

BEAZER HOMES USA INC
Form 10-Q
February 06, 2018
Table of Contents

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

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2017

or

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

Commission File Number 001-12822

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant 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 NO

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company Emerging growth company

Edgar Filing: BEAZER HOMES USA INC - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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 as of February 1, 2018

Common Stock, \$0.001 par value 33,618,155

Table of Contents

BEAZER HOMES USA, INC.
FORM 10-Q
INDEX

<u>PART I. FINANCIAL INFORMATION</u>	<u>2</u>
<u>Item 1. Financial Statements</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Balance Sheets, December 31, 2017 and September 30, 2017</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Statements of Income (Loss) and Unaudited Comprehensive Income (Loss), Three Months Ended December 31, 2017 and 2016</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows, Three Months Ended December 31, 2017 and 2016</u>	<u>4</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>43</u>
<u>Item 4. Controls and Procedures</u>	<u>43</u>
<u>PART II. OTHER INFORMATION</u>	<u>43</u>
<u>Item 1. Legal Proceedings</u>	<u>43</u>
<u>Item 1A. Risk Factors</u>	<u>43</u>
<u>Item 6. Exhibits</u>	<u>44</u>
<u>SIGNATURES</u>	<u>45</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BEAZER HOMES USA, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31, 2017	September 30, 2017
ASSETS		
Cash and cash equivalents	\$ 177,812	\$ 292,147
Restricted cash	12,082	12,462
Accounts receivable (net of allowance of \$329 and \$330, respectively)	31,804	36,323
Income tax receivable	88	88
Owned inventory	1,626,721	1,542,807
Investments in unconsolidated entities	4,277	3,994
Deferred tax assets, net	200,101	307,896
Property and equipment, net	18,742	17,566
Other assets	6,355	7,712
Total assets	\$ 2,077,982	\$ 2,220,995
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$ 97,535	\$ 103,484
Other liabilities	103,157	107,659
Total debt (net of premium of \$3,220 and \$3,413, respectively, and debt issuance costs of \$16,545 and \$14,800, respectively)	1,324,509	1,327,412
Total liabilities	1,525,201	1,538,555
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, 33,596,091 issued and outstanding and 33,515,768 issued and outstanding, respectively)	34	34
Paid-in capital	874,351	873,063
Accumulated deficit	(321,604)	(190,657)
Total stockholders' equity	552,781	682,440
Total liabilities and stockholders' equity	\$ 2,077,982	\$ 2,220,995

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

BEAZER HOMES USA, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND UNAUDITED COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	Three Months Ended	
	December 31,	
	2017	2016
Total revenue	\$372,489	\$339,241
Home construction and land sales expenses	311,660	285,578
Gross profit	60,829	53,663
Commissions	14,356	13,323
General and administrative expenses	37,285	36,388
Depreciation and amortization	2,507	2,677
Operating income	6,681	1,275
Equity in (loss) income of unconsolidated entities	(101)	22)
Loss on extinguishment of debt	(25,904)	—)
Other expense, net	(3,145)	(5,196)
Loss from continuing operations before income taxes	(22,469)	(3,899)
Expense (benefit) from income taxes	108,106	(2,540)
Loss from continuing operations	(130,575)	(1,359)
Loss from discontinued operations, net of tax	(372)	(70)
Net loss and comprehensive loss	\$(130,947)	\$(1,429)
Weighted average number of shares:		
Basic and diluted	32,055	31,893
Basic and diluted loss per share:		
Continuing operations	\$(4.07)	\$(0.04)
Discontinued operations	(0.01)	—)
Total	\$(4.08)	\$(0.04)

