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K for additional discussion of this matter. At this time, we believe that although it is probable that a liability exists related to this exposure, it is not reasonably estimable and would be inappropriate to record a liability as of March 31, 2008.

Effective February 1, 2008, we exited the mortgage origination business and entered into an exclusive preferred lender arrangement with a national third-party mortgage provider. This exclusive arrangement will continue to offer our homebuyers the option of a simplified financing process while enabling us to focus on our core competency of homebuilding.

***Internal Control Over Financial Reporting***

A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. As is more fully discussed in our Form 10-K for fiscal 2007, management concluded that, as of September 30, 2007, there were material weaknesses in internal control over financial reporting as it relates to our control environment, including: deficiency in the effectiveness of our Code of Business Conduct and Ethics, compliance with laws and regulations, segregation of duties, and management override and collusion; and our accounting policy, procedures and controls related to our accounting for certain estimates

involving significant management judgments.

**Table of Contents**

As of March 31, 2008, we do not believe these material weaknesses have been fully remediated, but we are actively engaged in the implementation of remediation efforts to address them. We have appointed a Compliance Officer to implement and oversee our enhanced Compliance Program. We revised, adopted and distributed an amended Code of Business Conduct and Ethics Policy and transferred the administration of our Ethics Hotline from officers of the Company to an independent third party company. We terminated our former Chief Accounting Officer and took appropriate action, including the termination of employment, against other business unit employees who violated our Code of Business Conduct and Ethics. We hired a new, experienced Chief Accounting Officer and reorganized our field operations to concentrate certain accounting, accounts payable, billing, and purchasing functions into Regional Accounting Centers lead by Regional CFOs to minimize the lack of segregation of duties in our prior structure. We are also in the process of designing and/or clarifying and implementing accounting policies related to estimates involving significant management judgments, as well as other financial reporting areas to ensure that we have the appropriate review and approval, defining minimum documentation requirements, establishing objective guidelines to minimize the degree of judgment in the determination of certain accruals, enforcing consistent reporting practices, and enabling effective account reconciliation, trend analyses, and exception reporting capabilities.

Despite these material weaknesses, management believes the unaudited condensed consolidated financial statements included in this report present fairly, in all material respects, our financial position, results of operations and cash flows as of the dates and for the periods presented in conformity with accounting principals generally accepted in the United States of America.

Item 4 Controls and Procedures describes the additional actions we are taking to remediate these material weaknesses.

***Recently Adopted Accounting Pronouncements.*** On October 1, 2007, the Company adopted the provisions of Emerging Issues Task Force ( EITF ) Issue No. 06-8, *Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums*. EITF 06-8 states that the adequacy of the buyer's continuing investment under SFAS 66 should be assessed in determining whether to recognize profit under the percentage-of-completion method on the sale of individual units in a condominium project. This consensus requires that additional deposits be collected by developers of condominium projects that wish to recognize profit during the construction period under the percentage-of-completion method. EITF 06-8 is effective for fiscal years beginning after March 15, 2007. The adoption of EITF 06-8 did not have a material impact on our consolidated financial position, results of operations or cash flows.

On October 1, 2007 the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 defines the threshold for recognizing the benefits of tax return positions as well as guidance regarding the measurement of the resulting tax benefits. FIN 48 requires a company to recognize for financial statement purposes the impact of a tax position, if a tax return position is more likely than not to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of the adoption of FIN 48 was recorded as a \$10.1 million reduction to retained earnings as of October 1, 2007. The total amount of gross unrecognized tax benefits as of October 1, 2007 was \$72.5 million (which excludes interest, penalties, and the tax benefit relating to the deductibility of interest and state income tax). The adoption of FIN 48 also increased our gross deferred tax assets by approximately \$65 million. The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$26.5 million, as of October 1, 2007.

Since the adoption of FIN 48 on October 1, 2007, there have been no material changes to the components of the Company's total unrecognized tax benefit, including the amounts that, if recognized, would affect the Company's effective tax rate. It is reasonably possible that, within the next 12 months, total unrecognized tax benefits may decrease as a result of the potential resolution with the IRS relating to issues stemming from fiscal year 2003 and 2004 federal income tax returns, in addition to the resolution of various state income tax audits and/or appeals. The change that could occur within the next 12 months, however, cannot be estimated at this time. The statute of limitations for

the Company's major tax jurisdictions remains open for examination for fiscal years 2003 through 2007.

**Table of Contents**

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision, consistent with the Company's historical accounting policy. After the adoption of FIN 48, the total amount of gross accrued interest and penalties was \$19.3 million. The Company recorded an additional \$0.9 million and \$1.0 million of gross interest and penalties during the three and six months ended March 31, 2008, respectively, in accordance with FIN 48, resulting in a \$21.2 million accrued balance at March 31, 2008. The Company's liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of other liabilities.

**Recent Accounting Pronouncements Not Yet Adopted.** In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations. SFAS 141R amends and clarifies the accounting guidance for the acquirer's recognition and measurement of assets acquired, liabilities assumed and noncontrolling interests of an acquiree in a business combination. SFAS 141R is effective for our fiscal year ended September 30, 2009. We do not expect the adoption of SFAS 141R to have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, SFAS 157 provides guidance for using fair value to measure assets and liabilities. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS 157 includes provisions that require expanded disclosure of the effect on earnings for items measured using unobservable data. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position ( FSP ) 157-2, *Effective Date of FASB Statement No. 157*, delaying the effective date of certain non-financial assets and liabilities to fiscal periods beginning after November 15, 2008. We are currently evaluating the impact of adopting SFAS 157 on our consolidated financial condition and results of operations; however, it is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS 159 permits companies to measure certain financial instruments and other items at fair value. SFAS 159 is effective for our fiscal year beginning October 1, 2008. We are currently evaluating the impact of adopting SFAS 159 on our consolidated financial condition and results of operations; however, it is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB 51*. SFAS 160 requires that a noncontrolling interest (formerly minority interest) in a subsidiary be classified as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be included in the consolidated financial statements. SFAS 160 is effective for our fiscal year beginning October 1, 2009 and its provisions will be applied retrospectively upon adoption. We are currently evaluating the impact of adopting SFAS 160 on our consolidated financial condition and results of operations.

In December 2007, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin ( SAB ) 110 which expresses the views of the Staff regarding the use of the simplified method (the mid-point between the vesting period and contractual life of the option) for plain vanilla options in accordance with SFAS 123R. SAB 110 will allow the use of the simplified method beyond December 31, 2007 under certain conditions including a company's inability to rely on historical exercise data. We will consider SAB 110 for future grants.

**Table of Contents****RESULTS OF OPERATIONS:**

<i>(in thousands)</i>	<b>Three Months Ended March</b>		<b>Six Months Ended March</b>	
	<b>2008</b>	<b>31, 2007</b>	<b>2008</b>	<b>31, 2007</b>
<b>Revenues:</b>				
Homebuilding (a)	\$ 400,656	\$ 780,178	\$ 892,443	\$ 1,561,695
Land and lot sales	4,004	41,539	11,569	54,206
Financial Services	757	1,887	2,059	3,691
Total	\$ 405,417	\$ 823,604	\$ 906,071	\$ 1,619,592
<b>Gross profit (loss):</b>				
Homebuilding (b)	\$ (159,305)	\$ 11,686	\$ (267,060)	\$ (7,106)
Land and lot sales	(3,319)	(1,867)	(1,040)	2,197
Financial Services	757	1,887	2,059	3,691
Total	\$ (161,867)	\$ 11,706	\$ (266,041)	\$ (1,218)
<b>Selling, general and administrative (SG&amp;A) expenses:</b>				
Homebuilding	\$ 73,456	\$ 95,763	\$ 160,943	\$ 204,296
Financial Services	561	841	1,236	1,700
Total	\$ 74,017	\$ 96,604	\$ 162,179	\$ 205,996
<b>Depreciation and amortization</b>	\$ 6,226	\$ 7,619	\$ 12,204	\$ 15,065
<b>As a percentage of total revenue:</b>				
Gross Margin	-39.9%	1.4%	-29.4%	-0.1%
SG&A homebuilding	18.1%	11.6%	17.8%	12.6%
SG&A Financial Services	0.1%	0.1%	0.1%	0.1%
<b>Equity in loss of unconsolidated joint ventures from:</b>				
Joint venture activities	\$ (8,631)	\$ (637)	\$ (11,936)	\$ (2,997)
Impairments	(31,730)	(3,076)	(44,565)	(3,076)
Equity in loss of unconsolidated joint ventures	\$ (40,361)	\$ (3,713)	\$ (56,501)	\$ (6,073)
<b>Effective tax rate continuing operations</b>				
Total	31.8%	37.6%	33.7%	37.5%

(a) Homebuilding  
revenues for the

*three and six months ended March 31, 2007 include \$1.8 million and \$29.5 million, respectively, of net revenue previously deferred in accordance with SFAS 66.*

- (b) *Homebuilding gross loss for the three months and six months ended March 31, 2008 include \$174.7 million and \$316.2 million, respectively, of inventory impairment charges and \$13.2 million and \$40.2 million, respectively, of charges related to the abandonment of lot option agreements. Homebuilding gross profit (loss) for the three months and six months ended March 31, 2007 include \$86.2 million and \$201.4 million, respectively, of inventory impairment charges and*

*\$19.1 million  
and  
\$44.2 million,  
respectively, of  
charges related  
to the  
abandonment of  
lot option  
agreements.*

**Revenues:** Revenues decreased by 50.8% and 49.1% for the three and six months ended March 31, 2008, respectively, compared to the same periods in the prior year as the number of homes closed decreased by 42.9% and 34.0%.

