BEAZER HOMES USA INC
Form 10-Q
February 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the Quarterly Period Ended December 31, 2015
or

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

Commission File Number 001-12822

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

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |

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

| Class | Outstanding at February 1, 2016 |
| --- | --- |
| Common Stock, $0.001 par value | 33,092,491 |

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | December 31, 2015 | September 30, 2015 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $144,881 | $251,583 |
| Restricted cash | 39,351 | 38,901 |
| Accounts receivable (net of allowance of $921 and $1,052, respectively) | 50,555 | 52,379 |
| Income tax receivable | 269 | 419 |
| Owned inventory | 1,729,937 | 1,697,590 |
| Investments in unconsolidated entities | 11,721 | 13,734 |
| Deferred tax assets, net | 325,058 | 325,373 |
| Property and equipment, net | 20,236 | 22,230 |
| Other assets | 16,688 | 18,994 |
| Total assets | $2,338,696 | $2,421,203 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Trade accounts payable | $81,395 | $113,539 |
| Other liabilities | 122,268 | 148,966 |
| Total debt (net of discounts of $3,449 and $3,639, respectively) | 1,502,056 | 1,528,275 |
| Total liabilities | 1,705,719 | 1,790,780 |
| Stockholders' equity: | | |
| Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued) | — | — |
| Common stock (par value $0.001 per share, 63,000,000 shares authorized, 33,092,491 issued and outstanding and 32,660,583 issued and outstanding, respectively) | 33 | 33 |
| Paid-in capital | 859,108 | 857,553 |
| Accumulated deficit | (226,164) | (227,163) |
| Total stockholders' equity | 632,977 | 630,423 |
| Total liabilities and stockholders' equity | $2,338,696 | $2,421,203 |

See Notes to Unaudited Consolidated Financial Statements.

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Total revenue | $344,449 | $265,764 |
| Home construction and land sales expenses | 285,511 | 230,546 |
| Inventory impairments and abandonments | 1,356 | — |
| Gross profit | 57,582 | 35,218 |
| Commissions | 13,774 | 10,926 |
| General and administrative expenses | 31,669 | 31,441 |
| Depreciation and amortization | 2,991 | 2,341 |
| Operating income (loss) | 9,148 | (9,490) |
| Equity in income of unconsolidated entities | 60 | 142 |
| Loss on extinguishment of debt | (828) | — |
| Other expense, net | (6,565) | (9,434) |
| Income (loss) from continuing operations before income taxes | 1,815 | (18,782) |
| Expense (benefit) from income taxes | 616 | (696) |
| Income (loss) from continuing operations | 1,199 | (18,086) |
| Loss from discontinued operations, net of tax | (200) | (4,254) |
| Net income (loss) | $999 | $(22,340) |
| Weighted average number of shares: | | |
| Basic | 31,757 | 26,457 |
| Diluted | 31,844 | 26,457 |
| Basic income (loss) per share: | | |
| Continuing operations | $0.04 | $(0.68) |
| Discontinued operations | $(0.01) | $(0.16) |
| Total | $0.03 | $(0.84) |
| Diluted income (loss) per share | | |
| Continuing operations | $0.04 | $(0.68) |
| Discontinued operations | $(0.01) | $(0.16) |
| Total | $0.03 | $(0.84) |
| | | |
| Consolidated Statement of Comprehensive Income (Loss) | | |
| Net income (loss) | $999 | $(22,340) |
| Other comprehensive income (loss), net of income tax: | | |
| Change in unrealized loss related to available-for-sale securities | — | 206 |
| Comprehensive income (loss) | $999 | $(22,134) |

See Notes to Unaudited Consolidated Financial Statements.

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income (loss) | $999 | $(22,340) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 2,991 | 2,341 |
| Stock-based compensation expense | 1,756 | 1,375 |
| Inventory impairments and abandonments | 1,356 | — |
| Deferred and other income tax expense (benefit) | 318 | (765) |
| Gain on sale of fixed assets | (771) | — |
| Change in allowance for doubtful accounts | (131) | 22 |
| Equity in income of unconsolidated entities and marketable securities | (60) | (142) |
| Cash distributions of income from marketable securities and unconsolidated entities | — | 34 |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 1,955 | 2,091 |
| Decrease in income tax receivable | 150 | — |
| Increase in inventory | (28,168) | (104,434) |
| Decrease in other assets | 1,660 | 1,159 |
| Decrease in trade accounts payable | (32,144) | (40,392) |
| Decrease in other liabilities | (27,760) | (11,432) |
| Other changes | — | (49) |
| Net cash used in operating activities | (77,849) | (172,532) |
| Cash flows from investing activities: | | |
| Capital expenditures | (2,663) | (2,934) |
| Proceeds from sale of fixed assets | 2,437 | — |
| Investments in unconsolidated entities | (1,779) | (1,144) |
| Return of capital from unconsolidated entities | 1,142 | — |
| Increases in restricted cash | (1,119) | (1,445) |
| Decreases in restricted cash | 669 | 294 |
| Net cash used in investing activities | (1,313) | (5,229) |
| Cash flows from financing activities: | | |
| Repayment of debt | (26,926) | (7,388) |
| Debt issuance costs | (413) | (126) |
| Other financing activities | (201) | (199) |
| Net cash used in financing activities | (27,540) | (7,713) |
| Decrease in cash and cash equivalents | (106,702) | (185,474) |
| Cash and cash equivalents at beginning of period | 251,583 | 324,154 |
| Cash and cash equivalents at end of period | $144,881 | $138,680 |

See Notes to Unaudited Consolidated Financial Statements.

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

(1) Description of Business

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

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

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

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such unaudited financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments (consisting primarily of normal recurring adjustments) necessary for a fair presentation have been included in the accompanying unaudited financial statements. The results of our consolidated operations presented herein for the three months ended December 31, 2015 are not necessarily indicative of the results to be expected for the full year due to seasonal variations in our operations and other items. For further information and a discussion of our significant accounting policies other than as discussed below, refer to Note 2 to the audited consolidated financial statements within our 2015 Annual Report.

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

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

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

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

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

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

Recent Accounting Pronouncements.

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 requires entities to recognize revenue at an amount that the entity expects to be entitled to upon transferring

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

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standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of ASU 2014-09 on our consolidated financial statements.

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

(3) Supplemental Cash Flow Information

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

| | Three Months Ended December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Supplemental disclosure of non-cash activity: | | |
| Decrease in obligations related to land not owned under option agreements | $— | $(1,668) |
| Non-cash land acquisitions [(a)] | 3,769 | 12,904 |
| Supplemental disclosure of cash activity: | | |
| Interest payments | 39,740 | 42,709 |
| Income tax payments | 146 | 62 |
| Tax refunds received | 150 | — |

[(a)] For the three months ended December 31, 2015, non-cash land acquisitions were related to lot takedowns from one of our unconsolidated land development joint ventures. For the three months ended December 31, 2014, non-cash land acquisitions were comprised of $7.8 million related to non-cash seller financing and $5.1 million in lot takedowns from one of our unconsolidated land development joint ventures.

(4) Investments in Marketable Securities and Unconsolidated Entities

Marketable Securities

During the fourth quarter of fiscal 2014, the Company acquired shares of American Homes 4 Rent (AMH) in exchange for the Company's interest in a real estate investment trust (REIT). The shares represented marketable equity securities with a readily available fair value and were classified as available-for-sale securities. During the three months ended December 31, 2014, the Company recorded an unrealized gain of $0.2 million, which is reflected in Other Comprehensive Income (Loss), representing a reduction of the overall loss incurred on the securities since acquired. In March 2015, the Company sold the shares and recorded a loss of $1.8 million (approximately $0.5 million of which was attributable to fair value changes in fiscal 2015) that was recorded within other expense, net in our consolidated statements of income.

Unconsolidated Entities

As of December 31, 2015, we participated in certain land development joint ventures and other unconsolidated entities in which Beazer had less than a controlling interest. The following table presents our investment in these unconsolidated entities, as well as the total equity and outstanding borrowings of these unconsolidated entities as of December 31, 2015 and September 30, 2015:

| (In thousands) | December 31, 2015 | September 30, 2015 |
|---|---|---|

| | | |
|---|---|---|
| Beazer's investment in unconsolidated entities | $11,722 | $13,734 |
| Total equity of unconsolidated entities | 45,047 | 52,118 |
| Total outstanding borrowings of unconsolidated entities | 12,859 | 12,206 |

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For the three months ended December 31, 2015 and 2014, there were no impairments related to our investments in these unconsolidated entities.

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

| | Three Months Ended December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Equity in income of unconsolidated entities | $60 | $142 |

South Edge/Inspirada. During our fiscal 2014, we and other members of the Inspirada joint venture (Inspirada) received land in exchange for our investment in Inspirada. During our fiscal 2015, we paid $3.3 million to the joint venture related to infrastructure and development costs. In the current quarter, we paid additional amounts, bringing our remaining obligation for our portion of future infrastructure and other development costs to $1.1 million as of December 31, 2015.

Guarantees. Our land development joint ventures typically obtain secured acquisition, development and construction financing. Historically, Beazer and our land development joint venture partners have provided varying levels of guarantees of debt and other debt-related obligations for these unconsolidated entities. However, as of December 31, 2015 and September 30, 2015, we had no outstanding guarantees or other debt-related obligations related to our investments in unconsolidated entities.

We and our joint venture partners generally provide unsecured environmental indemnities to land development joint venture project lenders. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the three months ended December 31, 2015 and 2014, we were not required to make any payments related to environmental indemnities.

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

(5) Inventory

The components of our owned inventory are as follows as of December 31, 2015 and September 30, 2015:

| (In thousands) | December 31, 2015 | September 30, 2015 |
|---|---|---|
| Homes under construction | $386,409 | $377,281 |
| Development projects in progress | 808,223 | 809,900 |
| Land held for future development | 271,321 | 270,990 |
| Land held for sale | 54,546 | 44,555 |
| Capitalized interest | 132,462 | 123,457 |
| Model homes | 76,976 | 71,407 |
| Total owned inventory | $1,729,937 | $1,697,590 |

Homes under construction include homes substantially finished and ready for delivery and homes in various stages of construction. We had 172 (with a cost of $48.7 million) and 128 (with a cost of $40.1 million) substantially completed homes that were not subject to a sales contract (spec homes) as of December 31, 2015 and September 30, 2015, respectively. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a customer deposit or sales contract. Land held for future development consists of communities for which construction and development activities are expected to occur in the future or have been idled, and are stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. All applicable interest and real estate taxes on land held for future development are expensed as incurred. Land held for sale is recorded at the lower of the carrying value or fair value less costs to sell. The amount of interest we are able to capitalize is dependent upon our qualified inventory balance, which considers

the status of our inventory holdings. Our qualified inventory balance includes the majority of our homes under construction and development projects in progress, but excludes land held for future development and land held for sale (refer to Note 6 for additional information on capitalized interest).

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Total owned inventory, by reportable segment, is presented in the table below as of December 31, 2015 and September 30, 2015:

| (In thousands) | Projects in Progress [a] | Land Held for Future Development | Land Held for Sale | Total Owned Inventory |
|---|---|---|---|---|
| December 31, 2015 | | | | |
| West Segment | $598,776 | $231,119 | $6,571 | $836,466 |
| East Segment | 349,678 | 29,280 | 30,279 | 409,237 |
| Southeast Segment | 274,772 | 10,922 | 16,597 | 302,291 |
| Corporate and unallocated | 180,844 | [b] — | 1,099 | 181,943 |
| Total | $1,404,070 | $271,321 | $54,546 | $1,729,937 |
| September 30, 2015 | | | | |
| West Segment | $583,210 | $230,778 | $6,941 | $820,929 |
| East Segment | 353,054 | 29,280 | 30,927 | 413,261 |
| Southeast Segment | 277,351 | 10,932 | 5,587 | 293,870 |
| Corporate and unallocated | 168,430 | [b] — | 1,100 | 169,530 |
| Total | $1,382,045 | $270,990 | $44,555 | $1,697,590 |

[a] Projects in progress include homes under construction, development projects in progress, capitalized interest and model home categories from the preceding table.

[b] Includes capitalized interest and indirect costs that are maintained within Corporate and unallocated.