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

BEAZER HOMES USA, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$(130,947)	\$(1,429)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,507	2,677
Stock-based compensation expense	2,610	2,176
Inventory impairments and abandonments	450	—
Deferred and other income tax expense (benefit)	107,795	(2,707)
Write-off of deposit on legacy land investment	—	2,700
Gain on sale of fixed assets	(65)	(46)
Change in allowance for doubtful accounts	(1)	(4)
Equity in loss (income) of unconsolidated entities	88	(22)
Cash distributions of income from unconsolidated entities	50	6
Non-cash loss on extinguishment of debt	3,173	—
Changes in operating assets and liabilities:		
Decrease in accounts receivable	4,520	1,433
Decrease in income tax receivable	—	4
Increase in inventory	(83,205)	(39,543)
Decrease in other assets	1,252	1,906
Decrease in trade accounts payable	(5,949)	(17,444)
Decrease in other liabilities	(4,502)	(12,541)
Net cash used in operating activities	(102,224)	(62,834)
Cash flows from investing activities:		
Capital expenditures	(3,702)	(2,874)
Proceeds from sale of fixed assets	84	46
Investments in unconsolidated entities	(421)	(1,397)
Return of capital from unconsolidated entities	—	1,621
Net cash used in investing activities	(4,039)	(2,604)
Cash flows from financing activities:		
Repayment of debt	(401,481)	(2,525)
Proceeds from issuance of new debt	400,000	—
Debt issuance costs	(5,649)	(340)
Other financing activities	(1,322)	(387)
Net cash used in financing activities	(8,452)	(3,252)
Decrease in cash, cash equivalents and restricted cash	(114,715)	(68,690)
Cash, cash equivalents and restricted cash at beginning of period	304,609	243,276
Cash, cash equivalents and restricted cash at end of period	\$189,894	\$174,586

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

BEAZER HOMES USA, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business

Beazer Homes USA, Inc. is a geographically diversified homebuilder with active operations in 13 states within three geographic regions in the United States: the West, East and Southeast. Unless the context indicates otherwise, the terms “we,” “us,” “our,” “Beazer,” “Beazer Homes” and the “Company” used in this Quarterly Report on Form 10-Q refer to Beazer Homes USA, Inc. and its subsidiaries.

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, 2017 (2017 Annual Report).

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

The accompanying unaudited condensed 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 condensed consolidated 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 condensed consolidated financial statements. The results of our consolidated operations presented herein for the three months ended December 31, 2017 are not necessarily indicative of the results to be expected for the full fiscal year due to seasonal variations in our operations and other factors. For further information and a discussion of our significant accounting policies other than those discussed below, refer to Note 2 to the audited consolidated financial statements within our 2017 Annual Report.

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

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

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

Our fiscal 2018 began on October 1, 2017 and ends on September 30, 2018. Our fiscal 2017 began on October 1, 2016 and ended on September 30, 2017.

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 condensed consolidated financial statements and accompanying notes. Accordingly, actual results could differ from these estimates.

Inventory Valuation. We assess our inventory assets no less than quarterly for recoverability in accordance with the policies described in Notes 2 and 5 to the audited consolidated financial statements within our 2017 Annual Report.

Our homebuilding inventories that are accounted for as held for development (projects in progress) include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. For those communities that have been idled (land held for future development), all applicable interest and real estate taxes are expensed as incurred, and the inventory is stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We record land 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

5

Table of Contents

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 standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We have been involved in industry-specific discussions with the FASB on the treatment of certain items related to our business. However, due to the nature of our operations, we expect to identify similar performance obligations under ASU 2014-09 compared with the deliverables and separate units of account we have identified under existing accounting standards. As a result, we expect the timing of our revenues to remain generally the same. Nonetheless, we expect our revenue-related disclosures to change. We expect to adopt the provisions of ASU 2014-09 effective October 1, 2018.

Leases. In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires lessees to record most leases on their balance sheets. The timing and classification of lease-related expenses for lessees will depend on whether a lease is determined to be an operating lease or a finance lease using updated criteria within ASU 2016-02. Operating leases will result in straight-line expense (similar to current operating leases), while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Regardless of lease type, the lessee will recognize a right-of-use asset, representing the right to use the identified asset during the lease term, and a related lease liability, representing the present value of the lease payments over the lease term. Lessor accounting will be largely similar to that under the current lease accounting rules. The guidance within ASU 2016-02 will be effective for the Company's first fiscal year beginning after December 15, 2018, with early adoption permitted. ASU 2016-02 must be adopted using a modified retrospective approach, which requires application of the standard at the beginning of the earliest comparative period presented, with certain optional practical expedients. ASU 2016-02 also requires significantly enhanced disclosures around an entity's leases and the related accounting. We continue to evaluate the impact of ASU 2016-02 on our consolidated financial statements. However, a large majority of our leases are for office space, which we have determined will be treated as operating leases under ASU 2016-02. As such, we anticipate recording a right-of-use asset and related lease liability for these leases, but we do not expect our expense recognition pattern to change. Therefore, we do not anticipate any significant change to our statements of income or cash flows as a result of adopting ASU 2016-02.