Continued reduction in the levels of demand compared to last year resulted in decreased closings throughout most of our markets. Home closings decreased in all of our homebuilding markets.

In addition, we had \$4.0 million and \$11.6 million of land and lot sales in the three and six months ended March 31, 2008 compared to \$41.5 million and \$54.2 million in the three and six months ended March 31, 2007, respectively, as we continued to review opportunities to minimize underperforming investments and reallocate funds to investments that will optimize overall returns.



**Table of Contents**

**Gross Margin:** Gross margin for the three months ended March 31, 2008 was (39.9%) and was significantly impacted by reduced revenues, non-cash, pretax charges of \$13.2 million to abandon land option contracts and \$174.7 million of recognized inventory impairments. Gross margin for the six months ended March 31, 2008 was also impacted by the aforementioned revenue decrease, inventory impairments of \$316.2 million and lot option abandonment charges of \$40.2 million. Gross margins for the three months and six months ended March 31, 2007 were 1.4% and (0.1%), respectively and were impacted by inventory impairments of \$86.2 million and \$201.4 million and lot option abandonment charges of \$19.1 million and \$44.2 million for the three and six months ended March 31, 2007, respectively.

**Selling, General and Administrative Expense:** Selling, general and administrative expense (SG&A) totaled \$74.0 million and \$96.6 million for the three months ended March 31, 2008 and 2007 and \$162.2 million and \$206.0 million for the six months ended March 31, 2008 and 2007, respectively. The decrease in SG&A expense for the three and six months ended March 31, 2008 compared to the same periods of the prior year related to lower salary expense as a result of the realignment of our overhead structure and lower sales commissions related to decreased revenues, partially offset by \$14.3 million in investigation and restatement related expenses. SG&A expense as a percentage of total revenue for the three and six months ended March 31, 2008 increased to 18.3% and 17.9% from 11.7% and 12.7% for the comparable periods in the prior year due to the impact of reduced revenues on fixed overhead expenses.

**Goodwill Impairment Charges:** As a result of significantly less than expected new orders in our prime selling season, which is our second fiscal quarter, significant pricing pressures and additional incentives provided to homebuyers, our reforecasting of expected future results of operations and increasing inventory impairment charges, we tested all remaining goodwill balances for impairment as of March 31, 2008. We have estimated goodwill impairment charges totaling \$48.1 million relating to our reporting units in Arizona, Southern California, New Jersey and Virginia. We will finalize our impairment calculations in the third quarter of fiscal 2008 in connection with our annual goodwill impairment test as of April 30, 2008. The goodwill impairment charges were based on estimates of fair value of the underlying assets of the reporting units. To the extent that there is further deterioration in market conditions or overall economic conditions or our strategic plans change, it is possible that our conclusion regarding fair value of reporting units which are currently not impaired could change, which could result in future goodwill impairments that have a material adverse effect on our financial position and results of operations.

**Joint Venture Impairment Charges:** As of March 31, 2008, we participated in 19 land development joint ventures in which we had less than a controlling interest. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture's members and other third parties. As a result of the deterioration of the housing market thus far in fiscal 2008 during the six months ended March 31, 2008, we wrote down our investment in certain of our joint ventures reflecting \$44.6 million of impairments of inventory held within those joint ventures. Joint venture impairments during the three and six months ended March 31, 2007 totaled \$3.1 million. If these adverse market conditions continue or worsen, we may have to take further writedowns of our investments in these joint ventures.

**SEGMENT ANALYSIS (\$ in thousands):**

**Homebuilding Revenue and Average Selling Price.** The tables below summarize homebuilding revenue and the average selling prices of our homes by reportable segment (\$ in thousands) for the three and six months ended March 31, 2008 and 2007:

	Three Months Ended March 31,						
	Homebuilding Revenues			Average Selling Price			Change
	2008	2007	Change	2008	2007	Change	
West	\$ 115,497	\$ 235,305	-50.9%	\$ 285.2	\$ 349.9	-18.5%	
Mid-Atlantic	81,953	104,070	-21.3%	401.7	454.2	-11.6%	
Florida	38,666	106,409	-63.7%	240.2	307.5	-21.9%	
Southeast	70,875	176,877	-59.9%	232.4	240.4	-3.3%	
Other	93,665	157,517	-40.5%	190.0	199.8	-4.9%	

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Total	<b>\$ 400,656</b>	\$ 780,178	-48.6%	<b>\$ 255.5</b>	\$ 280.8	-9.0%
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41

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Table of Contents

	Six Months Ended March 31,					
	Homebuilding Revenues			Average Selling Price		
	2008	2007	Change	2008	2007	Change
West	\$ 229,115	\$ 522,261	-56.1%	\$ 285.6	\$ 362.3	-21.2%
Mid-Atlantic	173,966	195,336	-10.9%	388.3	452.7	-14.2%
Florida	93,994	197,654	-52.4%	239.2	319.2	-25.1%
Southeast	167,993	331,812	-49.4%	228.3	231.6	-1.4%
Other	227,375	314,632	-27.7%	189.8	196.3	-3.3%
Total	\$ 892,443	\$ 1,561,695	-42.9%	\$ 249.4	\$ 281.6	-11.4%

**Homebuilding Revenues:** Homebuilding revenues decreased for the three and six months ended March 31, 2008 compared to the same period of the prior year due to decreased closings in the majority of our markets, related to reduced demand, a continued high rate of cancellations and the mortgage credit tightening. Specifically, homebuilding revenues in the West region decreased by 50.9% and 56.3% driven by decreased closings across all of our West markets totaling 40.0% and 43.1% for the three and six months ended March 31, respectively. Homebuilding revenues in the Florida region, for the three and six months ended March 31, decreased by 63.7% and 52.4% impacted by decreased closings and a continued high level of cancellations driven by excess capacity in the resale markets as investors continued to divest of prior home purchases and potential homebuyers have difficulty selling their existing homes. Home closings in the Southeast region decreased by 58.2% and 47.8% due to deteriorating market conditions and competitive pressures, driving a decrease in revenue of 59.9% for the three months ended and 49.4% for the six months ended March 31, 2008 compared to the comparable periods of fiscal 2007. Revenue decreases in our Mid-Atlantic region compared to the prior year were driven in part by a decline of home closings of 4.2% for the three months ended March 31, 2008 offset by an 8.5% increase in home closings for the six months ended March 31. Revenues in all markets in our Other homebuilding region decreased due primarily to decreased closings.

**Land and Lot Sales Revenue.** The table below summarizes land and lot sales revenues by reportable segment (\$ in thousands) for the three and six months ended March 31, 2008 and 2007:

	Three Months Ended March 31,			Six Months Ended March 31,		
	2008	2007	Change	2008	2007	Change
West	\$	\$ 32,751	-100.0%	\$ 4,270	\$ 43,701	-90.2%
Mid-Atlantic	2,513		n/a	2,520		n/a
Florida	460		n/a	460		n/a
Southeast	439	6,749	-93.5%	816	7,426	-89.0%
Other	592	2,039	-71.0%	3,503	3,079	13.8%
Total	\$ 4,004	\$ 41,539	-90.4%	\$ 11,569	\$ 54,206	-78.7%

We generated revenues from land and lot sales of \$2.5 million in our Mid-Atlantic segment during the second quarter of fiscal 2008, as we continued to evaluate and reduce our investments to optimize overall returns. Land and lot sales in our West segment for the three and six months ended March 31, 2007 primarily related to our decision to sell certain parcels of land and lots that did not fit within our homebuilding programs in those markets.