Inventory Impairments. When conducting our community level review for the recoverability of our inventory related to projects in progress, we establish a quarterly “watch list” of communities that carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability, as well as recent closings that have gross margins less than a specific threshold. Each community is first evaluated qualitatively to determine if there are temporary factors driving the low profitability levels. Following our qualitative evaluation, communities with more than 10 homes remaining to close are subjected to substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to profit margins below our watch list threshold. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. For certain communities, we determine that it is prudent to reduce sales prices or further increase sales incentives in response to a variety of factors, including competitive market conditions in those specific submarkets for the product and locations of these communities. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information. Market deterioration that exceeds our initial estimates may lead us to incur impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if markets deteriorate. For the quarter ended December 31, 2015, there were no communities on our watch list that required further analysis to be performed after considering the number of lots remaining in each community and certain other qualitative factors. For the quarter ended December 31, 2014, two communities in our West segment were on our quarterly watch list that required additional consideration. However, after additional financial and operational review, we determined that the factors contributing to profit margins below our threshold were temporary in nature, and therefore, these communities were not subjected to further analysis, including any undiscounted cash flow analysis. Accordingly, there were no impairments recorded during the three months ended December 31, 2015 or 2014 based upon the procedures we performed.

Impairments on land held for sale generally represent write downs of these properties to net realizable value, less estimated costs to sell, and are based on current market conditions and our review of recent comparable transactions.

Our assumptions about land sales prices require significant judgment because the real estate market is highly sensitive to changes in economic conditions. We calculate the estimated fair values of land held for sale based on current market conditions and assumptions made by management, which may differ materially from actual results and may result in additional impairments if market conditions deteriorate.

From time-to-time, we also determine that the proper course of action with respect to a community is to not exercise an option and to write-off the deposit securing the option takedown and the related pre-acquisition costs, as applicable. In determining whether to abandon lots or lot option contracts, our evaluation is primarily based upon the expected cash flows from the property. Additionally, in certain limited instances, we are forced to abandon lots due to permitting or other regulatory issues that do not allow us to build on that lot. If we intend to abandon or walk away from a property, we record a charge to earnings for the deposit

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amount and any related capitalized costs in the period such decision is made. Abandonment charges generally relate to our decision to abandon lots or not exercise certain option contracts that are not projected to produce adequate results, no longer fit with our long-term strategic plan, or, in limited circumstances, are not suitable for building due to regulatory or environmental restrictions that are enacted.

We did not have any land held for sale inventory impairments, nor did we have any abandonment charges, during the three months ended December 31, 2014. The following table presents, by reportable homebuilding segment, our land held for sale inventory impairments and abandonment charges for the three months ended December 31, 2015:

| (In thousands) | Three Months Ended December 31, 2015 |
|---|---|
| Land Held for Sale: | |
| East | $197 |
| Southeast | 371 |
| Total impairment charges on land held for sale | $568 |
| Abandonments: | |
| Southeast | $788 |
| Total impairment and abandonment charges | $1,356 |

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

The following table provides a summary of our interests in lot option agreements as of December 31, 2015 and September 30, 2015:

| (In thousands) | Deposits & Non-refundable Pre-acquisition Costs Incurred | Remaining Obligation |
|---|---|---|
| As of December 31, 2015 | | |
| Unconsolidated lot option agreements | $65,552 | $421,098 |
| As of September 30, 2015 | | |
| Unconsolidated lot option agreements | $51,475 | $420,070 |

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(6) Interest

Our ability to capitalize interest incurred during the three months ended December 31, 2015 and 2014 was limited by our inventory eligible for capitalization. The following table presents certain information regarding interest for the periods presented:

| | Three Months Ended December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Capitalized interest in inventory, beginning of period | $123,457 | $87,619 |
| Interest incurred | 30,088 | 30,283 |
| Interest expense not qualified for capitalization and included as other expense [(a)] | (7,432) | (9,747) |
| Capitalized interest amortized to house construction and land sales expenses [(b)] | (13,651) | (8,287) |
| Capitalized interest in inventory, end of period | $132,462 | $99,868 |

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

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

(7) Borrowings

As of December 31, 2015 and September 30, 2015, we had the following debt, net of discounts:

| (In thousands) | Maturity Date | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| 8 1/8% Senior Notes | June 2016 | $148,004 | $170,879 |
| 6 5/8% Senior Secured Notes | April 2018 | 300,000 | 300,000 |
| 9 1/8% Senior Notes | May 2019 | 235,000 | 235,000 |
| 5 3/4% Senior Notes | June 2019 | 325,000 | 325,000 |
| 7 1/2% Senior Notes | September 2021 | 200,000 | 200,000 |
| 7 1/4% Senior Notes | February 2023 | 200,000 | 200,000 |
| Unamortized debt discounts | | (3,449) | (3,639) |
| Total Senior Notes, net | | $1,404,555 | $1,427,240 |
| Junior Subordinated Notes | July 2036 | 58,320 | 57,803 |
| Cash Secured Loans | November 2017 | 22,368 | 22,368 |
| Other Secured Notes payable | Various Dates | 16,813 | 20,864 |
| Total debt, net | | $1,502,056 | $1,528,275 |

Secured Revolving Credit Facility. Our Secured Revolving Credit Facility (the Facility) provides us with working capital and letter of credit capacity. On November 6, 2015, we executed a Second Amendment (the Second Amendment) to our Second Amended and Restated Credit Agreement originally dated September 24, 2012. The Second Amendment, among other things, increased the maximum aggregate amount of the Facility from $130.0 million to $145.0 million and extended its termination date to January 15, 2018. The Facility continues to be with the three lenders. As of December 31, 2015 and September 30, 2015, we had no borrowings outstanding under the Facility.

The Facility allows us to issue letters of credit against the undrawn capacity. Subject to our option to cash collateralize our obligations under the Facility upon certain conditions, our obligations under the Facility are secured by liens on substantially all of our personal property and a significant portion of our owned real properties. We have also pledged approximately $1 billion of inventory assets to the Facility to collateralize potential future borrowings or letters of credit (in addition to the letters of credit already issued under the Facility). As of December 31, 2015, we had $28.6 million in letters of credit outstanding under the Facility, leaving us with $116.4 million in remaining capacity. The Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. As of December 31, 2015, we were in compliance with all such covenants.

Letter of Credit Facilities. We have entered into stand-alone, cash-secured letter of credit agreements with banks to maintain our pre-existing letters of credit and to provide for the issuance of new letters of credit (in addition to the letters of credit issued under the Facility). As of December 31, 2015 and September 30, 2015, we had letters of credit outstanding under these additional facilities of $14.6 million and $14.4 million, respectively, all of which are secured by cash collateral in restricted accounts. The Company may enter into additional arrangements to provide further letter of credit capacity.

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Senior Notes. The majority of our Senior Notes are unsecured or secured obligations ranking pari passu with all other existing and future senior indebtedness. Substantially all of our significant subsidiaries are full and unconditional guarantors of the Senior Notes and are jointly and severally liable for obligations under the Senior Notes and the Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes.

The Company's Senior Notes are issued under indentures that contain certain restrictive covenants which, among other things, restrict our ability to pay dividends, repurchase our common stock, incur additional indebtedness and to make certain investments. Specifically, all of our Senior Notes contain covenants that restrict our ability to incur additional indebtedness unless it is refinancing indebtedness or non-recourse indebtedness. The incurrence of refinancing indebtedness and non-recourse indebtedness, as defined in the applicable indentures, is exempted from the covenant test. Compliance with our Senior Note covenants does not significantly impact our operations. We were in compliance with the covenants contained in the indentures of all of our Senior Notes as of December 31, 2015.

Our Senior Notes due 2016 (the 2016 Notes) contain the most restrictive covenants, including a consolidated tangible net worth covenant, which states that should our consolidated tangible net worth fall below $85 million for two consecutive quarters, the Company is required to make an offer to purchase 10% of the aggregate principal amount of the original 2016 Notes. If triggered and fully subscribed, this could result in our having to purchase $27.5 million of the 2016 Notes, which may be reduced by certain 2016 Note repurchases (potentially at less than par) made in the open market after the triggering date. As of December 31, 2015, our consolidated tangible net worth was $615.8 million, well in excess of the minimum covenant requirement. During the current quarter, we paid down $22.9 million of the 2016 Notes, leaving us $148.0 million in remaining liability. This early payment resulted in a loss on extinguishment of debt of $0.8 million. Subsequent to December 31, 2015, we paid down an additional $5.0 million of these notes.

All unsecured Senior Notes rank equally in right of payment with all of our existing and future senior unsecured obligations, senior to all of the Company's existing and future subordinated indebtedness and effectively subordinated to the Company's existing and future secured indebtedness, including indebtedness under the Facility and our 6.625% Senior Secured Notes due April 2018, to the extent of the value of the assets securing such indebtedness. The unsecured Senior Notes and related guarantees are structurally subordinated to all indebtedness and other liabilities of all of the Company's subsidiaries that do not guarantee these notes. The unsecured Senior Notes are fully and unconditionally guaranteed jointly and severally on a senior basis by the Company's wholly-owned subsidiaries party to each applicable Indenture.

The table below summarizes the redemption terms for our Senior Notes:

| Senior Note Description | Issuance Date | Maturity Date | Redemption Terms |
|---|---|---|---|
| 8 1/8% Senior Notes | June 2006 | June 2016 | Callable at any time, in whole or in part, based on a customary make-whole premium amount |
| 6 5/8% Senior Secured Notes | July 2012 | April 2018 | Callable at any time, in whole or in part, at a set redemption price; redemption price is currently equal to 103.313% of the principal amount and resets on July 15, 2016 to a redemption price equal to 101.656% of the principal amount |
| 9 1/8% Senior Notes | November 2010 | May 2019 | Callable at any time, in whole or in part, at a redemption price equal to 102.281% of the principal amount |
| 5 3/4% Senior Notes | April 2014 | June 2019 | Callable at any time before March 15, 2019, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium |
| 7 1/2% Senior Notes | February 2013 | September 2021 | Callable at any time prior to September 15, 2016, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; after September 15, 2016, callable at a redemption price equal to 105.625% of the principal amount; after September 15, 2017, callable at a redemption price equal to 103.75% of the principal |

| | | | |
|---|---|---|---|
| | | | amount; after September 15, 2018, callable at a redemption price equal to 101.875% of the principal amount |
| 7 1/4% Senior Notes | September 2013 | February 2023 | Callable at any time prior to February 1, 2018, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; after February 1, 2018, callable at a redemption price equal to 103.625% of the principal amount; after February 1, 2019, callable at a redemption price equal to 102.41% of the principal amount; after February 1, 2020, callable at a redemption price equal to 101.208% of the principal amount |

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Junior Subordinated Notes. Our unsecured junior subordinated notes (Junior Subordinated Notes) in the amount of $103.1 million mature on July 30, 2036. The Junior Subordinated Notes are redeemable at par and pay interest at a fixed rate of 7.987% for the first 10 years ending July 30, 2016. Thereafter, the securities have a floating interest rate as defined in the Junior Subordinated Notes Indenture; based on current interest rates, we expect the floating interest rate to be lower than our current fixed rate. The obligations relating to these notes are subordinated to the Facility and Senior Notes. In January 2010, we modified the terms of $75.0 million of these notes and recorded them at their then estimated fair value. Over the remaining life of the Junior Subordinated Notes, we will increase their carrying value until this carrying value equals the face value of the notes. As of December 31, 2015, the unamortized accretion was $42.5 million and will be amortized over the remaining life of the notes. As of December 31, 2015, we were in compliance with all covenants under our Junior Subordinated Notes.

Cash Secured Loans. We have two separate cash secured loan facilities with $22.4 million outstanding as of December 31, 2015. Borrowing under the cash secured loan facilities will replenish cash used to repay or repurchase the Company's debt and would be considered "refinancing indebtedness" under certain of the Company's existing indentures and debt covenants. However, because the loans are fully collateralized by cash equal to the loan amount, the loans do not provide liquidity to the Company.

The loans mature in November 2017; however, the lenders of these facilities may put the outstanding loan balances to the Company at the two- or four-year anniversaries of the loans. Borrowings under the facilities are fully secured by cash held by the lender or its affiliates. This secured cash is reflected as restricted cash on our unaudited consolidated balance sheets. The cash secured loans have a maximum interest rate equivalent to LIBOR plus 0.4% per annum, which is paid every three months following the effective date of each borrowing.

Other Secured Notes Payable. We periodically acquire land through the issuance of notes payable. As of December 31, 2015 and September 30, 2015, we had outstanding notes payable of $16.8 million and $20.9 million, respectively, primarily related to land acquisitions. These notes payable have varying expiration dates between 2016 and 2019 and have a weighted average fixed interest rate of 4.50% as of December 31, 2015. These notes are secured by the real estate to which they relate.