Statement of Cash Flows. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flow - Restricted Cash (ASU 2016-18). ASU 2016-18 requires that an entity's statement of cash flows explain the change during the period in that entity's total cash and cash equivalents, including amounts generally described as restricted cash or restricted cash equivalents. Therefore, changes in restricted cash and restricted cash equivalents will no longer be shown as specific line items within the statement of cash flows. Additionally, an entity is to reconcile its cash and cash equivalents as per its balance sheet to the cash and cash equivalent balances presented in its statement of cash flows. The Company early adopted the guidance within ASU 2016-18 as of September 30, 2017. Therefore, changes in our restricted cash balances are no longer shown in our statements of cash flows, as these balances are included in the beginning and ending cash balances in our statements of cash flows.

The following table presents the changes to our unaudited consolidated statements of cash flows as of December 31, 2016 due to the adoption of ASU 2016-18:

(In thousands)	Three Months Ended December 31, 2016
Consolidated Statements of Cash Flows:	
Net cash used in investing activities (as originally reported)	\$ (4,162)
Movements in restricted cash	1,558
Net cash used in investing activities (as re-casted)	\$ (2,604)

Business Combinations. In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01). ASU 2017-01 clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for transactions that have not been reported in previously issued financial statements. The Company early adopted this guidance as of December 31, 2017, and applied it to applicable transactions occurring during this period.

Income Taxes. In December 2017, the Securities and Exchange Commission Staff issued SAB 118, which provides guidance on accounting for the income tax effects of the Tax Cuts and Jobs Act (Tax Act). SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In

Table of Contents

accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements and should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. The Company adopted the guidance of SAB 118 as of December 31, 2017. Refer to Note 10 for additional information on the Tax Act and the impact to our financial statements.

(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, 2017	2016
(In thousands)		
Supplemental disclosure of non-cash activity:		
Non-cash land acquisitions ^(a)	\$—	\$5,197
Land acquisitions for debt	—	5,555
Supplemental disclosure of cash activity:		
Interest payments	\$10,766	\$11,824
Income tax payments	—	178
Tax refunds received	39	4
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$177,812	\$158,623
Restricted cash	12,082	15,963
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	\$189,894	\$174,586

^(a) For the three months ended December 31, 2016, non-cash land acquisitions were comprised of lot takedowns from one of our unconsolidated land development joint ventures.

(4) Investments in Unconsolidated Entities

As of December 31, 2017, we participated in certain joint ventures and other unconsolidated entities in which Beazer had less than a controlling interest. The following table presents our investment in these unconsolidated entities, as well as the total equity and outstanding borrowings of these unconsolidated entities as of December 31, 2017 and September 30, 2017:

	December 31, September 30,	
	2017	2017
(In thousands)		
Beazer's investment in unconsolidated entities	\$ 4,277	\$ 3,994
Total equity of unconsolidated entities	10,152	11,811
Total outstanding borrowings of unconsolidated entities	16,460	15,797

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

	Three Months Ended	
	December 31, 2017	2016
(In thousands)		
Equity in (loss) income of unconsolidated entities	\$ (101)	\$ 22

For the three months ended December 31, 2017 and 2016, there were no impairments related to our investments in these unconsolidated entities.

Guarantees. Historically, our joint ventures typically obtain secured acquisition, development and construction financing, and Beazer and our joint venture partners had provided varying levels of guarantees of debt and other debt-related obligations for these unconsolidated entities. However, as of December 31, 2017 and September 30, 2017, we had no outstanding guarantees or other debt-related obligations related to our investments in unconsolidated entities.

Table of Contents

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, 2017 and 2016, 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, 2017 and September 30, 2017:

(In thousands)	December 31, September 30,	
	2017	2017
Homes under construction	\$ 461,185	\$ 419,312
Development projects in progress	830,827	785,777
Land held for future development	97,166	112,565
Land held for sale	19,258	17,759
Capitalized interest	144,847	139,203
Model homes	73,438	68,191
Total owned inventory	\$ 1,626,721	\$ 1,542,807

Homes under construction include homes substantially finished and ready for delivery and homes in various stages of construction, including the cost of the underlying lot. We had 167 (with a cost of \$54.3 million) and 171 (with a cost of \$52.6 million) substantially completed homes that were not subject to a sales contract (spec homes) as of December 31, 2017 and September 30, 2017, 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 includes land and lots that do not fit within our homebuilding programs and strategic plans in certain markets, and is classified as such once certain criteria is met (refer to Note 2 to the audited consolidated financial statements within our 2017 Annual Report). These assets are 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 (see Note 6 for additional information on capitalized interest).