**Table of Contents**

**Gross Profit (Loss).** Homebuilding gross profit is defined as homebuilding revenues less homebuilding costs (which includes land and land development costs, home construction costs, capitalized interest, indirect costs of construction, estimated warranty costs, closing costs and inventory impairment and lot option abandonment charges). The following table sets forth our homebuilding gross profit (loss) and gross margin by reportable segment and total gross profit (loss) and gross margin (\$ in thousands) for the three and six months ended:

	Three Months Ended March 31,				Six Months Ended March 31,			
	2008		2007		2008		2007	
	Gross Profit (Loss)	Gross Margin	Gross Profit (Loss)	Gross Margin	Gross Profit (Loss)	Gross Margin	Gross Profit (Loss)	Gross Margin
<i>Homebuilding</i>								
West	\$ (42,030)	-36.4%	\$ (7,188)	-3.1%	\$ (86,980)	-38.0%	\$ (8,224)	-1.6%
Mid-Atlantic	(25,189)	-30.7%	(3,582)	-3.4%	(34,628)	-19.9%	63	0.0%
Florida	(27,260)	-70.5%	19,530	18.4%	(20,799)	-22.1%	(726)	-0.4%
Southeast	(9,194)	-13.0%	30,697	17.4%	(39,124)	-23.3%	57,843	17.4%
Other	(18,194)	-19.4%	3,322	2.1%	(20,895)	-9.2%	7,622	2.4%
Corporate & Unallocated	(37,438)		(31,093)		(64,634)		(63,684)	
Total Homebuilding	(159,305)	-39.8%	11,686	1.5%	(267,060)	-29.9%	(7,106)	-0.5%
Land and Lot Sales	(3,319)		(1,867)		(1,040)		2,197	
Financial Services	757		1,887	n/m	2,059		3,691	n/m
Total	\$ (161,867)	-39.9%	\$ 11,706	1.4%	\$ (266,041)	-29.4%	\$ (1,218)	-0.1%

The decrease in gross profit across all regions is primarily due to further deteriorating market conditions, increase in sales incentives, and the impact of charges related to inventory impairments and the abandonment of certain lot option contracts.

**Corporate and unallocated:** Corporate and unallocated costs above include the amortization of capitalized interest and indirect construction costs. The increase in corporate and unallocated costs relates primarily to a reduction in capitalized inventory costs due to lower inventories and costs incurred. Corporate and unallocated costs for the three and six months ended March 31, 2008 include increased amortization of capitalized interest and indirect costs due to a lower capitalizable inventory base and the impairment of capitalized interest and indirect costs in connection with our impairment of inventory held for development. Costs for the three and six months ended March 31, 2007 are offset by \$6.0 million of reductions in Trinity moisture intrusion accruals.

**Land and Lot Sales Gross Profit (Loss).** The table below summarizes land and lot sales gross profit (loss) by reportable segment (\$ in thousands) for the three and six months ended March 31, 2008 and 2007:

	Three Months Ended March 31,			Six Months Ended March 31,		
	2008	2007	Change	2008	2007	Change
West	\$	\$ (1,383)	100.0%	\$ 1,582	\$ 2,939	46.2%
Mid-Atlantic			n/a	7		n/a
Florida	99		n/a	99		n/a
Southeast	103	(202)	151.0%	116	(175)	166.3%
Other	(3,521)	(282)	-1148.6%	(2,844)	(567)	-401.6%

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Total	<b>\$ (3,319)</b>	\$ (1,867)	-77.8%	<b>\$ (1,040)</b>	\$ 2,197	147.3%
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43

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**Table of Contents**

The loss on land and lot sales recognized in the second quarter of fiscal 2008 reflects the deteriorating market conditions and the sale of homebuilding assets in the markets in our Other Homebuilding Segment in which we are exiting as discussed above.

**Inventory Impairments.** The following tables set forth, by reportable segment, the inventory impairments and lot option abandonment charges recorded for the three and six months ended March 31, 2008 and 2007 (in thousands):

	Quarter Ended March		Six Months Ended March	
	2008	31, 2007	2008	31, 2007
Development projects and homes in process (Held for Development)				
West	\$ 59,975	\$ 32,486	\$ 125,421	\$ 82,909
Mid-Atlantic	26,877	23,809	49,878	34,979
Florida	9,046	3,341	12,139	37,973
Southeast	10,067	2,198	17,610	4,871
Other	4,225	15,550	5,324	24,490
Unallocated	8,848	4,841	16,737	12,195
Subtotal	\$ 119,038	\$ 82,225	\$ 227,109	\$ 197,417
Land Held for Sale				
West	\$ 804	\$ 3,105	\$ 804	\$ 3,105
Mid-Atlantic	9,171		9,171	
Florida	23,035		23,035	
Southeast	980	500	15,453	500
Other	21,663	350	40,630	350
Subtotal	\$ 55,653	\$ 3,955	\$ 89,093	\$ 3,955
Lot Option Abandonments				
West	\$ 783	\$ 9,002	\$ 828	\$ 11,758
Mid-Atlantic	4,862	2,410	6,658	4,697
Florida	3,273	3,761	3,748	14,272
Southeast	3,965	2,288	27,390	3,249
Other	286	1,604	1,546	10,264
Subtotal	\$ 13,169	\$ 19,065	\$ 40,170	\$ 44,240
Total	\$ 187,860	\$ 105,245	\$ 356,372	\$ 245,612

The inventory impaired during the three and six months ended March 31, 2008 represented 3,534 and 6,420 lots in 85 and 147 communities with an estimated fair value of \$205.5 million and \$392.0 million, respectively. The impairments recorded on our held for development inventory, for all segments, primarily resulted from the continued significant decline in the homebuilding environment that negatively impacted the sales prices of homes and increased

the sales incentives offered to potential homebuyers in our efforts to increase home sales absorptions. Our West and Mid-Atlantic segments experienced the most significant amount of inventory impairments as compared to our other homebuilding segments due to the fact that the number of owned land and lots in the West and Mid-Atlantic segments comprise approximately 29% and 10%, respectively, of our total land and lots owned as of March 31, 2008 and approximately 35% and 22%, respectively, of the dollar value of our held for development inventory as of March 31, 2008. In addition, our homebuilding markets that comprise our West segment consist of markets that once experienced the most significant home price appreciation in the nation during the 2004 through 2006 periods which was driven in large part by speculative purchases and the availability of mortgage credit during those time periods which are no longer present in the marketplace. The decline in the availability of mortgage loan products and the exit of speculators from the market, among other factors, contributed to the significant increase in the supply of new and used homes on the market for sale.

The impairments recorded in our other homebuilding segments are primarily as a result of continued price competition brought on by the significant increase in new and resale home inventory during the three and six months ended March 31, 2008 that has resulted in increased sales incentives and home sales price declines as we attempt to increase new orders and generate cash to the Company.

**Table of Contents**

In addition, we have also completed a strategic review of all of the markets within our homebuilding segments and the communities within each of those markets with an initial focus on the communities for which land has been secured with option purchase contracts. As a result of this review, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as preacquisition costs. The total abandonments recorded for the three months and six months ended March 31, 2008 were \$13.2 million and \$40.2 million representing 12 and 40 communities, respectively, with the Southeast segment representing 68.2% of the six-month abandonments as we made decisions to abandon certain option contracts that no longer fit in our long-term strategic plan.

**Unit Data by Segment:**

	New Orders, net					
	Three Months Ended			Six Months Ended		
	March 31,			March 31,		
	2008	2007	Change	2008	2007	Change
West	497	1,055	-52.9%	826	1,498	-44.9%
Mid-Atlantic	224	563	-60.2%	304	801	-62.0%
Florida	170	441	-61.5%	321	534	-39.9%
Southeast	422	1,016	-58.5%	708	1,481	-52.2%
Other	643	1,015	-36.7%	1,049	1,559	-32.7%
Total	1,956	4,090	-52.2%	3,208	5,873	-45.4%

	Closings					
	Three Months Ended March			Six Months Ended		
	31, March 31,			March 31,		
	2008	2007	Change	2008	2007	Change
West	405	675	-40.0%	799	1,404	-43.1%
Mid-Atlantic	204	213	-4.2%	448	413	8.5%
Florida	161	349	-53.9%	393	595	-33.9%
Southeast	305	729	-58.2%	736	1,410	-47.8%
Other	493	782	-37.0%	1,198	1,590	-24.7%
Total	1,568	2,748	-42.9%	3,574	5,412	-34.0%

*New Orders and Backlog:* New orders, net of cancellations, decreased 45.4% to 3,208 units during the six month period ended March 31, 2008, compared to 5,873 units for the same period in the prior year related to weaker market conditions resulting in reduced demand and higher cancellations compared to the number of new orders received in the first six months of fiscal 2007. For the three and six months ended March 31, 2008, we experienced cancellation rates of 33.7% and 39.4% compared to 29.1% and 34.1% for the three and six months ended March 31, 2007. These higher three and six-month cancellation rates in fiscal 2008 reflect the challenging market environment including the inability of many potential homebuyers to sell their existing homes.