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

(8) Contingencies

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

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

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

Our warranty reserves are included in other liabilities on our unaudited consolidated balance sheets and the provision for warranty accruals is included in home construction expenses in our unaudited consolidated statements of income. We record reserves covering anticipated warranty expense for each home we close. Management reviews the

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

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

| | Three Months Ended December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Balance at beginning of period | $27,681 | $16,084 |
| Accruals for warranties issued [a] | 2,615 | 1,525 |
| Changes in liability related to warranties existing in prior periods [b] | 10,600 | 14,230 |
| Payments made [b] | (11,983) | (4,612) |
| Balance at end of period | $28,913 | $27,227 |

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

[b] Changes in liability related to warranties existing and payments made in both periods is higher than historical trends due to charges and subsequent payments related to water intrusion issues in certain of our communities located in Florida. Refer to separate discussion of these issues below.

Florida and New Jersey Water Intrusion Issues

In the latter portion of fiscal 2014, we began to experience an increase in calls from homeowners reporting stucco and water intrusion issues in certain of our communities in Florida and one community in New Jersey. These issues continued to be reported to us in Florida throughout our fiscal 2015 and into the first quarter of our fiscal 2016. In New Jersey, while the calls were initially isolated to one community, we received calls from a second community with similar issues during the current quarter. Through December 31, 2015, we have cumulatively recorded $41.1 million in charges related to these issues, of which $39.6 million related to the communities in Florida and $1.5 million related to the two communities in New Jersey. Refer to discussion below for further detail.

Florida. The water intrusion issues in Florida (the Florida stucco issues) relate to stucco installation in multiple communities that first became known during our fiscal 2014. Other builders were also dealing with stucco issues, some of which received local media coverage. Throughout fiscal 2015, with many homeowners seeing an increased level of warranty-related activities occurring in their communities, the number of stucco and water-related warranty calls in Florida increased significantly. This led us to expand the scope of our inspections, including to homes and communities from which no warranty calls had been received. This enhanced review, together with our growing experience repairing homes previously identified, resulted in us determining that more homes and communities in Florida were likely to be adversely affected. Based on all of these activities and our resulting analysis, we recorded additional warranty expense of $26.3 million during the year ended September 30, 2015 related to the Florida stucco issues (of which $13.6 million was recorded in the first quarter), in addition to the $4.3 million recorded during fiscal 2014. As of September 30, 2015, the accrual to cover outstanding payments and potential repair costs for the impacted homes was $14.5 million, after considering the repair costs already paid.

During the first quarter of fiscal 2016, we received additional homeowner calls beyond those anticipated based on our procedures and previous call history and further revised our cost estimates, causing us to record additional warranty expense related to the Florida stucco issues of $9.0 million. As of December 31, 2015, 599 homes have been identified as likely to require repairs (an increase of 67 homes that were anticipated to require repairs as of the end of our fiscal 2015), of which 238 homes have been repaired. We consider warranty-related repairs for homes to be resolved when all repairs are complete and all repair costs are fully paid. We made payments related to the Florida stucco issues of $8.8 million during the three months ended December 31, 2015 (including payments on fully repaired homes, as well as payments on homes for which remediation is not yet complete), bringing the remaining accrual to $14.7 million as of December 31, 2015, which is included in our overall warranty liability detailed above.

Our assessment of the Florida stucco issues is ongoing. As a result, we anticipate that our assessment as to the ultimate magnitude of our liability may change as additional information is obtained. Certain visual and other inspections of the homes that could be subject to defect often do not reveal the severity or extent of the defects, which

can only be discovered once we receive a homeowner call and begin repairs. We believe that we will recover a portion of our repair costs related to the Florida stucco issues from various sources, including the subcontractors involved with the construction of these homes and their insurers; however, no amounts related to subcontractor recoveries have been recorded in our unaudited consolidated financial statements as of December 31, 2015. All of the current quarter charges were fully offset by additional insurance recoveries from our third-party insurance; for a

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discussion of the amounts we have already recovered or anticipate recovering from our insurer, refer to “Insurance Recoveries” section below.

New Jersey. Initially, the water intrusion issues in New Jersey related to flashing and stone installation in one specific community, for which we recorded $0.6 million in charges during our fiscal 2014. During the first three months of fiscal 2016, we began to receive homeowner calls related to one additional community citing similar issues, causing us to inspect the homes within the community and record an additional reserve of $0.9 million, which is also included in our overall warranty liability as of December 31, 2015. Similar to the Florida stucco issues discussed above, the costs recorded during the current quarter were fully offset by additional insurance recoveries from our third-party insurance, which is described below.

Insurance Recoveries

The Company has third-party insurance that provides for the reimbursement of certain warranty costs incurred by us above a specified threshold for each period covered. We have surpassed these thresholds for certain contract years, particularly those that cover most of the homes impacted by the water intrusion issues discussed above. As such, we expect a substantial majority of additional costs incurred after the first quarter of our fiscal 2015 for further warranty work on homes within these contract years to be reimbursed by our insurer.

Warranty expense beyond the thresholds set in our insurance contracts was recorded related to homes impacted by the Florida stucco issues and the water intrusion issues in New Jersey, as well as other various warranty issues, resulting in our recognition of $16.5 million in insurance recoveries during the three months ended December 31, 2015 that we deem probable of receiving. No such recovery amounts were recorded in the first quarter of our fiscal 2015. Amounts recorded for anticipated insurance recoveries are reflected within our unaudited consolidated statements of income as a reduction of our home construction expenses, and associated amounts not yet received from our insurer were recorded on a gross basis (i.e. not net of any associated warranty expense) as a receivable within accounts receivable on our unaudited consolidated balance sheet. As of December 31, 2015, we have cumulatively recorded $35.4 million in insurance recoveries related to exhausted insurance policy years. We have received multiple payments under these policies from our insurance provider during fiscal 2015 and during the three months ended December 31, 2015, reducing our insurance recovery receivable to $13.7 million as of December 31, 2015. The recoveries recorded during the current quarter completely offset the expense recorded during the current quarter related to the water intrusion issues in New Jersey. Related to the Florida stucco issues, recoveries recorded during the current quarter were $3.6 million greater than the underlying current period expense of $9.0 million (for a total recovery of $12.6 million), as we began to recover more costs than initially anticipated. The remaining insurance recovery amount beyond the water intrusion issues in New Jersey and the Florida stucco issues relates to expenditures for warranty issues that are individually immaterial but are also in excess of our insurance thresholds.

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

Litigation

From time-to-time, we have received claims from institutions that have acquired mortgages originated by our subsidiary, Beazer Mortgage Corporation (BMC), demanding damages or indemnity arising from BMC's activities or that we repurchase such mortgages. BMC stopped originating mortgages in 2008. We have been able to resolve these claims at no cost or for amounts that are not material to our consolidated financial statements. We currently have an insignificant number of such claims outstanding for which we believe we have no liability. However, we cannot rule out the potential for additional mortgage loan repurchase or indemnity claims in the future from other investors. At this time, we do not believe that the exposure related to any such claims would be material to our consolidated financial condition, results of operations or cash flows. As of December 31, 2015, no liability has been recorded for any such additional claims, as such exposure is not both probable and reasonably estimable.

In the normal course of business, we are subject to various lawsuits. We cannot predict or determine the timing or final outcome of these lawsuits or the effect that any adverse findings or determinations in pending lawsuits may have on us. In addition, an estimate of possible loss or range of loss, if any, cannot presently be made with respect to certain

of these pending matters. An unfavorable determination in any of the pending lawsuits could result in the payment by us of substantial monetary damages, which may not be fully covered by insurance. Further, the legal costs associated with the lawsuits and the amount of time required to be spent by management and the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our financial condition, results of operations or cash flows.

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Other Matters

On July 1, 2009, we entered into a Deferred Prosecution Agreement and associated Bill of Information (the "DPA") with the United States Attorney for the Western District of North Carolina and a separate but related agreement with the United States Department of Housing and Urban Development (the HUD Agreement) and the Civil Division of the United States Department of Justice. We have satisfied our obligations under the DPA and in July 2014 the United States District Court for the Western Division of North Carolina dismissed the Bill of Information. However, under these agreements, we are obligated to make payments equal to 4% of "adjusted EBITDA," as defined in the agreements, until the earlier of (a) September 30, 2016 or (b) the date that a cumulative $48.0 million has been paid pursuant to the DPA and the HUD Agreement. As of December 31, 2015, we have paid a cumulative $28.1 million related to the DPA and the HUD Agreement. Additionally, we have a liability of $8.6 million recorded on our unaudited consolidated balance sheet as of December 31, 2015 related to the DPA and the HUD Agreement, $1.2 million of which was accrued for during the three months ended December 31, 2015.

We and certain of our subsidiaries have been named as defendants in various claims, complaints and other legal actions, most relating to construction defects, moisture intrusion and product liability. Certain of the liabilities resulting from these actions are covered in whole or in part by insurance. In our opinion, based on our current assessment, the ultimate resolution of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

We have accrued $13.6 million and $12.6 million in other liabilities on our consolidated balance sheets related to litigation and other matters, excluding warranty, as of December 31, 2015 and September 30, 2015, respectively.

We had outstanding letters of credit and performance bonds of approximately $43.2 million and $188.6 million, respectively, as of December 31, 2015, related principally to our obligations to local governments to construct roads and other improvements in various developments. We have an immaterial amount of outstanding letters of credit relating to our land option contracts as of December 31, 2015.

(9) Fair Value Measurements

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

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

Certain of our assets are required to be recorded at fair value on a recurring basis. The fair value of our deferred compensation plan assets are based on market-corroborated inputs (Level 2). The fair value of our available-for-sale marketable equity securities, when outstanding, was based on readily available share prices (Level 1).

Certain of our assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value of these assets may not be recovered. We review our long-lived assets, including inventory, for recoverability when factors indicate impairment may exist, but no less than quarterly. Fair value on assets deemed to be impaired are determined based upon the type of asset being evaluated. The fair values of our investments in unconsolidated entities are determined primarily using a discounted cash flow model to value the underlying net assets of the respective entities.

Determining which hierarchical level an asset or liability falls within requires significant judgment. We evaluate our hierarchy disclosures each quarter.

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The following table presents the quarter-end balances of our assets measured at fair value on a recurring basis, and the impairment-date fair value of certain assets measured at fair value on a non-recurring basis, for each hierarchy level. These balances represent only those assets whose carrying values were adjusted to fair value during the periods presented:

| (In thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Three Months Ended December 31, 2015 | | | | |
| Deferred compensation plan assets [a] | $— | $747 | $— | $747 |
| Land held for sale [b] | — | — | 16,213 | 16,213 |
| Three Months Ended December 31, 2014 | | | | |
| Available-for-sale marketable equity securities [a] | $24,970 | $— | $— | $24,970 |
| Deferred compensation plan assets [a] | — | 775 | — | 775 |

[a] Measured at fair value on a recurring basis.

[b] Measured at fair value on a non-recurring basis.

The fair value of our cash and cash equivalents, restricted cash, accounts receivable, trade accounts payable, other liabilities, cash secured loans, amounts due under the Facility and other secured notes payable approximate their carrying amounts due to the short maturity of these assets and liabilities.

When outstanding, obligations related to land not owned under option agreements approximate fair value. The following table presents the carrying values and estimated fair values of certain of our other financial liabilities as of December 31, 2015 and September 30, 2015:

| (In thousands) | As of December 31, 2015 | | As of September 30, 2015 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Senior Notes | $1,404,555 | $1,344,039 | $1,427,240 | $1,412,173 |
| Junior Subordinated Notes | 58,320 | 58,320 | 57,803 | 57,803 |
| | $1,462,875 | $1,402,359 | $1,485,043 | $1,469,976 |

The estimated fair value shown above for our publicly-held Senior Notes has been determined using quoted market rates (Level 2). Since there is no trading market for our Junior Subordinated Notes, the fair value of these notes is estimated by discounting scheduled cash flows through maturity (Level 3). The discount rate is estimated using market rates currently being offered on loans with similar terms and credit quality. Judgment is required in interpreting market data to develop these estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange.

(10) Income Taxes

Income Tax Provision. Our income tax provision for quarterly interim periods is based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Total income tax expense was $0.6 million for the three months ended December 31, 2015, compared to a benefit of $0.7 million for the three months ended December 31, 2014. The increase in income tax expense was primarily driven by the increase in earnings from continuing operations in the three months ended December 31, 2015 compared to the three months ended December 31, 2014, as well as related valuation allowance changes for the three months ended December 31, 2014.