Table of Contents

Total owned inventory, by reportable segment, is presented by category in the table below as of December 31, 2017 and September 30, 2017:

(In thousands)	Projects in Progress ^(a)	Land Held for Future Development	Land Held for Sale	Total Owned Inventory
December 31, 2017				
West Segment	\$712,742	\$ 71,647	\$ 7,445	\$791,834
East Segment	271,224	14,561	10,679	296,464
Southeast Segment ^(b)	329,589	10,958	1,110	341,657
Corporate and unallocated ^(c)	196,742	—	24	196,766
Total	\$1,510,297	\$ 97,166	\$ 19,258	\$1,626,721
September 30, 2017				
West Segment	\$673,828	\$ 87,231	\$ 3,848	\$764,907
East Segment	250,002	14,391	11,578	275,971
Southeast Segment	301,268	10,943	1,233	313,444
Corporate and unallocated ^(c)	187,385	—	1,100	188,485
Total	\$1,412,483	\$ 112,565	\$ 17,759	\$1,542,807

^(a) Projects in progress include homes under construction, development projects in progress, capitalized interest and model homes categories from the preceding table.

^(b) In December 2017, we acquired more than 450 lots spread across four new home communities in Raleigh and three in Myrtle Beach in the Southeast segment from Bill Clark Homes. The transaction value was approximately \$29.0 million and the assets were reported in the Southeast segment.

^(c) Projects in progress amount includes capitalized interest and indirect costs that are maintained within our Corporate and unallocated segment. Land held for sale amount includes parcels held by our discontinued operations.

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 gross 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 ten 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 gross 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 determined 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, 2017, there were two communities on our quarterly watch list, one in the West segment and the other in the Southeast segment. However, none of these communities required further analysis to be performed after considering certain qualitative factors. For the quarter ended December 31, 2016, there were eight communities on our quarterly watch list, seven in our West segment and one in our East segment. However, none of these communities required further impairment analysis to be performed after considering the number of lots remaining in each community and certain other qualitative factors.

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

From time-to-time, we also determine that the proper course of action with respect to a community is to not exercise an option and to write off the deposit securing the option takedown and the related pre-acquisition costs, as applicable. In determining

9

Table of Contents

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 environmental, permitting or other regulatory issues that do not allow us to build on those lots. If we intend to abandon or walk away from a property, we record a charge to earnings for the deposit amount and any related capitalized costs in the period such decision is made. Abandonment charges generally relate to our decision to abandon lots or not exercise certain option contracts that are not projected to produce adequate results, no longer fit with our long-term strategic plan or, in limited circumstances, are not suitable for building due to environmental or regulatory restrictions that are enacted. The following table presents our total impairment and abandonment charges for the period presented:

	Three Months Ended December 31, 2017
(In thousands)	
Discontinued Operations:	
Land Held for Sale	\$ 450
Total impairment and abandonment charges	\$ 450

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, 2016.

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

The following table provides a summary of our interests in lot option agreements as of December 31, 2017 and September 30, 2017:

	Deposits & Non-refundable Pre-acquisition Costs Incurred	Remaining Obligation
(In thousands)		
As of December 31, 2017		
Unconsolidated lot option agreements	\$ 92,864	\$ 380,378
As of September 30, 2017		
Unconsolidated lot option agreements	\$ 91,854	\$ 408,300

(6) Interest

Our ability to capitalize interest incurred during the three months ended December 31, 2017 and 2016 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)	2017	2016
Capitalized interest in inventory, beginning of period	\$ 139,203	\$ 138,108
Interest incurred	25,555	27,087

Edgar Filing: BEAZER HOMES USA INC - Form 10-Q

Interest expense not qualified for capitalization and included as other expense ^(a)	(3,435)	(5,252)
Capitalized interest amortized to home construction and land sales expenses ^(b)	(16,476)	(15,644)
Capitalized interest in inventory, end of period	\$144,847	\$144,299

10

Table of Contents

(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 home 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, 2017 and September 30, 2017, we had the following debt, net of premiums/discounts and unamortized debt issuance costs:

(In thousands)	Maturity Date	December 31, 2017	September 30, 2017
5 3/4% Senior Notes	June 2019	\$ 96,393	\$ 321,393
8 3/4% Senior Notes	March 2022	500,000	500,000
7 1/4% Senior Notes	February 2023	24,834	199,834
6 3/4% Senior Notes	March 2025	250,000	250,000
5 7/8% Senior Notes	October 2027	400,000	—
Unamortized debt premium, net		3,220	3,413
Unamortized debt issuance costs		(16,545)	(14,800)
Total Senior Notes, net		1,257,902	1,259,840
Junior Subordinated Notes (net of unamortized accretion of \$38,320 and \$38,837, respectively)	July 2036	62,453	61,937
Other Secured Notes payable	Various Dates	4,154	5,635
Total debt, net		\$ 1,324,509	\$ 1,327,412

Secured Revolving Credit Facility. Our Secured Revolving Credit Facility (the Facility) provides us with working capital and letter of credit capacity. In October 2017, we executed a Fourth Amendment to the Facility. The Fourth Amendment (1) extends the termination date of the Facility from February 15, 2019 to February 15, 2020; (2) increases the maximum aggregate amount of commitments under the Facility (including borrowings and letters of credit) from \$180.0 million to \$200.0 million; and (3) includes a condition that allows the Facility to be increased by an additional \$50 million to \$250 million, subject to the approval of any lenders providing any such increase. The aggregate collateral ratio (as defined by the underlying Credit Agreement) remained at 4.00 to 1.00 and the after-acquired exclusionary condition (also as defined by the underlying Credit Agreement) remained at \$800.0 million. The Facility continues to be with three lenders. For additional discussion of the Facility, refer to Note 8 to the audited consolidated financial statements within our 2017 Annual Report.

As of December 31, 2017 and September 30, 2017, we had no borrowings outstanding under the Facility, but had \$34.2 million and \$34.7 million in letters of credit outstanding, respectively, leaving us with \$165.8 million and \$145.3 million in remaining capacity, respectively. The Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. As of December 31, 2017, 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, 2017 and September 30, 2017, we had letters of credit outstanding under these additional facilities of \$10.7 million and \$10.8 million, respectively, all of which were secured by cash collateral in restricted accounts. The Company may enter into additional arrangements to provide further letter of credit capacity.

Senior Notes. Our Senior Notes are unsecured obligations ranking pari passu with all other existing and future senior indebtedness. Substantially all of our significant subsidiaries are full and unconditional guarantors of the Senior Notes and are jointly and severally liable for obligations under the Senior Notes and the Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes. See Note 15 for further information.

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, if outstanding, 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, but are fully and unconditionally guaranteed jointly and severally on a senior basis by the Company's wholly-owned subsidiaries party to each applicable indenture.

Table of Contents

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 certain types of additional indebtedness and to make certain investments. 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, 2017.

In October 2017, we issued and sold \$400.0 million aggregate principal amount of 5.875% unsecured Senior Notes due October 2027 at par (before underwriting and other issuance costs) through a private placement to qualified institutional buyers (the 2027 Notes). Interest on the 2027 Notes is payable semi-annually, beginning on April 15, 2018. The 2027 Notes will mature on October 15, 2027. We may redeem the 2027 Notes at any time prior to October 15, 2022, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, together with accrued and unpaid interest to, but excluding, the redemption date, plus a customary make-whole premium. In addition, on or prior to October 15, 2022, we may redeem up to 35% of the aggregate principal amount of the 2027 Notes with the net cash proceeds of certain equity offerings at a redemption price equal to 105.875% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, provided at least 65% of the aggregate principal amount of the 2027 Notes originally issued remains outstanding immediately after such redemption. Upon the occurrence of certain specified changes of control, the holders of the 2027 Notes will have the right to require us to purchase all or a part of the notes at a repurchase price equal to 101% of their principal amount, plus accrued and unpaid interest to, but excluding, the repurchase date. The covenants related to the 2027 Notes are consistent with our other senior notes.

The proceeds of the 2027 Notes, as well as \$34.5 million cash on hand, were used to redeem \$225.0 million of our 5.75% unsecured Senior Notes due 2019 and \$175.0 million of our 7.25% unsecured Senior Notes due 2023, resulting in a loss on extinguishment of debt of \$25.9 million, of which \$3.2 million was a non-cash write-off of debt issuance and discount costs.