The aggregate dollar value of homes in backlog at March 31, 2008 of \$672.5 million decreased 59.7% from \$1.67 billion at March 31, 2007, related to a decrease in the number of homes in backlog from 5,563 units at March 31, 2007 to 2,619 units at March 31, 2008. The decrease in the number of homes in backlog across all of our markets is driven primarily by the aforementioned market weakness, lower new orders and higher rate of cancellations.





**Table of Contents**

	Backlog at March 31,		
	2008	2007	Change
West	518	1,269	-59.2%
Mid-Atlantic	499	965	-48.3%
Florida	166	447	-62.9%
Southeast	476	1,392	-65.8%
Other	960	1,490	-35.6%
Total	2,619	5,563	-52.9%

**FINANCIAL CONDITION AND LIQUIDITY:**

Our sources of cash liquidity include, but are not limited to, cash from operations, amounts available under credit facilities, proceeds from senior notes and other bank borrowings, the issuance of equity securities and other external sources of funds. Our short-term and long-term liquidity depend primarily upon our level of net income, working capital management (accounts receivable, accounts payable and other liabilities) and bank borrowings. We believe that available short-term and long-term capital resources are sufficient to fund capital expenditures and working capital requirements, scheduled debt payments, and interest and tax obligations for the next twelve months. However, any material variance of our operating results or land acquisitions from our projections or investments in or acquisitions of businesses could require us to obtain additional equity or debt financing. Long-term, we plan to use cash generated to invest in growing the business and/or to reduce our levels of debt. Additionally, in May 2008 we received a federal income tax refund of approximately \$55.8 million relating to a fiscal 2007 net operating loss carryback claim, and we expect to generate in excess of \$100 million prior to the end of fiscal 2008 as a result of the sale of certain assets that do not fit with our future homebuilding plans in various markets. In December 2007, we suspended our dividend payments and share repurchase program and any resumption of such programs will be at the discretion of the Board of Directors.

At March 31, 2008, we had cash and cash equivalents of \$273.7 million, compared to \$454.3 million at September 30, 2007. The decrease in cash was due to a use of cash in operating activities of \$27.6 million relating primarily to the increase in income tax receivable and deferred income tax benefit. These tax items were impacted by a reduction in inventory, offset by the repayment of borrowings under our secured notes payable and model financing obligations, both driven by a lower number of closings and new orders, net of cancellations. Our net cash used in operating activities for the six months ended March 31, 2008 was \$27.6 million compared to cash provided by operations of \$201.1 million in the same period of the prior year. Based on the applicable year's closings, as of March 31, 2008, our land bank includes a 5.3 year supply of land/lots for future development compared to a 5.0 year supply as of March 31, 2007. The year's supply in land bank increased as of March 31, 2008 when compared to March 31, 2007 primarily due to the decline in closings despite a 32% decrease in the number of lots in the ending land bank as of March 31, 2008 as compared to March 31, 2007. As the homebuilding market declined, we were successful in significantly reducing our land bank through the abandonment of lot option contracts, the sale of land assets not required in our homebuilding program and through the sale of new homes with only 3.4 years of owned land and lots for future homebuilding activities as of March 31, 2008. The decrease in land bank from March 31, 2007 to March 31, 2008 related to our decision to eliminate non-strategic positions to align our land supply with our expectations for future home closings. Net cash used in investing activities was \$14.0 million for the six months ended March 31, 2008 compared to \$32.6 million for the comparable period of fiscal 2007, as we invested in unconsolidated joint ventures, albeit to a lesser extent, to support our land acquisition strategy and model and sales office improvements to support our marketing efforts.

Net cash used in financing activities was \$139.0 million for the six months ended March 31, 2008 related primarily to the repayment of certain secured notes payable. Net cash used in financing activities was \$117.0 million for the six months ended March 31, 2007 and consisted primarily of net borrowings under credit facilities and warehouse line of \$85.5 million, repurchase of Senior Notes of \$20.6 million and dividends paid of \$7.8 million.



**Table of Contents**

At March 31, 2008 we had the following borrowings (*in thousands*):

	Maturity Date	March 31, 2008	September 30, 2007
Revolving Credit Facility	August 2009	\$	\$
8 5/8% Senior Notes*	May 2011	180,000	180,000
8 3/8% Senior Notes*	April 2012	340,000	340,000
6 1/2% Senior Notes*	November 2013	200,000	200,000
6 7/8% Senior Notes*	July 2015	350,000	350,000
8 1/8% Senior Notes*	June 2016	275,000	275,000
4 5/8% Convertible Senior Notes*	June 2024	180,000	180,000
Junior subordinated notes	July 2036	103,093	103,093
Other secured notes payable	Various Dates	50,507	118,073
Model home financing obligations	Various Dates	96,422	114,116
Unamortized debt discounts		(2,799)	(3,033)
<b>Total</b>		<b>\$ 1,772,223</b>	<b>\$ 1,857,249</b>

\* Collectively, the Senior Notes

**Warehouse Line** Effective February 7, 2007, Beazer Mortgage amended its 364-day credit agreement (the Warehouse Line ) to extend its maturity date to February 8, 2008 and modify the maximum available borrowing capacity to \$100 million, subject to compliance with the mortgage loan eligibility requirements as defined in the Warehouse Line. The Warehouse Line was secured by certain mortgage loan sales and related property. The Warehouse Line was entered into with a number of banks to fund the origination of residential mortgage loans. The maximum available borrowing capacity was subsequently reduced through amendments down to \$17 million as of September 30, 2007. We had no borrowings outstanding under the Warehouse Line as of September 30, 2007. The Warehouse Line was not guaranteed by Beazer Homes USA, Inc. or any of its subsidiaries that are guarantors of the Senior Notes or Revolving Credit Facility. There were no borrowings under the Warehouse Line at March 31, 2008. Effective November 14, 2007, we terminated the Warehouse Line, at which time there were no borrowings outstanding.

**Revolving Credit Facility** In July 2007, we replaced our former credit facility with a new \$500 million, four-year unsecured revolving credit facility (the Revolving Credit Facility ) with a group of banks, which matures in 2011. The former credit facility included a \$1 billion four-year revolving credit facility which would have matured in August 2009. The Revolving Credit Facility has a \$350 million sublimit for the issuance of standby letters of credit. We have the option to elect two types of loans under the Revolving Credit Facility which incur interest, as applicable, based on either the Alternative Base Rate or the Applicable Eurodollar Margin (both defined in the Revolving Credit Facility). The Revolving Credit Facility contains various operating and financial covenants. Substantially all of our significant subsidiaries are guarantors of the obligations under the Revolving Credit Facility (see Note 12). We fulfill our short-term cash requirements with cash generated from our operations and funds available from our Revolving Credit Facility. There were no amounts outstanding under the Revolving Credit Facility at March 31, 2008 or September 30, 2007; however, we had \$68.0 million and \$133.3 million of letters of credit outstanding under the Revolving Credit Facility at March 31, 2008 and September 30, 2007, respectively.

On October 10, 2007, we entered into a waiver and amendment of our Revolving Credit Facility, waiving events of default through May 15, 2008 under the facility arising from our failure to file or deliver reports or other information we would be required to file with the SEC and our decision to restate our financial statements. Under this and the October 26, 2007 amendments, any obligations under the Revolving Credit Facility will be secured by certain assets and our ability to borrow under this facility is subject to satisfaction of a secured borrowing base. We are permitted to grow the borrowing base by adding additional cash and/or real estate as collateral securing the Revolving Credit

Facility. In addition, we obtained additional flexibility with respect to our financial covenants in the Revolving Credit Facility. At March 31, 2008, we had available borrowings of \$18.9 million under the Revolving Credit Facility. On May 13, 2008, we received additional flexibility with respect to certain financial covenants until June 30, 2008. On May 9, 2008, we secured additional assets under the facility which increased our borrowing capacity to approximately \$55.0 million.

**Table of Contents**

On May 13, 2008, we obtained a limited waiver which relaxed, through June 30, 2008, our minimum consolidated tangible net worth and leverage ratio requirements under our revolving credit facility. During the term of the limited waiver, the minimum consolidated tangible net worth shall not be less than \$700 million and the leverage ratio shall not exceed 2.50 to 1.00. We are currently negotiating an amended covenant package with our bank group and expect to enter into an amendment prior to finalizing our financial statements for the fiscal quarter ending June 30, 2008.

**Senior Notes** - The Senior Notes are unsecured 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 Revolving Credit Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes.