Deferred Tax Assets and Liabilities. The Company continues to evaluate its deferred tax assets each period to determine if a valuation allowance is required based on whether it “is more likely than not” that some portion of the deferred tax assets would not be realized. As of September 30, 2015 and again as of December 31, 2015, we concluded that it is more likely than not that a substantial portion of our deferred tax assets will be realized. As of December 31, 2015, our conclusions on the valuation allowance of $57.7 million and Section 382 limitations related to our deferred tax assets remain consistent with the determinations we made during the period ended September 30, 2015 and are based on similar company specific and industry factors to those discussed in our 2015 Annual Report (refer to Note 13 to the audited consolidated financial statements within our 2015 Annual Report).

Miscellaneous Tax Matters. In the normal course of business, we are subject to audits by federal and state tax authorities regarding various tax liabilities. Certain state income tax returns for various fiscal years are under routine

examination. The statute of limitations for our major tax jurisdictions remains open for examination for fiscal years 2007 and subsequent years.

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(11) Stock-based Compensation

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

| | Three Months Ended December 31, 2015 | |
|---|---|---|
| (In millions) | 2015 | 2014 |
| Stock options expense | $0.2 | $0.2 |
| Restricted stock awards expense | 1.6 | 1.2 |
| Before tax stock-based compensation expense | 1.8 | 1.4 |
| Tax benefit | (0.6) | (0.3) |
| After tax stock-based compensation expense | $1.2 | $1.1 |

During the three months ended December 31, 2015 and 2014, employees surrendered 14,536 shares and 9,807 shares, respectively, to us in payment of minimum tax obligations upon the vesting of stock awards under our stock incentive plans. We valued this stock at the market price on the date of surrender, for an aggregate value of approximately $201,000 and $184,000 for the three months ended December 31, 2015 and 2014, respectively.

Stock Options. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model (Black-Scholes Model). The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price. As of December 31, 2015, our stock options outstanding had an intrinsic value of $0.1 million and the aggregate intrinsic value of exercisable stock options was $0.1 million. As of December 31, 2015 and September 30, 2015, there was $0.6 million and $0.5 million, respectively, of total unrecognized compensation cost related to nonvested stock options. The cost remaining at December 31, 2015 is expected to be recognized over a weighted average period of 1.6 years years.

During the three months ended December 31, 2015, we issued 40,600 stock options, each for one share of the Company's stock. These stock options vest ratably over three years from the date of grant. We used the following assumptions for stock options granted, which derived the fair value shown, for the period presented:

| | Three Months Ended December 31, 2015 | |
|---|---|---|
| Expected life of options | 4.3 years | |
| Expected volatility | 45.23 | % |
| Expected dividends | — | |
| Weighted average risk-free interest rate | 1.70 | % |
| Weighted average fair value | $5.48 | |

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

| | Three Months Ended December 31, 2015 | |
|---|---|---|
| | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of period | 643,907 | $18.13 |
| Granted | 40,600 | 14.24 |
| Outstanding at end of period | 684,507 | $17.90 |
| Exercisable at end of period | 591,844 | $18.04 |
| Vested or expected to vest in the future | 684,477 | $17.90 |

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

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As of December 31, 2015 and September 30, 2015, there was $17.1 million and $11.7 million, respectively, of total unrecognized compensation cost related to nonvested restricted stock awards. The cost remaining at December 31, 2015 is expected to be recognized over a weighted average period of 2.5 years.

During the three months ended December 31, 2015, we issued 231,624 shares of performance-based restricted stock (2016 Performance Shares) to our executive officers and certain other employees that also have market conditions. The 2016 Performance Shares are structured to be awarded based on the Company's performance under three pre-determined financial metrics at the end of the three-year performance period. After determining the number of shares earned based on the financial metrics, which can range from 0% to 175% of the targeted number of shares, the award will be subject to further upward or downward adjustment by as much as 20% based on the Company's relative total shareholder return (TSR) compared against the S&P Homebuilders Select Industry Index during the three-year performance period. The 2016 Performance Shares were valued using the Monte Carlo valuation model due to the existence of the TSR market condition and had an estimated fair value of $15.43 per share on the date of grant.

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

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

During three months ended December 31, 2015, we also issued 250,352 shares of time-based restricted stock (Restricted Shares) to our directors, executive officers and certain other employees. The Restricted Shares granted to our non-employee directors vest on the first anniversary of the grant, while the Restricted Shares granted to our executive officers and other employees vest ratably over three years from the date of grant.

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

| | Three Months Ended December 31, 2015 | |
|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value |
| Beginning of period | 956,283 | $18.27 |
| Granted | 481,976 | 14.81 |
| Vested | (114,253) | 18.79 |
| Forfeited | (35,532) | 5.73 |
| End of period | 1,288,474 | $17.28 |

(12) Earnings Per Share

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

The Company reported a net loss for the three months ended December 31, 2014. Accordingly, all common stock equivalents were excluded from the computation of diluted loss per share because inclusion would have resulted in anti-dilution. For the quarter ended December 31, 2014, these excluded common stock equivalents included 1.7 million shares related to nonvested stock-based compensation awards and 5.2 million shares issuable upon the conversion of our previously outstanding Tangible Equity Unit (TEU) prepaid stock purchase contracts (PSPs). For the three months ended December 31, 2015, 1.2 million shares related to nonvested stock-based compensation awards

were excluded from our calculation of diluted income per share as a result of their anti-dilutive effect.

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

| | Three Months Ended December 31, | |
|---|---|---|
| (in thousands) | 2015 | 2014 |
| Basic shares | 31,757 | 26,457 |
| Shares issuable upon vesting/exercise of stock awards/options | 87 | N/A [a] |
| Diluted shares | 31,844 | 26,457 |

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

(13) Other Liabilities

Other liabilities include the following as of December 31, 2015 and September 30, 2015:

| (In thousands) | December 31, 2015 | September 30, 2015 |
|---|---|---|
| Accrued warranty expense | $28,913 | $27,681 |
| Accrued interest | 20,215 | 31,632 |
| Customer deposits | 13,284 | 13,757 |
| Accrued bonuses and deferred comp | 10,073 | 25,076 |
| Litigation accrual | 13,612 | 12,607 |
| Income tax liabilities | 1,910 | 1,998 |
| Other | 34,261 | 36,215 |
| Total Other Liabilities | $122,268 | $148,966 |

(14) Segment Information

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

West: Arizona, California, Nevada and Texas

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

Southeast: Florida, Georgia, North Carolina and South Carolina

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

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

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

| | Three Months Ended December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Revenue | | |
| West | $157,196 | $87,465 |
| East | 100,557 | 104,813 |
| Southeast | 86,696 | 73,486 |
| Total revenue | $344,449 | $265,764 |

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| (In thousands) | Three Months Ended December 31, 2015 | 2014 |
|---|---|---|
| Operating income (loss) | | |
| West | $16,786 | $6,783 |
| East | 4,147 | 7,369 |
| Southeast | 10,657 | (6,233) |
| Segment total | 31,590 | 7,919 |
| Corporate and unallocated [(a)] | (22,442) | (17,409) |
| Total operating income (loss) | $9,148 | $(9,490) |

| (In thousands) | Three Months Ended December 31, 2015 | 2014 |
|---|---|---|
| Depreciation and amortization | | |
| West | $1,218 | $767 |
| East | 797 | 668 |
| Southeast | 449 | 485 |
| Segment total | 2,464 | 1,920 |
| Corporate and unallocated [(a)] | 527 | 421 |
| Depreciation and amortization - continuing operations | $2,991 | $2,341 |

[(a)] Corporate and unallocated operating loss includes amortization of capitalized interest and expenses related to numerous shared services functions including information technology, treasury, corporate finance, legal, branding and other national marketing costs that benefit all segments, the cost of which is not allocated to the operating segments reported above. Corporate and unallocated depreciation and amortization represents depreciation and amortization related to assets held by corporate functions that benefit all segments.

The following table contains our capital expenditures by segment for the periods presented:

| (In thousands) | Three Months Ended December 31, 2015 | 2014 |
|---|---|---|
| Capital Expenditures | | |
| West | $1,133 | $1,070 |
| East | 467 | 799 |
| Southeast | 969 | 862 |
| Corporate and unallocated | 94 | 203 |
| Total capital expenditures | $2,663 | $2,934 |

The following table contains our asset balance by segment as of December 31, 2015 and September 30, 2015:

| (In thousands) | December 31, 2015 | September 30, 2015 |
|---|---|---|
| Assets | | |
| West | $855,207 | $843,564 |
| East | 418,575 | 436,346 |
| Southeast | 322,695 | 317,295 |
| Corporate and unallocated [(a)] | 742,219 | 823,998 |
| Total assets | $2,338,696 | $2,421,203 |

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

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(15) Supplemental Guarantor Information

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

Beazer Homes USA, Inc.
Unaudited Consolidating Balance Sheet Information
December 31, 2015
(In thousands)

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | $152,824 | $(547) | $988 | $(8,384) | $144,881 |
| Restricted cash | 37,708 | 1,643 | — | — | 39,351 |
| Accounts receivable (net of allowance of $921) | — | 50,555 | — | — | 50,555 |
| Income tax receivable | 269 | — | — | — | 269 |
| Owned inventory | — | 1,729,937 | — | — | 1,729,937 |
| Investments in unconsolidated entities and marketable securities | 773 | 10,948 | — | — | 11,721 |
| Deferred tax assets, net | 325,058 | — | — | — | 325,058 |
| Property and equipment, net | — | 20,236 | — | — | 20,236 |
| Investments in subsidiaries | 662,183 | — | — | (662,183) | — |
| Intercompany | 950,547 | — | 2,384 | (952,931) | — |
| Other assets | 11,874 | 4,814 | — | — | 16,688 |
| Total assets | $2,141,236 | $1,817,586 | $3,372 | $(1,623,498) | $2,338,696 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Trade accounts payable | $— | $81,395 | $— | $— | $81,395 |
| Other liabilities | 20,632 | 101,138 | 498 | — | 122,268 |
| Intercompany | 2,384 | 958,931 | — | (961,315) | — |
| Total debt (net of discounts of $3,449) | 1,485,243 | 16,813 | — | — | 1,502,056 |
| Total liabilities | 1,508,259 | 1,158,277 | 498 | (961,315) | 1,705,719 |
| Stockholders' equity | 632,977 | 659,309 | 2,874 | (662,183) | 632,977 |
| Total liabilities and stockholders' equity | $2,141,236 | $1,817,586 | $3,372 | $(1,623,498) | $2,338,696 |

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Beazer Homes USA, Inc.
Unaudited Consolidating Balance Sheet Information
September 30, 2015
(In thousands)

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | $232,226 | $21,543 | $1,006 | $(3,192) | $251,583 |
| Restricted cash | 37,177 | 1,724 | — | — | 38,901 |
| Accounts receivable (net of allowance of $1,052) | — | 52,378 | 1 | — | 52,379 |
| Income tax receivable | 419 | — | — | — | 419 |
| Owned inventory | — | 1,697,590 | — | — | 1,697,590 |
| Consolidated inventory not owned | — | — | — | — | — |
| Investments in marketable securities and unconsolidated entities | 773 | 12,961 | — | — | 13,734 |
| Deferred tax assets, net | 325,373 | — | — | — | 325,373 |
| Property and equipment, net | — | 22,230 | — | — | 22,230 |
| Investments in subsidiaries | 649,701 | — | — | (649,701) | — |
| Intercompany | 913,733 | — | 2,384 | (916,117) | — |
| Other assets | 12,519 | 6,471 | 4 | — | 18,994 |
| Total assets | $2,171,921 | $1,814,897 | $3,395 | $(1,569,010) | $2,421,203 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Trade accounts payable | $— | $113,539 | $— | $— | $113,539 |
| Other liabilities | 31,703 | 116,718 | 545 | — | 148,966 |
| Intercompany | 2,384 | 916,925 | — | (919,309) | — |
| Obligations related to land not owned under option agreements | — | — | — | — | — |
| Total debt (net of discounts of $3,639) | 1,507,411 | 20,864 | — | — | 1,528,275 |
| Total liabilities | 1,541,498 | 1,168,046 | 545 | (919,309) | 1,790,780 |
| Stockholders' equity | 630,423 | 646,851 | 2,850 | (649,701) | 630,423 |
| Total liabilities and stockholders' equity | $2,171,921 | $1,814,897 | $3,395 | $(1,569,010) | $2,421,203 |