In March 2017, we issued and sold \$250 million aggregate principal amount of 6.75% unsecured Senior Notes due March 2025 at par (before underwriting and other issuance costs) through a private placement to qualified institutional buyers (the 2025 Notes). Interest on the 2025 Notes is payable semi-annually, beginning on September 15, 2017. The 2025 Notes will mature on March 15, 2025. We may redeem the 2025 Notes at any time prior to March 15, 2020, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, together with accrued and unpaid interest to, but excluding, the redemption date, plus a customary make-whole premium. In addition, on or prior to March 15, 2020, we may redeem up to 35% of the aggregate principal amount of the 2025 Notes with the net cash proceeds of certain equity offerings at a redemption price equal to 106.75% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, provided at least 65% of the aggregate principal amount of the 2025 Notes originally issued remains outstanding immediately after such redemption. Upon the occurrence of certain specified changes of control, the holders of the 2025 Notes will have the right to require us to purchase all or a part of the notes at a repurchase price equal to 101% of their principal amount, plus accrued and unpaid interest to, but excluding, the repurchase date. The covenants related to the 2025 Notes are consistent with our other senior notes.

Table of Contents

For additional redemption features, refer to the table below that summarizes the redemption terms for our Senior Notes:

Senior Note Description	Issuance Date	Maturity Date	Redemption Terms
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; on or after March 15, 2019, callable at 100% of the principal amount plus, in each case, accrued and unpaid interest Callable at any time prior to 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; on or after March 15, 2019, callable at a redemption price equal to 104.375% of the principal amount; on or after March 15, 2020, callable at a redemption price equal to 102.188% of the principal amount; on or after March 15, 2021, callable at a redemption price equal to 100% of the principal amount plus, in each case, accrued and unpaid interest
8 3/4% Senior Notes	September 2016	March 2022	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; on or after February 1, 2018, callable at a redemption price equal to 103.625% of the principal amount; on or after February 1, 2019, callable at a redemption price equal to 102.41% of the principal amount; on or after February 1, 2020, callable at a redemption price equal to 101.208% of the principal amount plus, in each case, accrued and unpaid interest Callable at any time prior to March 15, 2020, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after March 15, 2020, callable at a redemption price equal to 105.063% of the principal amount; on or after March 15, 2021, callable at a redemption price equal to 103.375% of the principal amount; on or after March 15, 2022, callable at a redemption price equal to 101.688% of the principal amount; on or after March 15, 2023, callable at a redemption price equal to 100.000% of the principal amount, plus, in each case, accrued and unpaid interest
7 1/4% Senior Notes	February 2013	February 2023	Callable at any time prior to October 15, 2022, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after October 15, 2022, callable at a redemption price equal to 102.938% of the principal amount; on or after October 15, 2023, callable at a redemption price equal to 101.958% of the principal amount; on or after October 15, 2024, callable at a redemption price equal to 100.979% of the principal amount; on or after October 15, 2025, callable at a redemption price equal to 100.000% of the principal amount, plus, in each case, accrued and unpaid interest
6 3/4% Senior Notes	March 2017	March 2025	Callable at any time prior to October 15, 2022, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after October 15, 2022, callable at a redemption price equal to 102.938% of the principal amount; on or after October 15, 2023, callable at a redemption price equal to 101.958% of the principal amount; on or after October 15, 2024, callable at a redemption price equal to 100.979% of the principal amount; on or after October 15, 2025, callable at a redemption price equal to 100.000% of the principal amount, plus, in each case, accrued and unpaid interest
5 7/8% Senior Notes	October 2017	October 2027	Callable at any time prior to October 15, 2022, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after October 15, 2022, callable at a redemption price equal to 102.938% of the principal amount; on or after October 15, 2023, callable at a redemption price equal to 101.958% of the principal amount; on or after October 15, 2024, callable at a redemption price equal to 100.979% of the principal amount; on or after October 15, 2025, callable at a redemption price equal to 100.000% of the principal amount, plus, in each case, accrued and unpaid interest

Junior Subordinated Notes. Our unsecured junior subordinated notes (Junior Subordinated Notes) mature on July 30, 2036. The Junior Subordinated Notes are redeemable at par and paid interest at a fixed rate of 7.987% for the first ten years ending July 30, 2016. The securities now have a floating interest rate as defined in the Junior Subordinated Notes Indenture, which was a weighted-average of 4.12% as of December 31, 2017 (because the rate on the portion of the Junior Subordinated Notes that was modified, as discussed subsequently, is subject to a floor). The obligations relating to these notes are subordinated to the Facility and the Senior Notes. In January 2010, we modified the terms of \$75.0 million of these notes and recorded them at their then estimated fair value. Over the remaining life of the Junior Subordinated Notes, we will increase their carrying value until this carrying value equals the face value of the

notes. As of December 31, 2017, the unamortized accretion was \$38.3 million and will be amortized over the remaining life of the notes. As of December 31, 2017, we were in compliance with all covenants under our Junior Subordinated Notes.