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At March 31, 2008, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. Each indenture provides 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.

In March 2007, we voluntarily repurchased \$10.0 million of our outstanding 8 5/8% Senior Notes and \$10.0 million of our outstanding 8 3/8% Senior Notes on the open market. The aggregate purchase price was \$20.6 million, or an average of 102.9% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest as of the purchase date. The repurchase of the notes resulted in a \$562,500 pretax loss during the second quarter of fiscal 2007. On March 28, 2007, we repurchased an additional \$10.0 million of our outstanding 8 5/8% Senior Notes which were cash settled on April 2, 2007 at a purchase price of \$9.85 million or an average of 98.5% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest as of the purchase date. The repurchase of the notes resulted in a \$150,000 pre-tax gain which was recorded during the three months ended June 30, 2007.

Gains/losses from notes repurchased are included in other (expense) income, net in the accompanying unaudited condensed consolidated statements of operations. Senior Notes purchased by the Company were cancelled.

On October 26, 2007, we obtained consents from holders of our Senior Notes to approve amendments of the indentures under which the Senior Notes were issued. These amendments restrict our ability to secure additional debt in excess of \$700 million until certain conditions are met and enable us to invest up to \$50 million in joint ventures.

The consents also provided us with a waiver of any and all defaults under the Senior Notes that may have occurred or may occur on or prior to May 15, 2008 relating to filing or delivering annual and quarterly financial statements. Fees and expenses related to obtaining these consents totaled approximately \$21 million. The recording of such fees and expenses has been deferred and will be amortized as an adjustment to interest expense in accordance with EITF 96-19

Debtor's Accounting for a Modification or Exchange of Debt Instruments.

**Junior Subordinated Notes** On June 15, 2006, we completed a private placement of \$103.1 million of unsecured junior subordinated notes which mature on July 30, 2036 and are redeemable at par on or after July 30, 2011 and pay a fixed rate of 7.987% for the first ten years ending July 30, 2016. Thereafter, the securities have a floating interest rate equal to three-month LIBOR plus 2.45% per annum, resetting quarterly. These notes were issued to Beazer Capital Trust I, which simultaneously issued, in a private transaction, trust preferred securities and common securities with an aggregate value of \$103.1 million to fund its purchase of these notes. The transaction is treated as debt in accordance with GAAP. The obligations relating to these notes and the related securities are subordinated to the Revolving Credit Facility and the Senior Notes.

On April 30, 2008, we received a default notice from The Bank of New York Trust Company, National Association, the trustee under the indenture governing these junior subordinated notes. The notice alleges that we are in default under the indenture because we have not yet furnished certain required information (including our annual audited and quarterly unaudited financial statements). The notice further alleges that this default will become an event of default under the indenture if not remedied within 30 days. We expect to be able to cure this default on or before May 15, 2008.

**Other Secured Notes Payable** We periodically acquire land through the issuance of notes payable. As of March 31, 2008 and September 30, 2007, we had outstanding notes payable of \$50.5 million and \$118.1 million, respectively,

primarily related to land acquisitions. These notes payable expire at various times through 2010 and had fixed and variable rates ranging from 5.4% to 8.0% at March 31, 2008. These notes are secured by the real estate to which they relate. During the first six months of fiscal 2008, we repaid \$99.8 million of these secured notes payable. In connection with the sale of our interest in two joint ventures to our joint venture partner, we also acquired that partner's interest in two separate joint ventures. In connection with the acquisition of one of these ventures, we assumed the joint venture's debt of approximately \$22.7 million which is included in other secured notes payable as of March 31, 2008.

**Table of Contents**

**Model Home Financing Obligations** - Due to a continuing interest in certain model home sale-leaseback transactions, we have recorded \$96.4 million and \$114.1 million of debt as of March 31, 2008 and September 30, 2007, respectively, related to these financing transactions in accordance with SFAS 98 (As amended), *Accounting for Leases*. These model home transactions incur interest at a variable rate of one-month LIBOR plus 450 basis points, 7.61% as of March 31, 2008, and expire at various times through 2015.

Other than the addition of the model home financing obligations discussed above, there were no material changes to our long-term debt and contractual obligations.

**Stock Repurchases and Dividends Paid** On November 18, 2005, as part of an acceleration of Beazer Homes comprehensive plan to enhance stockholder value, our Board of Directors authorized an increase in our stock repurchase plan to ten million shares of our common stock. Shares may be purchased for cash in the open market, on the NYSE, or in privately negotiated transactions. We did not repurchase any shares in the open market during the three or six months ended March 31, 2008 and 2007. At March 31, 2008, we are authorized to purchase approximately 5.4 million additional shares pursuant to the plan. In December 2007, we suspended our repurchase program and any resumption of such program will be at the discretion of the Board of Directors and is unlikely in the foreseeable future.

For the six months ended March 31, 2007, we paid quarterly cash dividends of \$0.10 per common share, or a total of approximately \$7.8 million. We did not pay any dividends for the six months ended March 31, 2008. On November 2, 2007, our Board of Directors suspended our dividend payments. The Board concluded that suspending dividends, which will allow us to conserve approximately \$16 million of cash annually, was a prudent effort in light of the continued deterioration of the housing market.

**Off-Balance Sheet Arrangements and Aggregate Contractual Commitments** We historically have attempted to control half or more of our land supply through option contracts. As a result of the flexibility that these options provide us, upon a change in market conditions we may renegotiate the terms of the options prior to exercise or terminate the agreement. Option contracts generally require the payment of cash or the posting of a letter of credit for the right to acquire lots during a specified period of time at a certain price. Under option contracts, both with and without specific performance provisions, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our obligations with respect to options with specific performance provisions are included in our unaudited condensed consolidated balance sheets in other liabilities. Under option contracts without specific performance obligations, our liability is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which aggregated approximately \$110.4 million at March 31, 2008. This amount includes non-refundable letters of credit of approximately \$17.1 million. The total remaining purchase price, net of cash deposits, committed under all options was \$1.2 billion as of March 31, 2008. Only \$71.8 million of total remaining purchase price under such options contains specific performance clauses which may require us to purchase the land or lots upon the land seller meeting certain obligations.

We expect to exercise substantially all of our option contracts with specific performance obligations and, subject to market conditions, most of our option contracts without specific performance obligations. Various factors, some of which are beyond our control, such as market conditions, weather conditions and the timing of the completion of development activities, can have a significant impact on the timing of option exercises or whether land options will be exercised.

We have historically funded the exercise of land options through a combination of operating cash flows and borrowings under our credit facilities. We expect these sources to continue to be adequate to fund anticipated future option exercises. Therefore, we do not anticipate that the exercise of our land options will have a material adverse effect on our liquidity.

Certain of our option contracts are with sellers who are deemed to be Variable Interest Entities ( VIE s) under FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 ( FIN 46R ). We have determined that we are the primary beneficiary of certain of these option contracts. Our risk is generally limited to the option deposits that we pay, and creditors of the sellers generally have no recourse to the general credit of the Company. Although we do not have legal title to the optioned land, for those option contracts for which we are the primary beneficiary, we are required to consolidate the land under option at fair value. We believe that the exercise



prices of our option contracts approximate their fair value. Our condensed consolidated balance sheets at March 31, 2008 and September 30, 2007 reflect consolidated inventory not owned of \$194.0 million and \$237.4 million, respectively. We consolidated \$76.5 million and \$92.3 million of lot option agreements as consolidated inventory not owned pursuant to FIN 46R as of March 31, 2008 and September 30, 2007, respectively. In addition, as of March 31, 2008 and September 30, 2007, we recorded \$117.5 million and \$145.1 million, respectively, of land under the caption consolidated inventory not owned related to lot option agreements in accordance with SFAS 49, *Product Financing Arrangements*. Obligations related to consolidated inventory not owned totaled \$138.4 million at March 31, 2008 and \$177.9 million at September 30, 2007. The difference between the balances of consolidated inventory not owned and obligations related to consolidated inventory not owned represents cash deposits paid under the option agreements.

**Table of Contents**

We participate in a number of land development joint ventures in which we have less than a controlling interest. We enter into joint ventures in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture's members and other third parties. We account for our interest in these joint ventures under the equity method. Our condensed consolidated balance sheets include investments in joint ventures totaling \$54.8 million and \$109.1 million at March 31, 2008 and September 30, 2007, respectively. Our joint ventures typically obtain secured acquisition and development financing. At March 31, 2008, our unconsolidated joint ventures had borrowings outstanding totaling \$642.8 million. In some instances, we and our joint venture partners have provided varying levels of guarantees of debt of our unconsolidated joint ventures. At March 31, 2008, we had repayment guarantees totaling \$39.0 million and loan-to-value maintenance guarantees of \$6.1 million related to certain of our unconsolidated joint ventures' debt (see Notes 4 and 9 to the unaudited condensed consolidated financial statements for additional information regarding our joint ventures and related guarantees).