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Beazer Homes USA, Inc.
Unaudited Consolidating Statements of Income and Unaudited Comprehensive Income
(In thousands)

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Three Months Ended December 31, 2015 | | | | | |
| Total revenue | $— | $344,449 | $ 73 | $(73) | $344,449 |
| Home construction and land sales expenses | 13,367 | 272,217 | — | (73) | 285,511 |
| Inventory impairments and abandonments | — | 1,356 | — | — | 1,356 |
| Gross (loss) profit | (13,367) | 70,876 | 73 | — | 57,582 |
| Commissions | — | 13,774 | — | — | 13,774 |
| General and administrative expenses | — | 31,642 | 27 | | 31,669 |
| Depreciation and amortization | — | 2,991 | — | — | 2,991 |
| Operating (loss) income | (13,367) | 22,469 | 46 | — | 9,148 |
| Equity in income of unconsolidated entities | — | 60 | — | — | 60 |
| Loss on extinguishment of debt | (828) | — | — | — | (828) |
| Other (expense) income, net | (7,432) | 868 | (1) | — | (6,565) |
| (Loss) income before income taxes | (21,627) | 23,397 | 45 | — | 1,815 |
| (Benefit from) provision for income taxes | (10,143) | 10,742 | 17 | — | 616 |
| Equity in income of subsidiaries | 12,683 | — | — | (12,683) | — |
| Income (loss) from continuing operations | 1,199 | 12,655 | 28 | (12,683) | 1,199 |
| Loss from discontinued operations | — | (197) | (3) | — | (200) |
| Equity in loss of subsidiaries from discontinued operations | (200) | — | — | 200 | — |
| Net income (loss) and comprehensive income (loss) | $999 | $12,458 | $ 25 | $(12,483) | $999 |

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Three Months Ended December 31, 2014 | | | | | |
| Total revenue | $— | $265,764 | $ 98 | $(98) | $265,764 |
| Home construction and land sales expenses | 8,194 | 222,450 | — | (98) | 230,546 |
| Gross (loss) profit | (8,194) | 43,314 | 98 | — | 35,218 |
| Commissions | — | 10,926 | — | — | 10,926 |
| General and administrative expenses | — | 31,414 | 27 | — | 31,441 |
| Depreciation and amortization | — | 2,341 | — | — | 2,341 |
| Operating (loss) income | (8,194) | (1,367) | 71 | — | (9,490) |
| Equity in loss of unconsolidated entities | — | 142 | — | — | 142 |
| Other (expense) income, net | (9,747) | 314 | (1) | — | (9,434) |
| (Loss) income before income taxes | (17,941) | (911) | 70 | — | (18,782) |

| | | | | | |
|---|---|---|---|---|---|
| (Benefit from) provision for income taxes | (6,627) | 5,906 | 25 | — | (696) |
| Equity in income of subsidiaries | (6,772) | — | — | 6,772 | — |
| (Loss) income from continuing operations | (18,086) | (6,817) | 45 | 6,772 | (18,086) |
| Loss from discontinued operations | — | (4,251) | (3) | — | (4,254) |
| Equity in income of subsidiaries from discontinued operations | (4,254) | — | — | 4,254 | — |
| Net (loss) income | $(22,340) | $(11,068) | $ 42 | $11,026 | $(22,340) |
| Change in unrealized loss related to available-for-sale securities | 206 | — | — | — | 206 |
| Comprehensive (loss) income | $(22,134) | $(11,068) | $ 42 | $11,026 | $(22,134) |

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Beazer Homes USA, Inc.
Unaudited Condensed Consolidating Statements of Cash Flow
(In thousands)

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Three Months Ended December 31, 2015 | | | | | |
| Net cash used in operating activities | $ (22,794) | $ (55,038) | $ (17) | $ — | $ (77,849) |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (2,663) | — | — | (2,663) |
| Proceeds from sale of fixed assets | — | 2,437 | — | — | 2,437 |
| Investments in unconsolidated entities | — | (1,779) | — | — | (1,779) |
| Proceeds from sale of marketable securities and unconsolidated entities | — | 1,142 | — | — | 1,142 |
| Increases in restricted cash | — | (1,119) | — | — | (1,119) |
| Decreases in restricted cash | — | 669 | — | — | 669 |
| Advances to/from subsidiaries | (33,119) | — | — | 33,119 | — |
| Net cash (used in) provided by investing activities | (33,119) | (1,313) | — | 33,119 | (1,313) |
| Cash flows from financing activities: | | | | | |
| Repayment of debt | (22,875) | (4,051) | — | — | (26,926) |
| Debt issuance costs | (413) | — | — | — | (413) |
| Advances to/from subsidiaries | — | 38,312 | (1) | (38,311) | — |
| Other financing activities | (201) | — | — | — | (201) |
| Net cash (used in) provided by financing activities | (23,489) | 34,261 | (1) | (38,311) | (27,540) |
| Decrease in cash and cash equivalents | (79,402) | (22,090) | (18) | (5,192) | (106,702) |
| Cash and cash equivalents at beginning of period | 232,226 | 21,543 | 1,006 | (3,192) | 251,583 |
| Cash and cash equivalents at end of period | $ 152,824 | $ (547) | $ 988 | $ (8,384) | $ 144,881 |

| | Beazer Homes USA, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated Beazer Homes USA, Inc. |
|---|---|---|---|---|---|
| Three Months Ended December 31, 2014 | | | | | |
| Net cash used in operating activities | $ (30,841) | $ (141,603) | $ (88) | $ — | $ (172,532) |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (2,934) | — | — | (2,934) |
| Investments in unconsolidated entities | — | (1,144) | — | — | (1,144) |
| Increases in restricted cash | (959) | (486) | — | — | (1,445) |
| Decreases in restricted cash | — | 294 | — | — | 294 |
| Advances to/from subsidiaries | (114,977) | — | — | 114,977 | — |
| Net cash (used in) provided by investing activities | (115,936) | (4,270) | — | 114,977 | (5,229) |
| Cash flows from financing activities: | | | | | |
| Repayment of debt | (7,038) | (350) | — | — | (7,388) |
| Debt issuance costs | (126) | — | — | — | (126) |
| Advances to/from subsidiaries | — | 124,171 | 4 | (124,175) | — |
| Other financing activities | (199) | — | — | — | (199) |

| | | | | | |
|---|---|---|---|---|---|
| Net cash (used in) provided by financing activities | (7,363) | 123,821 | 4 | (124,175) | (7,713) |
| Decrease in cash and cash equivalents | (154,140) | (22,052) | (84) | (9,198) | (185,474) |
| Cash and cash equivalents at beginning of period | 301,980 | 22,034 | 1,614 | (1,474) | 324,154 |
| Cash and cash equivalents at end of period | $ 147,840 | $(18) | $ 1,530 | $ (10,672) | $ 138,680 |

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(16) Discontinued Operations

We continually review 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 entails an evaluation of both external market factors and our position in each market and over time has resulted in the decision to discontinue certain of our homebuilding operations.

We have classified the results of operations of our discontinued operations separately in the accompanying unaudited consolidated statements of income for all periods presented. There were no material assets or liabilities related to our discontinued operations as of December 31, 2015 or September 30, 2015. Discontinued operations were not segregated in the unaudited consolidated statements of cash flows. Therefore, amounts for certain captions in the unaudited consolidated statements of cash flows will not agree with the respective data in the unaudited consolidated statements of income. The results of our discontinued operations in the unaudited consolidated statements of income for the periods presented were as follows:

| | Three Months Ended December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Total revenue | $— | $— |
| Home construction and land sales expenses [(a)] | 308 | 3,951 |
| Gross loss | (308) | (3,951) |
| General and administrative expenses | 2 | 304 |
| Operating loss | (310) | (4,255) |
| Other income (expense), net | — | — |
| Loss from discontinued operations before income taxes | (310) | (4,255) |
| Benefit from income taxes | (110) | (1) |
| Loss from discontinued operations, net of tax | $(200) | $(4,254) |

[(a)] The three months ended December 31, 2014 included a $4.0 million expense related to the probable liability of a case regarding alleged past construction defects in our discontinued operations in Denver, Colorado.

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

Executive Overview and Outlook

Market Conditions

In any period, the demand for new homes is tied to a variety of factors, including job growth, changes in population and demographics, the availability and cost of mortgage financing, the supply of new and existing homes and, importantly, consumer confidence. These factors all fluctuate over time at both a national and a more localized market level. While we believe that there are multiple factors that point to further improvement in the homebuilding market in the next several years, such as historically attractive affordability, rising levels of household formation and continued job growth, there are several risks that could significantly impact our business during our fiscal 2016. These risks include an expected increase in mortgage interest rates, continued uncertainty in our domestic and international stock markets and potential volatile weather conditions like those seen in our Texas markets in the latter half of our fiscal 2015. However, we continue to believe that we are well positioned in key markets, and that the underlying fundamentals that drive home purchases are strong.

Overview of Results for Our Fiscal First Quarter

For the quarter ended December 31, 2015, we recorded net income from continuing operations of $1.2 million, a substantial improvement of $19.3 million over the prior year quarter's net loss from continuing operations of $18.1 million. These comparative results were impacted by (1) a $13.6 million charge recorded in cost of sales in the prior year quarter related to Florida stucco installation problems (Florida stucco issues) and (2) a credit to cost of sales of $3.6 million in the current quarter for insurance recoveries received or anticipated to be received that were greater than current period charges related to the Florida stucco issues. However, it was primarily our strong operating performance during the period that drove positive net income from continuing operations during the first quarter, which we had not achieved since our fiscal 2012.

Looking at our underlying operating results, year-over-year closings increased by 18.5%, from 885 in the prior year quarter to 1,049 in the current quarter, and our average selling price (ASP) increased by 8.6%, both combining to increase our homebuilding revenues by 28.7%, from $261.6 million in the prior year quarter to $336.6 million in the current quarter. Homebuilding gross margins, excluding impairments, abandonments, interest and the warranty impacts noted above, declined to 20.4% in the current quarter from 21.8% in the prior year quarter and were impacted by several factors addressed within our "Results of Continuing Operations" discussion below. Additionally, our backlog continues to remain strong at 1,912 units as of the end of the quarter, an 8.0% increase from the end of our first quarter of fiscal 2015, even though our new orders, net declined by 4.5% from the prior year quarter. This current quarter ending backlog had an ASP of $331.9 thousand, an increase of 4.9% year-over-year. Commissions expense grew year-over-year due to higher business volume, but declined as a percentage of homebuilding revenues when compared with the prior year quarter. Finally, despite an increase in the size of our business, our general and administrative expenses remained largely flat.

Reaching "2B-10"

In November 2013, we introduced a multi-year "2B-10" plan, which provided a roadmap of revenue and margin metrics to achieve $2 billion in revenue with a 10% Adjusted EBITDA margin. Taken together, reaching "2B-10" would result in Adjusted EBITDA of at least $200 million. In November 2015, we refined the specific metrics we expect will lead us to our "2B-10" objectives by providing ranges to each metric instead of point estimates. Since we rolled out our "2B-10" plan, we have consistently noted that there are a number of paths to achieving our underlying goal of $200 million of EBITDA, and we continue our commitment to reaching these objectives as soon as possible. We expect to reach these objectives by making improvements on five key metrics: (1) sales per community per month (absorption rate); (2) active community count; (3) ASP; (4) homebuilding gross margin; and (5) cost leverage as measured by selling, general and administrative costs (SG&A) as a percentage of total revenue.

Since introducing our "2B-10" plan, we have made significant progress on achieving our objectives, with improvements in our key metrics over time. These improvements are due to the intense focus we have placed on the operational drivers of this plan, and, in part, to improved market conditions. Here is where we currently stand on each of the five key target metrics in relation to our current "2B-10" roadmap:

•

Sales per community per month was 1.8 and 2.1 for the quarters ended December 31, 2015 and December 31, 2014, respectively. The first month of the current quarter was particularly slow, but we saw marked improvement in sales activity during the following two months. Sales per community per month was 2.7 for the trailing 12 months ended December 31, 2015 versus 2.8 a year ago, and is still close to the range established in our “2B-10” plan of 2.8 to 3.0. We continue to believe that we are currently among the industry leaders in sales absorption rates, and are focused on improving the sales pace in our expanding number of communities.