Other Secured Notes Payable. We periodically acquire land through the issuance of notes payable. As of December 31, 2017 and September 30, 2017, we had outstanding secured notes payable of \$4.2 million and \$5.6 million, respectively, primarily related to land acquisitions. These secured notes payable related to land acquisitions have varying expiration dates between 2018 and 2019, and have a weighted-average fixed interest rate of 1.56% as of December 31, 2017. These notes are secured by the real estate to which they relate.

Table of Contents

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 related to these defects, as well as others arising from its business. In determining loss contingencies, we consider the likelihood of loss, as well as our 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 for up to ten years covering only certain defined structural element failures.

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 consolidated balance sheets, and the provision for warranty accruals is included in home construction expenses in our 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 operating division. An analysis by division allows us to consider market specific factors such as our warranty experience, the number of home closings, the prices of homes, product mix and other data in estimating our warranty reserves. In addition, our analysis also contemplates the existence of any non-recurring or community-specific warranty-related matters that might not be included in our historical data and trends. While we adjust our estimated warranty liabilities each reporting period to the extent required as a result of our quarterly analyses, historical data and trends may not accurately predict actual warranty costs, which could lead to a significant change in the reserve.

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

	Three Months Ended December 31,	
(In thousands)	2017	2016
Balance at beginning of period	\$ 18,091	\$ 39,131
Accruals for warranties issued (a)	4,212	2,658
Changes in liability related to warranties existing in prior periods (b)	(2,296)	5,392
Payments made (b)	(4,191)	(14,872)
Balance at end of period	\$ 15,816	\$ 32,309

(a) Accruals for warranties issued are a function of the number of home closings in the period, the selling prices of the homes closed and the rates of accrual per home estimated as a percentage of the selling price of the home.

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

Florida 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 (the Florida stucco issues). Through December 31, 2017, we cumulatively recorded charges related to these issues of \$85.2 million.

During the three months ended December 31, 2017, we reduced our warranty reserve related to the Florida stucco issues by \$0.4 million, compared to an increase of \$4.6 million in the prior year. As of December 31, 2017, 709 homes have been identified as likely to require repairs, of which 664 homes have been repaired. We anticipate the majority of the remaining repairs in our Florida communities will be completed during fiscal 2018. We made payments related to the Florida stucco issues of \$1.1 million during the three months ended December 31, 2017, including payments on fully repaired homes, as well as payments on homes for which

Table of Contents

remediation is not yet complete, bringing the remaining accrual related to this issue to \$3.2 million as of December 31, 2017, which is included in our overall warranty liability detailed above. As of December 31, 2017, the cost to repair the homes in the impacted communities, where it is not deemed likely to require repairs and, therefore, no reserve has been established, would be approximately \$2.5 million if the current cost estimates were applied to these additional homes. For additional information related to the Florida stucco issues, refer to Note 9 of the notes to the consolidated financial statements in our 2017 Annual Report.

Insurance Recoveries

The Company has insurance policies that provide for the reimbursement of certain warranty costs incurred by us above a specified threshold for each period covered. We have surpassed these thresholds for certain policy years, particularly those that cover most of the homes impacted by the Florida stucco issues discussed above. As such, beginning with the first quarter of our fiscal 2015, we expect a substantial majority of additional costs incurred for warranty work on homes within these policy years to be reimbursed by our insurers.

We adjust our insurance receivable balance each quarter to reflect our estimate of future costs to be incurred, as well as amounts received from our insurers. These adjustments were a decrease of \$0.2 million during the three months ended December 31, 2017 to reflect the amount that we deem probable of receiving. The changes to our insurance receivable fully offset the current three month period movements in our reserve related to the Florida stucco issues.