**CRITICAL ACCOUNTING POLICIES:**

As discussed in our annual report on Form 10-K for the fiscal year ended September 30, 2007, some of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters and relate to inventory valuation, goodwill, homebuilding revenues and costs, warranty reserves, investments in unconsolidated joint ventures and income taxes' valuation allowance. Although our accounting policies are in compliance with accounting principles generally accepted in the United States of America, a change in the facts and circumstances of the underlying transactions could significantly change the application of the accounting policies and the resulting financial statement impact. There have been no material changes to our critical accounting policies as discussed in our Annual Report on Form 10-K for the year ended September 30, 2007.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to a number of market risks in the ordinary course of business. Our primary market risk exposure relates to fluctuations in interest rates. We do not believe that our exposure in this area is material to cash flows or earnings. As of March 31, 2008, we had \$146.9 million of variable rate debt outstanding. Based on our average outstanding borrowings under our variable rate debt at March 31, 2008, a one-percentage point increase in interest rates would negatively impact our annual pre-tax earnings by approximately \$1.5 million.

**Item 4. Controls and Procedures*****Disclosure Controls and Procedures***

Management, under the supervision and with the participation of its Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Act), as of the end of period covered by this report. Management concluded that, as of March 31, 2008, the Company's disclosure controls and procedures were not effective primarily because of the identification of material weaknesses in our internal control over financial reporting, further described below and in Item 9A of our fiscal 2007 Form 10-K, which we view as an integral part of our disclosure controls and procedures. In addition, our disclosure controls and procedures not relating to internal control over financial reporting were not sufficiently documented and were not designed to require all accounting and financial employees, and other corporate employees with specific knowledge of, or responsibility for, other disclosures to complete quarterly certifications (management representations).

**Table of Contents**

Based on a number of factors, including the completion of the Audit Committee's investigation, our internal review that identified revisions to our previously issued financial statements, efforts to remediate the material weaknesses in internal control over financial reporting described below, and the performance of additional procedures by management designed to ensure the reliability of our financial reporting, we believe that the unaudited condensed consolidated financial statements in this Report fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with accounting principles generally accepted in the United States of America ( GAAP ).

We have reviewed and are implementing additional disclosure controls and procedures. This includes expanding the Disclosure Committee to include representatives from Operations, Compliance, and Audit and Controls. In addition, a formal Disclosure Committee charter and formal written disclosure controls and procedures will be implemented in the third quarter of fiscal 2008. Further, we are implementing an enhanced quarterly certification (management representation) process that will include not just the signoff by executive management and the business unit executives, but also by managers of the corporate finance departments, senior leadership at the corporate office, and other business and finance employees who are significantly involved in the financial reporting process. These new processes will help ensure Company employees at various levels make full and complete representations concerning, and assume accountability for, the accuracy and integrity of our financial statements and other public disclosures. Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of our CEO and CFO, which are required by Rule 13a-14 of the Act. This Disclosure Controls and Procedures section includes information concerning management's evaluation of disclosure controls and procedures referred to in those certifications and, as such, should be read in conjunction with the certifications of the CEO and CFO.

***Material Weaknesses***

A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The Company has identified the following control deficiencies as of March 31, 2008, that constituted material weaknesses:

*Control Environment* The control environment, which is the responsibility of senior management, sets the tone of the organization, influences the actions of its employees, and is the foundation for all other components of internal control over financial reporting. We did not maintain an effective control environment. The Company identified the following deficiencies in our control environment as of March 31, 2008, each of which is considered to be a material weakness:

## Code of Conduct Violations

The operating effectiveness of the Company's Code of Business Conduct and Ethics Policy (the Code), which governs the execution by our employees of their duties and responsibilities within established procedures, was deficient. As a result, the Code was not consistently and strictly adhered to, including by certain of the Company's former executive officers, and violations of the Code were not promptly and appropriately reported. This deficiency led to an environment where improper and erroneous accounting information was utilized related to certain transactions and financial statement matters and inappropriate decisions could have been made, and were made, including with respect to certain model home sale-leaseback transactions and certain home closings in California, that were not in accordance with GAAP.

## Compliance With Laws and Regulations

The design of the Company's controls related to our mortgage origination practices was not sufficient to ensure compliance with all applicable laws, rules, and regulations, or to enable a determination of the financial statement impact of such violations to the Company's financial statement amounts and disclosures. This resulted in the violation of certain applicable federal and/or state regulations, and could result in reimbursement of losses and payment of regulatory and/or criminal fines.

## Segregation of Duties

Our former Chief Accounting Officer had primary review and oversight responsibilities for many financial reporting activities and controls designed to ensure the accuracy of our financial statements. This lack of segregation of duties was a deficiency in the design of our internal control over financial reporting that allowed for improprieties or errors in the application of accounting practices to go undetected.

#### Management Override and Collusion

Based on the results of the independent investigation by the Audit Committee, we believe that our former Chief Accounting Officer caused or permitted deficiencies to occur in the operating effectiveness of our internal controls through the override of certain documentation and financial accounting and reporting controls. In addition, the results of the investigation uncovered collusion with some of the Company's business unit employees to inappropriately manipulate earnings.

**Table of Contents**

*Accounting Policy, Procedures, and Controls* There was a material weakness in the design of accounting policies, procedures, and controls specifically related to the application of GAAP in accounting for certain estimates involving significant management judgments. Specifically our policies did not:

Establish objective guidelines that should be applied in the determination of certain accruals;

Require detailed analyses and review of certain subjective estimates;

Require significant estimates and related assumptions to be documented and approved;

Require dual approval for material journal entries that directly impact earnings through the adjustment of accruals and reserves;

Establish consistent guidelines for the compilation of financial and operational reports; and

Provide visibility into accruals and estimates which were recorded in the consolidated financial statements in amounts that were different from the sum of such accruals recorded at a divisional level.

The material weaknesses described above resulted in the restatement of our annual financial statements for fiscal years 1998-2006 and our quarterly financial statements for the quarters ended December 31, 2006 and March 31, 2007.

These material weaknesses had the following impacts on the Company's financial reporting:

Inappropriate reserves and other accrued liabilities were recorded relating to land development costs, house construction costs and warranty accruals. These errors were caused by a failure to require a determination and documentation of the reasonableness of the assumptions used to develop such estimates of future expenditures for land development, house construction and warranty claims.

Asset impairments were misstated because certain assumptions used to calculate impairments, indirect costs and capitalized interest were improper or inaccurate.

The accounting for certain model home sale and leaseback agreements was not in compliance with GAAP. GAAP does not permit a sale of real estate to be recognized if the seller has a continuing involvement in the real estate sold. The Company's arrangement for certain sale and leaseback transactions included various forms of continuing involvement which prevented the Company from accounting for the transactions as sales.

Certain sale and leaseback agreements entered into by the former Chief Accounting Officer were not properly documented and considered in the evaluation of the accounting for the transaction.

Certain home closings in California were not reflected in the Company's accounting records in the proper accounting periods.

***Change in Internal Control over Financial Reporting***

There have not been any changes in our internal control over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except for the following:

We revised, adopted, disclosed, and distributed an amended Code of Business Conduct and Ethics in March 2008. In addition, a comprehensive set of Interpretive Guidelines was developed and implemented in conjunction with the amended Code of Business Conduct and Ethics. These guidelines are intended to assist employees with understanding the requirements of the Code of Business Conduct and Ethics by setting out specific examples of potential business situations. Both the Code and the Guidelines highlight the existence of multiple lines of communication for employees to report concerns which include: their immediate supervisor, any member of management, any local or corporate officer, local or Corporate Human Resources, the Compliance Officer, the Head of Audit and Controls, the Legal Department, the Chair of the Nominating and



**Table of Contents**

We transferred the administration of our Ethics Hotline from officers of the Company to an independent third party company in March 2008. Complaints are reported directly to the independent third party, whether via the toll-free Ethics Hotline or via an on-line form. In addition to other things, the transfer of administration of the Ethics Hotline is intended to help ensure that all employees understand that there is an independent, confidential, and if the employee chooses, anonymous method of reporting ethics concerns, including those related to accounting, financial reporting or other irregularities. An Awareness Campaign will be launched to introduce all employees to the new Ethics Hotline process and to encourage reporting of all concerns.

We withdrew from the mortgage business and voluntarily discontinued accepting mortgage applications in February 2008. Prior to our withdrawal from the mortgage business, we terminated certain employees from our mortgage subsidiary who we concluded violated certain HUD regulations.