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- Our ASP for closings during the trailing 12 months ended December 31, 2015 was $318.1 thousand, up 10.5% year-over-year, and our ASP in backlog at December 31, 2015 has risen 4.9% versus the prior year to $331.9 thousand. Our targeted metric for ASP is currently a range of $330.0 thousand to $340.0 thousand, which we believe is achievable based on recent increases in our ASP on closed homes, our ASP on homes in backlog as of December 31, 2015 and our current mix of communities available for sale.
- During the current quarter, we had an average active community count of 169, up 9.7% over last year. In order to sustain our active community count, we invested another $111.7 million in land and land development during the current quarter, bringing our total spending for the trailing 12-month period to $419.5 million. We continue to strategically evaluate opportunities to purchase land within our geographic footprint, balancing our desire to reduce our leverage in the current fiscal year with land acquisition strategies that minimize our capital employed. Our “2B-10” target metric is a community count range between 170 to 175, which we are approaching.
- Homebuilding gross margin, excluding impairments, abandonments and interest for the trailing 12 months ended December 31, 2015 was 21.4%. Excluding the cumulative impact over the past 12 months of the Florida stucco issues, our margin for the trailing 12 months would have been 21.2%, which is consistent with prior year and is within our “2B-10” target metric range of between 21.0% and 22.0%. Our homebuilding gross margin is impacted by the increasing cost of land, driven by both market conditions and the structure of our land deals, and labor, as well as geographic and community mix.
- SG&A for the trailing 12 months ended December 31, 2015 was 12.3% of total revenue, a decrease of 140 basis points from the prior year. Although it is above our “2B-10” target range of between 11.0% and 12.0%, we believe that as we grow revenue from our larger base of communities and higher ASPs, we will demonstrate improved SG&A cost leverage.
- For the trailing 12 months ended December 31, 2015, our revenues were $1.7 billion, up 18.8% year-over-year. Excluding the one time items detailed in our full reconciliation of our EBITDA (refer to section below entitled “EBITDA: Reconciliation of Net Income (Loss) to Adjusted EBITDA”), Adjusted EBITDA for the trailing 12 months ended December 31, 2015 increased $25.8 million, or 20.2%, to $153.7 million.
- We expect to continue our focus on our “2B-10” metrics throughout fiscal 2016, with particular emphasis on driving sales absorptions within our increased number of active communities and improving our homebuilding gross margin.
- 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. Accordingly, our financial results for the three months ended December 31, 2015 may not accurately predict our ultimate full year results.

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RESULTS OF CONTINUING OPERATIONS:

The following table summarizes certain key income statement metrics for the periods presented:

| | Three Months Ended December 31, | |
|---|---|---|
| ($ in thousands) | 2015 | 2014 |
| Revenues: | | |
| Homebuilding | $336,593 | $261,582 |
| Land sales and other | 7,856 | 4,182 |
| Total | $344,449 | $265,764 |
| Gross profit (loss): | | |
| Homebuilding | $58,063 | $35,277 |
| Land sales and other | (481) | (59) |
| Total | $57,582 | $35,218 |
| Gross margin: | | |
| Homebuilding[(a)] | 17.3% | 13.5% |
| Land sales and other | (6.1)% | (1.4)% |
| Total | 16.7% | 13.3% |
| Commissions | $13,774 | $10,926 |
| General and administrative expenses (G&A) | 31,669 | 31,441 |
| SG&A (commissions plus G&A) as a percentage of total revenue | 13.2% | 15.9% |
| G&A as a percentage of total revenue | 9.2% | 11.8% |
| Depreciation and amortization | $2,991 | $2,341 |
| Operating income (loss) | $9,148 | $(9,490) |
| Operating income (loss) as a percentage of total revenue | 2.7% | (3.6)% |
| Effective Tax Rate[(b)] | 33.9% | 3.7% |
| Equity in income of unconsolidated entities | $60 | $142 |
| Loss on extinguishment of debt | (828) | — |

[(a)] In addition to other items, our homebuilding gross margin was impacted by unexpected warranty costs related to the Florida stucco issues, as well as the associated insurance recoveries. Refer to further discussion of these items below in section titled “Homebuilding Gross Profit and Gross Margin.”

[(b)] Calculated as tax expense (benefit) for the period divided by income (loss) from continuing operations. Due to the effects of changes in our valuation allowance on our deferred tax assets and changes in our unrecognized tax benefits during our fiscal 2014, our effective tax rate was not a meaningful metric in the prior year period, as our income tax provisions and benefits were not directly correlated to the amount of pretax income or loss for the associated periods.

EBITDA: Reconciliation of Net Income (Loss) to Adjusted EBITDA

Reconciliation of Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, debt extinguishment, impairments and abandonments) to total company net income (loss), the most directly comparable GAAP measure, is provided for each period discussed below. Management believes that Adjusted EBITDA, which is a non-GAAP measure, assists investors in understanding and comparing the operating characteristics of homebuilding activities by eliminating many of the differences in companies' respective capitalization, tax position and level of impairments. These EBITDA measures should not be considered alternatives to net income determined in accordance with GAAP as an indicator of operating performance.

In addition, given the unusual size and nature of certain charges recorded during the periods presented, Adjusted EBITDA is also shown excluding these charges in the following table. Management believes that this representation best reflects the operating characteristics of the Company.

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The following table reconciles our net income (loss) to Adjusted EBITDA for the periods presented:

| | Three Months Ended December 31, | | | LTM Ended December 31, [a] | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 15 v 14 | 2015 | 2014 | 15 v 14 |
| Net income (loss) | $999 | $(22,340) | $23,339 | $367,433 | $17,181 | $350,252 |
| Provision (benefit) from income taxes | 506 | (697) | 1,203 | (324,724) | (42,551) | (282,173) |
| Interest amortized to home construction and land sales expenses, capitalized interest impaired and interest expense not qualified for capitalization | 21,083 | 18,034 | 3,049 | 89,035 | 86,716 | 2,319 |
| Depreciation and amortization and stock compensation amortization | 4,747 | 3,715 | 1,032 | 20,505 | 16,065 | 4,440 |
| Inventory impairments and abandonments | 1,356 | — | 1,356 | 4,465 | 8,031 | (3,566) |
| Loss on debt extinguishment | 828 | — | 828 | 908 | 19,917 | (19,009) |
| Adjusted EBITDA | $29,519 | $(1,288) | $30,807 | $157,622 | $105,359 | $52,263 |
| Unexpected warranty costs related to Florida stucco issues (net of expected insurance recoveries) | (3,612) | 13,582 | (17,194) | (3,612) | 17,872 | (21,484) |
| Unexpected warranty costs related to water intrusion issues in New Jersey (net of expected insurance recoveries) | — | — | — | — | 648 | (648) |
| Litigation settlement in discontinued operations | — | 4,000 | (4,000) | (340) | 4,000 | (4,340) |
| Adjusted EBITDA excluding unexpected warranty costs and a litigation settlement in discontinued operations | $25,907 | $16,294 | $9,613 | $153,670 | $127,879 | $25,791 |

[a] "LTM" indicates amounts for the trailing 12 months.

Homebuilding Operations Data

The following table summarizes new orders, net and cancellation rates by reportable segment for the periods presented:

| | Three Months Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | New Orders, net | | | Cancellation Rates | | |
| | 2015 | 2014 | 15 v 14 | 2015 | 2014 | |
| West | 422 | 405 | 4.2 % | 24.1 % | 20.0 % | |
| East | 248 | 286 | (13.3)% | 25.7 % | 22.5 % | |
| Southeast | 253 | 275 | (8.0)% | 28.5 % | 22.3 % | |
| Total | 923 | 966 | (4.5)% | 25.8 % | 21.4 % | |

Sales per community per month was 1.8 and 2.1 for the quarters ended December 31, 2015 and December 31, 2014, respectively, while our average active communities increased 9.7% year-over-year to 169 during the quarter ended December 31, 2015. The lower sales pace, however, drove the 4.5% decrease in new orders, net despite our community count growth, and was caused by a particularly slow start to the quarter, which then gained some momentum.

In our West segment, the increase in new orders, net was primarily driven by our Sacramento operations, where we activated several new communities after the prior year quarter, as well as our Texas markets, which continue to

demonstrate strong sales performance. The decrease in the East segment was caused by declines in Indianapolis, as well as in New Jersey, where we elected not to continue to reinvest in new homebuilding assets. Finally, the decline in our Southeast segment was primarily driven by our Charleston market, partially offset by strong order activity in Atlanta.

The table below summarizes backlog units by reportable segment, as well as aggregate dollar value of homes in backlog and ASP in backlog as of December 31, 2015 and December 31, 2014:

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2015 | 2014 | 15 v 14 | |
| Backlog Units: | | | | |
| West | 885 | 646 | 37.0 | % |
| East | 478 | 581 | (17.7 | )% |
| Southeast | 549 | 544 | 0.9 | % |
| Total | 1,912 | 1,771 | 8.0 | % |
| Aggregate dollar value of homes in backlog (in millions) | $634.6 | $560.5 | 13.2 | % |
| ASP in backlog (in thousands) | $331.9 | $316.5 | 4.9 | % |

Backlog above reflects the number of homes for which the Company has entered into a sales contract with a customer but has not yet delivered the home. Backlog as of December 31, 2015 increased by 8.0% over the prior year, driven by our higher active community count. Growth in new orders and backlog over time is expected as the sales pace in recently opened communities improves.

Homebuilding Revenues, Average Selling Price and Closings

The tables below summarize homebuilding revenues, the ASP of our homes closed and closings by reportable segment for the periods presented:

| | Three Months Ended December 31, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Homebuilding Revenues | | | | Average Selling Price | | | | Closings | | | |
| ($ in thousands) | 2015 | 2014 | 15 v 14 | | 2015 | 2014 | 15 v 14 | | 2015 | 2014 | 15 v 14 | |
| West | $157,196 | $86,318 | 82.1 | % | $319.5 | $273.2 | 16.9 | % | 492 | 316 | 55.7 | % |
| East | 94,345 | 101,832 | (7.4 | )% | 367.1 | 333.9 | 9.9 | % | 257 | 305 | (15.7 | )% |
| Southeast | 85,052 | 73,432 | 15.8 | % | 283.5 | 278.2 | 1.9 | % | 300 | 264 | 13.6 | % |
| Total | $336,593 | $261,582 | 28.7 | % | $320.9 | $295.6 | 8.6 | % | 1,049 | 885 | 18.5 | % |

The change in ASP for the three months ended December 31, 2015 was impacted primarily by a change in mix of closings between geographies, products and among communities within each individual market as compared to the prior year. It was also positively impacted by our improved operational strategies, as well as improved market conditions in certain geographies.

Closings increased due to our higher year-over-year community count, increased backlog entering the current year quarter when compared to the prior year and additional closings in our Texas market that were pushed out of last year due to the weather conditions in that region. Additionally, we sold and closed a significant number of speculative homes in our Maryland market during the current quarter. With this increase in ASP and an 18.5% increase in closings, our year-over-year homebuilding revenues increased by 28.7% for the three months ended December 31, 2015.

On average, we anticipate that our ASP will likely continue to increase in future quarters as indicated by our ASP for homes in backlog. We also anticipate that our closings in future quarters will increase as we begin to close homes in several recently opened communities, as evidenced by our higher year-over-year backlog.

Homebuilding Gross Profit and Gross Margin

The following tables summarize our homebuilding gross profit and gross margin by reportable segment and total homebuilding gross profit and gross margin, as well as such amounts excluding inventory impairments and abandonments and interest amortized to cost of sales (COS) for the periods presented. Homebuilding gross profit is defined as homebuilding revenues less home cost of sales (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 abandonment charges).

Three Months Ended December 31, 2015

| ($ in thousands) | HB Gross Profit (Loss) | HB Gross Margin | Impairments & Abandonments (I&A) | HB Gross Profit w/o I&A | HB Gross Margin w/o I&A | Interest Amortized to COS | HB Gross Profit w/o I&A and Interest | HB Gross Margin w/o I&A and Interest |
|---|---|---|---|---|---|---|---|---|
| West | $32,213 | 20.5 % | $ — | $32,213 | 20.5 % | $— | $32,213 | 20.5 % |
| East | 14,598 | 15.5 % | — | 14,598 | 15.5 % | — | 14,598 | 15.5 % |
| Southeast | 19,649 | 23.1 % | 788 | 20,437 | 24.0 % | — | 20,437 | 24.0 % |
| Corporate & unallocated | (8,397) | | — | (8,397) | | 13,367 | 4,970 | |
| Total homebuilding | $58,063 | 17.3 % | $ 788 | $58,851 | 17.5 % | $13,367 | $72,218 | 21.5 % |

| ($ in thousands) | Three Months Ended December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | HB Gross Profit (Loss) | HB Gross Margin | Impairments & Abandonments (I&A) | HB Gross Profit w/o I&A | HB Gross Margin w/o I&A | Interest Amortized to COS | HB Gross Profit w/o I&A and Interest | HB Gross Margin w/o I&A and Interest |
| West | $17,498 | 20.3 % | $ — | $17,498 | 20.3 % | $— | $17,498 | 20.3 % |
| East | 18,565 | 18.2 % | — | 18,565 | 18.2 % | — | 18,565 | 18.2 % |
| Southeast | 2,080 | 2.8 % | — | 2,080 | 2.8 % | — | 2,080 | 2.8 % |
| Corporate & unallocated | (2,866) | | — | (2,866) | | 8,194 | 5,328 | |
| Total homebuilding | $35,277 | 13.5 % | $ — | $35,277 | 13.5 % | $8,194 | $43,471 | 16.6 % |

Our overall homebuilding gross profit increased by $22.8 million to $58.1 million for the three months ended December 31, 2015, from $35.3 million in the prior year. The increase was primarily due to additional gross profit on a $75.0 million increase in homebuilding revenues (driven by higher year-over-year closings and ASP). In both fiscal periods, we had unexpected warranty costs related to the Florida stucco issues and associated insurance recoveries that impacted our homebuilding gross profit as follows: (1) current quarter gross profit includes a credit to cost of sales of $3.6 million for insurance recoveries received or anticipated to be received that were greater than current period charges; and (2) the prior year quarter gross profit includes a $13.6 million charge recorded in cost of sales related to the Florida stucco issues (no insurance recoveries were recorded in the prior year period, as we had not yet met the thresholds established by our insurance policies; refer to Note 8 of the notes to our unaudited consolidated financial statements in this Form 10-Q). Adjusted for the Florida stucco issues, our homebuilding gross margin would have been 16.2% for the current quarter (20.4% without impairments and abandonments and interest), compared with 18.7% for the prior fiscal year quarter (21.8% without impairments and abandonments and interest). The decline in our homebuilding gross margin, after considering impairments and abandonments, interest and the impact of the Florida stucco issues, is due to: (1) a change in mix of closings between speculative (spec) and non-spec homes, particularly in our Maryland market where we sold and closed a number of spec homes during the current quarter; (2) the structure of our land deals, as finished lot purchases or the use of land bankers tend to result in lower gross margins; (3) geographic mix of closings; (4) activation of assets formerly classified as land held for future development, which generally have lower margins; and (5) higher labor costs.

Total homebuilding gross profit excluding inventory impairments and abandonments and interest amortized to cost of sales are not GAAP financial measures. These measures should not be considered alternatives to homebuilding gross

profit determined in accordance with GAAP as an indicator of operating performance. The magnitude and volatility of non-cash inventory impairment and abandonment charges for the Company, and for other homebuilders, have been significant and, as such, have made financial analysis of our industry more difficult. Homebuilding metrics excluding these charges, and other similar presentations by analysts and other companies, are frequently used to assist investors in understanding and comparing the operating characteristics of homebuilding activities by eliminating many of the differences in companies' respective level of impairments and levels of debt. Management believes these non-GAAP measures enable holders of our securities to better understand the cash implications of our operating performance and our ability to service our debt obligations as they currently exist and as additional indebtedness is incurred in the future. These measures are also useful internally, helping management compare operating results and as a measure of the level of cash which may be available for discretionary spending.

In a given quarter, our reported gross profits are generated from both communities previously impaired and communities not previously impaired. In addition, as indicated above, certain gross profit amounts arise from recoveries of prior period costs, including warranty items, that are not directly tied to communities generating revenue in the period. Home closings from communities previously impaired would, in most instances, generate very low or negative gross margins prior to the impact of the previously recognized impairment. Gross margins for each home closing are higher for a particular community after an impairment because the carrying value of the underlying land was previously reduced to the present value of future cash flows as a result of the impairment, leading to lower cost of sales at the home closing. This improvement in gross margin resulting from one or more prior impairments is frequently referred to in the aggregate as the “impairment turn” or “flow-back” of impairments within the reporting period. The amount of this impairment turn may exceed the gross margin for an individual impaired asset if the gross margin for that asset prior to the impairment would have been negative. The extent to which this impairment turn is greater than the reported gross margin for the individual asset is related to the specific historical cost basis of that individual asset.

The asset valuations that result from our impairment calculations are based on discounted cash flow analyses and are not derived by simply applying prospective gross margins to individual communities. As such, impaired communities may have gross margins that are somewhat higher or lower than the gross margin for unimpaired communities. The mix of home closings in any particular quarter varies to such an extent that comparisons between previously impaired and never impaired communities would not be a reliable way to ascertain profitability trends or to assess the accuracy of previous valuation estimates. In addition, since any amount of impairment turn is tied to individual lots in specific communities, it will vary considerably from period to period. As a result of these factors, we review the impairment turn impact on gross margins on a trailing 12-month basis rather than a quarterly basis as a way of considering whether our impairment calculations are resulting in gross margins for impaired communities that are comparable to our unimpaired communities. For the trailing 12-month period, the homebuilding gross margin from our continuing operations was 17.6% and excluding interest and inventory impairments, it was 21.4%. For the same trailing 12-month period, homebuilding gross margin was as follows in those communities that have previously been impaired, which represented 6.5% of total closings during this period:

| Homebuilding Gross Margin from previously impaired communities: | |
|---|---|
| Pre-impairment turn gross margin | (4.2)% |
| Impact of interest amortized to COS related to these communities | 4.9 % |
| Pre-impairment turn gross margin, excluding interest amortization | 0.7 % |
| Impact of impairment turns | 14.6 % |
| Gross margin (post impairment turns), excluding interest amortization | 15.3 % |

Land Sales and Other Revenues and Gross Profit (Loss)

Land sales relate to land and lots sold that did not fit within our homebuilding programs and strategic plans in these markets. Other revenues include net fees we received for general contractor services we performed on behalf of a third party and broker fees. The following table summarizes our land sales and other revenues and related gross profit (loss) by reportable segment for the periods presented:

| | Land Sales and Other Revenues Three Months Ended December 31, | | | Land Sales and Other Gross Profit (Loss) Three Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 15 v 14 | 2015 | 2014 | 15 v 14 |
| West | $— | $1,147 | $(1,147) | $351 | $(10) | $361 |

| | | | | | | |
|---|---|---|---|---|---|---|
| East | 6,212 | 2,981 | 3,231 | (246) | 27 | (273) |
| Southeast | 1,644 | 54 | 1,590 | (214) | 49 | (263) |
| Corporate and unallocated [a] | — | — | — | (372) | (125) | (247) |
| Total | $7,856 | $4,182 | $3,674 | $(481) | $(59) | $(422) |

[a] Corporate and unallocated includes interest and indirects related to land sold that was costed off.

To further support our efforts to reduce our leverage, we continued to focus on closing on a number of land sales in the three months ended December 31, 2015 that did not fit within our strategic plans, leading to the increase in land sales revenues over our comparable fiscal 2015 period.

Operating Income

The table below summarizes operating income (loss) by reportable segment for the periods presented:

| (In thousands) | Three Months Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 15 v 14 |
| West | $16,786 | $6,783 | $10,003 |
| East | 4,147 | 7,369 | (3,222) |
| Southeast | 10,657 | (6,233) | 16,890 |
| Corporate and Unallocated [a] | (22,442) | (17,409) | (5,033) |
| Operating income (loss) | $9,148 | $(9,490) | $18,638 |

[a] Corporate and unallocated includes amortization of capitalized interest and indirects, as well as costs related to numerous shared services functions that benefit all segments and are not allocated.

Our operating income improved by $18.6 million to $9.1 million for the three months ended December 31, 2015, compared to a loss of $9.5 million for the three months ended December 31, 2014. As a percentage of revenue, our operating income was 2.7% for the three months ended December 31, 2015. As noted in the discussion above, homebuilding gross profit increased by $22.8 million, driving our increase in operating income. This increase was partially offset by a $2.8 million increase in year-over-year commissions expense due to higher closings, ASP and, ultimately, homebuilding revenues (commissions as a percentage of homebuilding revenues actually declined to 4.1% from 4.2% in the prior year period). Our G&A expenses were relatively flat, but significantly declined as a percentage of total revenue to 9.2% from 11.8% in the prior year period.

Below operating income, we had two significant year-over-year fluctuations as follows: (1) we had a current quarter reduction in our other expense, net line of $2.9 million, mainly driven by our ability to capitalize additional interest in the current quarter due to a higher qualified inventory balance (refer to Note 6 of the notes to our unaudited consolidated financial statements in this Form 10-Q); and (2) we recorded a $0.8 million loss on extinguishment of debt during the current quarter, as we continued to repurchase a portion of our 8 1/8% Senior Notes before they come due in June 2016.

Income taxes

Our income tax assets and liabilities and related effective tax rate are affected by various factors, the most significant of which has been the valuation allowance recorded against substantially all of our deferred tax assets, but was partially released in the fourth quarter of our fiscal 2015. Due to the effect of our valuation allowance adjustments beginning in fiscal 2008, a comparison of our annual effective tax rates must consider the changes in our valuation allowance. As such, our effective tax rates have not been meaningful metrics, as our income tax provisions and benefits were not directly correlated to the amount of pretax income or loss for the associated periods. Beginning in the first quarter of our fiscal 2016, the Company is using an annualized effective tax rate to determine its tax provisions and benefits, which should correlate to our pretax income or loss in future periods.

Our overall effective tax rates from continuing operations were 33.9% for the three months ended December 31, 2015, compared to 3.7% for the three months ended December 31, 2014, with the prior year rate not being meaningful for the reasons discussed above.

Refer to Note 10 of the notes to our unaudited consolidated financial statements included in this Form 10-Q for a further discussion of our income taxes.

Three months ended December 31, 2015 as compared to 2014

West Segment: Homebuilding revenues increased 82.1% for the three months ended December 31, 2015 compared to the prior year due to a 55.7% increase in closings (particularly in our Texas markets, where closings were pushed out of last fiscal year due to the weather conditions in that region), as well as a significant year-over-year increase in ASP

of 16.9%, which improved in the large majority of our markets in the West segment. As compared to the prior year, our homebuilding gross profit increased by $14.7 million, due mainly to the increase in revenues already discussed, and, to a lesser extent, a slight increase in homebuilding gross margin from 20.3% to 20.5%. The $10.0 million increase in operating income resulted from the aforementioned increase in homebuilding gross profit, partially offset by higher sales commissions on improved revenues and a modest increase in G&A, as our community count and operations have grown, particularly with our re-entry into the Sacramento market.

East Segment: Homebuilding revenues decreased 7.4% for the three months ended December 31, 2015 versus the prior year, primarily due to a 15.7% decline in closings, partially offset by the impact of a 9.9% increase in ASP. As compared to the prior year, our homebuilding gross profit decreased $4.0 million, related mainly to the aforementioned decline in homebuilding revenues, as well as lower homebuilding gross margins, which declined from 18.2% in the prior year quarter to 15.5%. This decline in gross margin in the East segment was primarily due to mix of closings between spec and non-spec homes, as we were successful in reducing the number of spec homes in certain key markets, particularly Maryland, and the impact of lower margins from communities being closed out. The $3.2 million decrease in operating income resulted from the decrease in gross profits as previously discussed, partially offset by a decrease in SG&A costs due to the decline in closings from prior year.

Southeast Segment: As compared to the prior year period, homebuilding revenues increased significantly by 15.8% due to a 13.6% increase in closings, as well as a 1.9% increase in ASP. Our homebuilding gross profit in the Southeast segment increased by $17.6 million, but was impacted by the Florida stucco issues as follows: (1) current quarter gross profit includes a credit to cost of sales of $3.6 million for insurance recoveries received or anticipated to be received that were greater than current period charges; and (2) the prior year quarter includes a $13.6 million charge recorded in cost of sales related to the Florida stucco issues (no insurance recoveries were recorded in the prior year period, as we had not yet met the thresholds established by our insurance policies; refer to Note 8 of the notes to our unaudited consolidated financial statements in this Form 10-Q). After adjusting for the impact of the Florida stucco issues, gross profit in the Southeast segment was relatively flat, and gross margin declined from 21.3% to 18.9% due to mix of closings between communities and product type, the structure of our land deals and the close out of certain communities. The increase in operating income of $16.9 million, after also being adjusted for the Florida stucco issues in each period, is also relatively flat year-over-year.