We hired a new, experienced Chief Accounting Officer in February 2008. The new Chief Accounting Officer has significant experience in the homebuilding industry, including one prior circumstance where he was retained to oversee financial controls.

***Remediation Steps to Address Material Weaknesses***

The Company's executive, regional and financial management are committed to achieving and maintaining a strong control environment and an overall tone within the organization that empowers all employees to act with the highest standards of ethical conduct. In addition, management remains committed to the process of developing and implementing improved corporate governance and compliance initiatives. In addition to the changes in internal control over financial reporting described above and in our Quarterly Report on Form 10-Q for the quarter ended December 31, 2007, our current management team has been actively working on remediation efforts to address the material weaknesses, as well as other identified areas of risk as follows:

We launched a comprehensive training program in April 2008 that emphasizes adherence to and the vital importance of the Company's Code of Business Conduct and Ethics. Every employee in the Company is required to participate in the training program which was developed by an outside company that specializes in ethics and other employee training programs.

We terminated the Company's former Chief Accounting Officer and took appropriate action, including the termination of employment, against other business unit employees who violated the Company's Code of Business Conduct and Ethics Policy. While the former Chief Accounting Officer was terminated for cause, due to violations of the Company's ethics policy stemming from attempts to destroy documents in violation of the Company's document retention policy, we believe his termination has addressed concerns about the internal control deficiencies that we believe he caused or permitted to occur.

The Chief Accounting Officer and Regional CFOs are taking, or plan to take in the near term, the following additional actions:

Conducting reviews of accounting processes to incorporate technology improvements to strengthen the design and operation of controls;

Formalizing the process, analytics, and documentation around the monthly analysis of actual results against budgets and forecasts conducted within the accounting and finance departments;

Improving quality control reviews within the accounting function to ensure account analyses and reconciliations are completed accurately, timely, and with proper management review;

Formalizing and expanding the documentation of the Company's procedures for review and oversight of financial reporting.

We are in the process of developing and/or clarifying existing accounting policies related to estimates involving significant management judgments, as well as other financial reporting areas. The new policies will

focus on ensuring appropriate review and approval, defining minimum documentation requirements, establishing objective guidelines to minimize the degree of judgment in the determination of certain accruals, enforcing consistent reporting practices, and enabling effective account reconciliation, trend analyses, and exception reporting capabilities.



## **Table of Contents**

We believe the measures described above, once designed and operating effectively, will remediate the material weaknesses we have identified and strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will diligently and vigorously review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine to take additional remediation measures or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

### **Inherent Limitations over Internal Controls**

Our system of controls is designed to provide reasonable, not absolute, assurance regarding the reliability and integrity of accounting and financial reporting. Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. These inherent limitations include the following:

Judgments in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes.

Controls can be circumvented by individuals, acting alone or in collusion with each other, or by management override.

The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures.

The design of a control system must reflect the fact that resources are constrained, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

#### **Investigations**

*United States Attorney, State and Federal Agency Investigations.* Beazer Homes and its subsidiary, Beazer Mortgage Corporation, are under criminal and civil investigations by the United States Attorney's Office in the Western District of North Carolina and other state and federal agencies concerning the matters that were the subject of the independent investigation by the Audit Committee of the Beazer Homes Board of Directors as described in Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K. The Company is fully cooperating with these investigations.

*Securities and Exchange Commission Investigation.* On July 20, 2007, Beazer Homes received from the SEC a formal order of private investigation to determine whether Beazer Homes and/or other persons or entities involved with Beazer Homes have violated federal securities laws, including, among others, the anti-fraud, books and records, internal accounting controls, periodic reporting and certification provisions thereof. The SEC had previously initiated an informal investigation in this matter in May 2007. The Company is fully cooperating with the SEC investigation.

*Independent Investigation.* The Audit Committee of the Beazer Homes Board of Directors has completed an independent investigation (the Investigation) of Beazer Homes mortgage origination business, including, among other things, investigating certain evidence that the Company's subsidiary, Beazer Mortgage Corporation, violated U.S. Department of Housing and Urban Development (HUD) regulations and may have violated certain other laws and regulations in connection with certain of its mortgage origination activities. The results of the Investigation are fully described in Notes 14 and 17 to the consolidated financial statements included in Item 8 of our fiscal 2007 Form 10-K.



**Table of Contents****Mortgage Origination Issues**

The Investigation found evidence that employees of the Company's Beazer Mortgage Corporation subsidiary violated certain federal and/or state regulations, including U.S. Department of Housing and Urban Development ( HUD ) regulations. Areas of concern uncovered by the Investigation include: down payment assistance programs; the charging of discount points; the closure of certain HUD Licenses; closing accommodations; and the payment of a number of realtor bonuses and decorator allowances in certain Federal Housing Administration ( FHA ) insured loans and non-FHA conventional loans originated by Beazer Mortgage dating back to at least 2000. The Investigation also uncovered limited improper practices in relation to the issuance of a number of non-FHA Stated Income Loans. We reviewed the loan documents and supporting documentations and determined that the assets were effectively isolated from the seller and its creditors (even in the event of bankruptcy). Based on that information, management continues to believe that sale accounting at the time of the transfer of the loans to third parties was appropriate.

We intend to attempt to negotiate a settlement with prosecutors and regulatory authorities that would allow us to quantify our exposure associated with reimbursement of losses and payment of regulatory and/or criminal fines, if they are imposed. See Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K for additional discussion of this matter. At this time, we believe that although it is probable that a liability exists related to this exposure, it is not reasonably estimable and would be inappropriate to record a liability as of March 31, 2008.

Effective February 1, 2008, we exited the mortgage origination business and entered into an exclusive preferred lender arrangement with a national third-party mortgage provider. This exclusive arrangement will continue to offer our homebuyers the option of a simplified financing process while enabling us to focus on our core competency of homebuilding.

**Litigation**

*Securities Class Actions.* Beazer Homes and certain of our current and former executive officers are named as defendants in a putative class action securities lawsuit filed on March 29, 2007 in the United States District Court for the Northern District of Georgia. Plaintiffs filed this action on behalf of a purported class of purchasers of Beazer Homes common stock between July 27, 2006 and March 27, 2007. The complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing materially false and misleading statements regarding our business and prospects because we did not disclose facts related to alleged improper lending practices in our mortgage origination business. Plaintiffs seek an unspecified amount of compensatory damages. Two additional lawsuits were filed subsequently on May 18, 2007 and May 21, 2007 in the United States District Court for the Northern District of Georgia making similar factual allegations and asserting class periods of July 28, 2005 through March 27, 2007, and March 30, 2005 through March 27, 2007, respectively. The court has consolidated these three lawsuits and plaintiffs are expected to file a consolidated amended complaint within thirty days after May 12, 2008, the date we filed our fiscal 2007 Form 10-K with the SEC. The Company intends to vigorously defend against these actions.

*Derivative Shareholder Actions.* Certain of Beazer Homes current and former executive officers and directors were named as defendants in a derivative shareholder suit filed on April 16, 2007 in the United States District Court for the Northern District of Georgia. The complaint also names Beazer Homes as a nominal defendant. The complaint, purportedly on behalf of Beazer Homes, alleges that the defendants (i) violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder; (ii) breached their fiduciary duties and misappropriated information; (iii) abused their control; (iv) wasted corporate assets; and (v) were unjustly enriched. Plaintiffs seek an unspecified amount of compensatory damages against the individual defendants and in favor of Beazer Homes. An additional lawsuit was filed subsequently on August 29, 2007 in the United States District Court for the Northern District of Georgia asserting similar factual allegations. A motion to consolidate the two Georgia derivative actions is pending, and the plaintiffs are expected to designate the operative complaint within five days after the Court consolidates the actions. Additionally, on September 12, 2007, another derivative suit was filed in Delaware Chancery Court, and the plaintiffs filed an amended complaint on October 26, 2007. The Delaware complaint raises similar factual and legal claims as those asserted by the plaintiffs in the Georgia derivative actions. The defendants have moved to dismiss the Delaware action, or in the alternative, to stay the case pending resolution of

the derivative litigation pending in Georgia. The defendants intend to vigorously defend against these actions.

**Table of Contents**

*ERISA Class Actions.* On April 30, 2007, a putative class action complaint was filed on behalf of a purported class consisting of present and former participants and beneficiaries of the Beazer Homes 401(k) Plan, naming Beazer Homes, certain of its current and former officers and directors and the Benefits Administration Committee as defendants. The complaint was filed in the United States District Court for the Northern District of Georgia. The complaint alleges breach of fiduciary duties, including those set forth in the Employee Retirement Income Security Act ( ERISA ) as a result of the investment of retirement monies held by the 401(k) Plan in common stock of Beazer Homes at a time when participants were allegedly not provided timely, accurate and complete information concerning Beazer Homes. Four additional lawsuits were filed subsequently on May 11, 2007, May 14, 2007, June 15, 2007 and July 27, 2007 in the United States District Court for the Northern District of Georgia making similar allegations. The court has consolidated these five lawsuits, and the plaintiffs are expected to file a consolidated amended complaint within thirty days after May 12, 2008, the date we filed our Form 10-K with the SEC. The Company intends to vigorously defend against these actions.

*Homeowners Class Action Lawsuits and Multi-Plaintiff Lawsuit.* Beazer Homes subsidiaries, Beazer Homes Corp. and Beazer Mortgage Corporation, were named as defendants in a putative class action lawsuit filed on March 23, 2007 in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division. The complaint was filed as a putative class action. The purported class is defined as North Carolina residents who purchased homes in subdivisions in North Carolina containing homes constructed by the defendants where the foreclosure rate is allegedly significantly higher than the state-wide average. The complaint alleged that the defendants utilized unfair trade practices to allow low-income purchasers to qualify for loans they allegedly could not afford, resulting in foreclosures that allegedly diminished plaintiffs property values. Plaintiffs sought an unspecified amount of compensatory damages and also requested that any damage award be trebled. On April 25, 2008, the District Court dismissed all causes of action with prejudice. If Plaintiffs appeal the judgment of the District Court, the defendants will continue to vigorously defend this action.

A second putative homeowner class action lawsuit was filed on April 23, 2007 in the United States District Court for the District of South Carolina, Columbia Division. The complaint alleged that Beazer Homes Corp. and Beazer Mortgage Corporation illegally facilitated the financing of the purchase of homes sold to low-income purchasers, who allegedly would not have otherwise qualified for the loans. Certain of the plaintiffs also alleged that the defendants practices resulted in foreclosures that allegedly diminished plaintiffs property values. The complaint demanded an unspecified amount of damages, including damages for alleged violations of federal RICO statutes and punitive damages. The Company filed a motion to dismiss and the District Court dismissed all causes of action with prejudice on September 10, 2007. The plaintiffs subsequently filed a motion for reconsideration which the District Court denied. The plaintiffs did not file a notice of appeal and this case is now concluded.

An additional putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation. The Complaint alleges that Beazer violated the Real Estate Settlement Practices Act and North Carolina Gen. Stat. § 75-1.1 by (1) improperly requiring homebuyers to use Beazer-owned mortgage and settlement services as part of a down payment assistance program, and (2) illegally increasing the cost of homes and settlement services sold by Beazer Homes Corp. Plaintiff also asserts that Beazer was unjustly enriched by these alleged actions. The purported class consists of all residents of North Carolina who purchased a home from Beazer, using mortgage financing provided by and through Beazer that included seller-funded down payment assistance, between January 1, 2000 and October 11, 2007. The Complaint demands an unspecified amount of damages, various forms of equitable relief, treble damages, attorneys fees and litigation expenses. The defendants have not yet filed a responsive pleading or motion, but we intend to vigorously defend this action.

Beazer Homes Corp. and Beazer Mortgage Corporation are also named defendants in a lawsuit filed on July 3, 2007, in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The complaint was filed on behalf of ten individual homeowners who purchased homes from Beazer in Mecklenburg County. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division, but remanded on April 23, 2008 to the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina.

The complaint alleges certain deceptive conduct by the defendants and brings various claims under North Carolina statutory and common law, including a claim for punitive damages. The Company intends to vigorously defend against this action.

Beazer Homes' subsidiaries, Beazer Homes Holdings Corp. and Beazer Mortgage Corporation, were named as defendants in a putative class action lawsuit filed on March 12, 2008 in the Superior Court of the State of California, County of Placer. The purported class is defined as all residential mortgage borrowers, who within four years of the filing of the complaint, purchased homes from Beazer with the assistance of a federally related mortgage loan in which Beazer accepted a fee or something of value from an affiliated or recommended title insurance company. The complaint alleges that the defendants violated the Real Estate Settlement Procedures Act ( RESPA ) and asserts claims under a number of state statutes alleging that defendants engaged in a uniform and systematic practice of giving and/or accepting fees and kickbacks to affiliated businesses including affiliated and/or recommended title insurance companies. The complaint also alleges a number of common law claims. Plaintiffs seek an unspecified amount of damages under RESPA, unspecified compensatory and punitive damages and injunctive and declaratory relief, as well as attorneys' fees and costs. The defendants have not yet been served in this action. We will vigorously defend against this action.

**Table of Contents**

*Bond Indenture Trustee Litigation.* On September 10, 2007, we filed an Amended Complaint For Declaratory Judgment and Injunctive Relief in an action pending in the United States District Court in Atlanta, Georgia against the trustees under the indentures governing our outstanding senior and convertible senior notes. We sought, among other relief, a declaration from the court against the trustees that the delay in filing with the SEC our Form 10-Q for the quarterly period ended June 30, 2007 does not constitute a default under the applicable indentures and that the delay will not give rise to any right of acceleration on the part of the holders of the senior and convertible senior notes. On October 29, 2007, we notified the court and the trustees that we had successfully concluded a consent solicitation concerning the notes at issue. Because the consents provide us with a waiver of any and all defaults under the indentures at issue that may have occurred or may occur prior to May 15, 2008 due to our failure to file or deliver reports or other information we would be required to file with the SEC, we continued to request the court to rule on our demand for declaratory judgment. In response to our notice of successful consent solicitation, the trustees requested the court to deny our request for a ruling on the merits and dismiss the action, without prejudice, on the ground that there is no justiciable controversy ripe for determination. We opposed the trustees' suggestion of mootness and requested the court to grant us declaratory judgment.

We cannot predict or determine the timing or final outcome of the governmental investigations or the lawsuits or the effect that any adverse findings in the investigations or adverse determinations in the lawsuits may have on us. While we are cooperating with the governmental investigations, developments, including the expansion of the scope of the investigations, could negatively impact us and could divert the efforts and attention of our management team from the operation of our business and/or result in further departures of executives or other employees. An unfavorable determination resulting from any governmental investigation could result in the filing of criminal charges, the payment of substantial criminal or civil fines, the imposition of injunctions on our conduct or the imposition of other penalties or consequences, including the Company adjusting, curtailing or terminating the conduct of certain of our business operations. Any of these outcomes could have a material adverse effect on our business, financial condition, results of operations and prospects. An unfavorable determination in any of the 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 investigations and the lawsuits and the amount of time required to be spent by management and the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our business, financial condition and results of operations.

**Other Matters**

In November 2003, Beazer Homes received a request for information from the EPA pursuant to Section 308 of the Clean Water Act seeking information concerning the nature and extent of storm water discharge practices relating to certain of our projects completed or under construction. The EPA has since requested information on additional projects and has conducted site inspections at a number of locations. In certain instances, the EPA or the equivalent state agency has issued Administrative Orders identifying alleged instances of noncompliance and requiring corrective action to address the alleged deficiencies in storm water management practices. As of March 31, 2008, no monetary penalties have been imposed in connection with such Administrative Orders. The EPA has reserved the right to impose monetary penalties at a later date, the amount of which, if any, cannot currently be estimated. Beazer Homes has taken action to comply with the requirements of each of the Administrative Orders and is working to otherwise maintain compliance with the requirements of the Clean Water Act.

In 2006, we received two Administrative Orders issued by the New Jersey Department of Environmental Protection. The Orders allege certain violations of wetlands disturbance permits. The two Orders assess proposed fines of \$630,000 and \$678,000, respectively. We have met with the Department to discuss their concerns on the two affected projects and have requested hearings on both matters. We believe that we have significant defenses to the alleged violations and intend to contest the agency's findings and the proposed fines. We are currently pursuing settlement discussions with the Department. A hearing before the judge has been postponed pending settlement discussions. 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 claims. Certain of the liabilities resulting from these actions are covered in whole or part by insurance. In our opinion, based on our current assessment, the ultimate resolution of these matters will not have a material adverse effect on our financial condition,

results of operations or cash flows.



**Table of Contents**

**Item 6. Exhibits**

- 10.1 Limited Waiver, dated as of May 13, 2008, to and under the Credit Agreement, dated as of July 15, 2007, among the Company, the lenders thereto and Wachovia Bank, National Association, as Agent
- 31.1 Certification pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Beazer Homes USA, Inc.

Date: May 15, 2008

By: /s/ Allan P. Merrill  
Name: Allan P. Merrill  
Executive Vice President and Chief Financial  
Officer

59