Corporate and Unallocated: Corporate and unallocated includes amortization of capitalized interest and expenses for numerous shared services functions that benefit all segments, including information technology, treasury, corporate finance, legal and national marketing costs. The costs of these shared services are not allocated to the operating segments. For the three months ended December 31, 2015, corporate and unallocated costs increased $5.0 million over the prior year period, primarily due to a year-over-year increase in interest amortized to cost of sales (refer to Note 6 of the notes to our unaudited consolidated financial statements included in this Form 10-Q) and slightly higher corporate costs incurred due to business growth.

Derivative Instruments and Hedging Activities. We are exposed to fluctuations in interest rates. From time-to-time, we enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates. However, as of December 31, 2015, we were not a party to any such derivative agreements. We do not enter into or hold derivatives for trading or speculative purposes.

Liquidity and Capital Resources. Our sources of liquidity include, but are not limited to: (1) cash from operations; (2) proceeds from Senior Notes, our Secured Revolving Credit Facility (the Facility) and other bank borrowings; (3) the issuance of equity and equity-linked securities; and (4) other external sources of funds. Our short-term and long-term liquidity depends primarily upon our level of net income, working capital management (cash, accounts receivable, accounts payable and other liabilities) and available credit facilities.

Cash and cash equivalents decreased as follows for the periods presented:

| | Three Months Ended December 31, | |
|---|---|---|
| (in thousands) | 2015 | 2014 |
| Cash used in operating activities | $(77,849) | $(172,532) |
| Cash used in investing activities | (1,313) | (5,229) |
| Cash used in financing activities | (27,540) | (7,713) |
| Net decrease in cash and cash equivalents | $(106,702) | $(185,474) |

Operating Activities. We spent $111.7 million on land and land development activities during the three months ended December 31, 2015, a decrease of $33.8 million, or 23%, compared to $145.4 million in land-related spending for the three months ended December 31, 2014. This decline is the result of our goal to reduce our leverage during our fiscal 2016, which has led to an increase in finished lot purchases and the increased use of land banking. Our level of land and land development spend, which partly drives our change in inventory, had a significant impact on our net cash used in operating activities in both years, bringing net cash used in operating activities to $77.8 million and $172.5 million for the three months ended December 31, 2015 and 2014, respectively. Our year-over-year increase in earnings also significantly impacted cash used in operations, driven by higher revenues from additional closings and an elevated ASP.

Investing Activities. Net cash used in investing activities was $1.3 million for the three months ended December 31, 2015, primarily driven by capital expenditures for model homes and additional investments made in unconsolidated entities, partially offset by proceeds received from the sale of a building owned by the Company. Net cash used in investing activities was $5.2 million for the three months ended December 31, 2014, primarily related to capital expenditures for model homes, additional investments in unconsolidated entities, and an increase in restricted cash.

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Financing Activities. Net cash used in financing activities was $27.5 million for the three months ended December 31, 2015, primarily related to principal payments on the 2016 Notes (refer to Note 7 of the notes to our unaudited consolidated financial statements included in this Form 10-Q). Net cash used in financing activities was $7.7 million for the three months ended December 31, 2014, primarily related to principal payments on the then outstanding 2015 TEU notes and other secured notes payable. For further information related to the 2015 TEU notes, refer to Note 8 to our audited consolidated financial statements within our 2015 Annual Report.

Financial Position. As of December 31, 2015, our liquidity position consisted of:

- $144.9 million in cash and cash equivalents;
- $116.4 million of remaining capacity under the Facility (due to the use of the Facility to secure $28.6 million in letters of credit); and
- $39.4 million of restricted cash, $22.4 million of which related to our cash secured loans.

While we believe we possess sufficient liquidity, we are mindful of potential short-term or seasonal requirements for enhanced liquidity that may arise to grow our business. We expect to be able to meet our liquidity needs in fiscal 2016 and to maintain a significant liquidity position, subject to changes in market conditions that would alter our expectations for land and land development expenditures or capital market transactions, which could increase or decrease our cash balance on a period-to-period basis.

In June 2016, our 8 1/8% Senior Notes (the 2016 Notes) come due; as of December 31, 2015, the 2016 Notes had a remaining principal balance of $148.0 million, which reflects redemptions of $22.9 million made in the current quarter (refer to Note 7 of the notes to our unaudited consolidated financial statements in this Form 10-Q). During January 2016, we have already repurchased an additional $5.0 million of these notes. We intend to refinance these notes in the open market at our earliest opportunity. If we are unable to do so before the 2016 Notes come due, we expect to have sufficient liquidity, including cash from operations and availability under the Facility, to redeem them in full.

Debt. We generally fulfill our short-term cash requirements with cash generated from our operations and available borrowings. Additionally, we maintain the Facility, which has a total capacity of $145 million and an available capacity of $116.4 million as of December 31, 2015 after considering our outstanding letters of credit backed by the Facility of $28.6 million.

We have also entered into a number of stand-alone, cash secured letter of credit agreements with banks. These combined facilities provide for letter of credit needs collateralized by either cash or assets of the Company. We currently have $14.6 million of outstanding letters of credit under these facilities (in addition to the $28.6 million outstanding letters of credit backed by the Facility), secured with cash collateral which is maintained in restricted accounts totaling $15.3 million.

In the future, we may from time-to-time seek to continue to retire or purchase our outstanding debt through cash repurchases or in exchange for other debt securities, in open market purchases, privately-negotiated transactions or otherwise. We also may seek to expand our business through acquisition, which may be funded through cash, additional debt or equity. In addition, any material variance from our projected operating results could require us to obtain additional equity or debt financing. There can be no assurance that we will be able to complete any of these transactions in the future on favorable terms or at all. See Note 7 of the notes to our unaudited consolidated financial statements in this Form 10-Q for more information.

Credit Ratings. Our credit ratings are periodically reviewed by rating agencies. In June 2015, Moody's upgraded the Company's issuer default debt rating to B3. In September 2014, Fitch reaffirmed the Company's long-term debt rating of B-. In April 2014, S&P reaffirmed the Company's corporate credit rating for the Company of B-. These ratings and our current credit condition affect, among other things, our ability to access new capital. Negative changes to these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. Our credit ratings could be lowered or rating agencies could issue adverse commentaries in the future, which could have a material adverse effect on our business, financial condition, results of operations and liquidity. In particular, a weakening of our financial condition, including any further increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, could result in a credit rating downgrade or change in outlook or could otherwise increase our cost of borrowing.

Stock Repurchases and Dividends Paid. The Company did not repurchase any shares in the open market during the three months ended December 31, 2015 or 2014. Any future stock repurchases, to the extent allowed by our debt covenants, must be approved by the Company's Board of Directors or its Finance Committee.

The indentures under which our Senior Notes were issued contain certain restrictive covenants, including limitations on the payment of dividends. As of December 31, 2015, under the most restrictive covenants, none of our retained earnings were available for cash dividends. Hence, there were no dividends paid during the three months ended December 31, 2015 or 2014.

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Off-Balance Sheet Arrangements and Aggregate Contractual Commitments. As of December 31, 2015, we controlled 25,326 lots. We owned 77.5%, or 19,638 of these lots, and 5,688 of these lots, or 22.5%, were under option contracts with land developers and land bankers, which 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. We historically have attempted to control a portion of our land supply through options. 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. Under option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers and our liability is generally limited to forfeiture of the non-refundable deposits and other non-refundable amounts incurred, which totaled approximately $65.6 million as of December 31, 2015. The total remaining purchase price, net of cash deposits, committed under all options was $421.1 million as of December 31, 2015. As market conditions continue to improve, we may further expand our use of option agreements to supplement our owned inventory supply.

We expect to exercise, subject to market conditions and seller satisfaction of contract terms, most of our option contracts. Various factors, some of which are beyond our control, such as market conditions, weather conditions and the timing of the completion of development activities, will have a significant impact on the timing of option exercises or whether lot options will be exercised at all.

We have historically funded the exercise of lot options with operating cash flows. 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 lot options will have a material adverse effect on our liquidity.

Occasionally, we use legal entities in which we have less than a controlling interest. We enter into the majority of these arrangements with land developers, other homebuilders and financial partners to acquire attractive land positions, to manage our risk profile and to leverage our capital base. The underlying land positions are developed into finished lots for sale to the unconsolidated entity’s members or other third parties. We account for our interest in unconsolidated entities under the equity method.

Our unconsolidated entities periodically obtain secured acquisition and development financing. As of December 31, 2015, our unconsolidated entities had borrowings outstanding totaling $12.9 million. Historically, we and our partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated entities. As of December 31, 2015, we have no repayment guarantees outstanding related to the debt of our unconsolidated entities. See Note 4 of the notes to our unaudited consolidated financial statements in this Form 10-Q for more information.

We had outstanding performance bonds of approximately $188.6 million as of December 31, 2015, related principally to our obligations to local governments to construct roads and other improvements in various developments.

Critical Accounting Policies: Our critical accounting policies require the use of judgment in their application and/or require estimates of inherently uncertain matters. Although our accounting policies are in compliance with accounting principles generally accepted in the United States of America (GAAP), 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. It is also possible that other professionals, applying reasonable judgment to the same set of facts and circumstances, could develop a different conclusion. As disclosed in our 2015 Annual Report, our most critical accounting policies relate to (1) inventory valuation (projects in progress, land held for future development and land held for sale); (2) homebuilding revenues and costs; (3) warranty reserves; (4) income tax valuation allowances and ownership changes; and (5) investments in unconsolidated entities. Since September 30, 2015, there have been no significant changes to these critical accounting policies.

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 results of operations. As of December 31, 2015, we had variable rate debt outstanding totaling approximately $22.4 million. A one percent change in the interest rates would not be material to our financial statements. The estimated fair value of our fixed rate debt as of December 31, 2015 was $1.42 billion compared to a carrying value of $1.48 billion. In addition, the effect of a hypothetical one-percentage point decrease in our estimated discount rates would increase the estimated fair value of the fixed rate debt instruments from $1.42 billion to $1.46 billion as of December 31, 2015.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed based on criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Act). Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015, at a reasonable assurance level.

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.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Litigation

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

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

Other Matters

On July 1, 2009, we entered into a Deferred Prosecution Agreement and associated Bill of Information (the "DPA") with the United States Attorney for the Western District of North Carolina and a separate but related agreement with the United States Department of Housing and Urban Development (the HUD Agreement) and the Civil Division of the United States Department of Justice. We have satisfied our obligations under the DPA and in July 2014 the United States District Court for the Western Division of North Carolina dismissed the Bill of Information. However, under these agreements, we are obligated to make payments equal to 4% of "adjusted EBITDA," as defined in the agreements, until the earlier of (a) September 30, 2016 or (b) the date that a cumulative $48.0 million has been paid pursuant to the DPA and the HUD Agreement. As of December 31, 2015, we have paid a cumulative $28.1 million related to the DPA and the HUD Agreement. Additionally, we have a liability of $8.6 million recorded on our unaudited consolidated balance sheet as of December 31, 2015 related to the DPA and the HUD Agreement, $1.2

million of which were accrued for during the three months ended December 31, 2015.

We and certain of our subsidiaries have been named as defendants in various claims, complaints and other legal actions, most relating to construction defects, moisture intrusion and product liability. Certain of the liabilities resulting from these actions are 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.

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Item 1A. Risk Factors

There have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the year ended September 30, 2015.

Item 6. Exhibits

| | |
|---|---|
| 10.1* | Form of 2014 Long-Term Incentive Plan Award Agreement for Performance Shares (Named Executive Officers). |
| 31.1 | Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial statements from Beazer Homes USA, Inc.'s Quarterly Report on Form 10-Q for the period ended December 31, 2015, filed on February 4, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets, (ii) Unaudited Consolidated Statements of Income, (iii) Unaudited Consolidated Statements of Cash Flows and (iv) Notes to Unaudited Consolidated Financial Statements. |

* Represents a management contract or compensatory plan or arrangement.

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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.

Date: February 4, 2016

Beazer Homes USA, Inc.

By: /s/ Robert L. Salomon
Name: Robert L. Salomon
Executive Vice President and
Chief Financial Officer