For the three months ended December 31, 2016, \$3.9 million was recorded in insurance recoveries. Through December 31, 2017, receivables recorded related to the Florida stucco issues cumulatively total \$82.8 million. Amounts recorded for anticipated insurance recoveries are reflected within our consolidated statements of income as a reduction of our home construction expenses, and associated amounts not yet received from our insurer are recorded on a gross basis, i.e., not net of any associated warranty expense, as a receivable within accounts receivable on our consolidated balance sheets.

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 insurers.

Litigation

From time-to-time, we receive claims from institutions that have acquired mortgages originated by our subsidiary, Beazer Mortgage Corporation (BMC), demanding damages or indemnity or that we repurchase such mortgages. BMC stopped originating mortgages in 2008. We have been able to resolve these claims for no cost or for amounts that are not material to our consolidated financial statements. 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, 2017, no liability has been recorded for any additional claims related to this matter, 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 our 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

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 an accrual of \$4.0 million and \$3.9 million in other liabilities on our consolidated balance sheets for litigation and related matters, excluding warranty, as of December 31, 2017 and September 30, 2017, respectively. We had outstanding letters of credit and performance bonds of approximately \$44.9 million and \$229.3 million, respectively, as of December 31, 2017, related principally to our obligations to local governments to construct roads and other improvements in various developments.

Table of Contents

(9) Fair Value Measurements

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

• Level 1 – Quoted prices in active markets for identical assets or liabilities;

• Level 2 – Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly through corroboration with market data; and

• Level 3 – Unobservable inputs that reflect our own estimates about the assumptions market participants would use in pricing the asset or liability.

Certain of our assets are required to be recorded at fair value on a recurring basis. The fair value of our deferred compensation plan assets is based on market-corroborated inputs (Level 2).

Certain of our assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value of these assets may not be recovered. We review our long-lived assets, including inventory, for recoverability when factors indicate an impairment may exist, but no less than quarterly. Fair value of assets deemed to be impaired is determined based upon the type of asset being evaluated. The fair value of our owned inventory assets, when required to be calculated, is discussed within Notes 2 and 5. The fair value of our investments in unconsolidated entities is determined primarily using a discounted cash flow model to value the underlying net assets of the respective entities. Due to the substantial use of unobservable inputs in valuing the assets on a non-recurring basis, they are classified within Level 3.

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

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

(In thousands)	Level 1	Level 2	Level 3	Total
Three Months Ended December 31, 2017				
Deferred compensation plan assets ^(a)	\$ —	—\$1,357	\$ —	—\$1,357
Land held for sale ^(b)	—	—	642	642
Three Months Ended December 31, 2016				
Deferred compensation plan assets ^(a)	\$ —	—\$1,006	\$ —	—\$1,006
As of September 30, 2017				
Deferred compensation plan assets ^(a)	\$ —	—\$1,114	\$ —	—\$1,114
Development projects in progress ^(b)	—	—	3,791	3,791
Land held for sale ^(b)	—	—	325	325

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

The following table presents the carrying value and estimated fair value of certain of our other financial liabilities as of December 31, 2017 and September 30, 2017:

(In thousands)	As of December 31, 2017		As of September 30, 2017	
	Carrying Amount ^(a)	Fair Value	Carrying Amount ^(a)	Fair Value
Senior Notes ^(b)	\$1,257,902	\$1,338,675	\$1,259,840	\$1,355,657
Junior Subordinated Notes	62,453	62,453	61,937	61,937

\$1,320,355 \$1,401,128 \$1,321,777 \$1,417,594

Table of Contents

- (a) Carrying amounts are net of unamortized debt premium/discounts, debt issuance costs or accretion.
 (b) The estimated fair value for our publicly-held Senior Notes has been determined using quoted market rates (Level 2).

(10) Income Taxes

Income Tax Provision. Our income tax provision for quarterly interim periods is based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Our total income tax provision, including discontinued operations, was a tax expense of \$108.0 million for the three months ended December 31, 2017, compared to an income tax benefit of \$2.6 million for the three months ended December 31, 2016. Our current fiscal year income tax expense was primarily driven by (1) the remeasurement of our deferred tax assets as a result of the enactment of the Tax Cuts and Jobs Act (Tax Act) during the quarter; and (2) several discrete tax expenses, including the impacts to our stock-based compensation expense as a result of current period activity; both partially offset by (3) the loss incurred from continuing operations. The tax benefit for the three months ended December 31, 2016 was primarily driven by our loss from continuing operations and the Company's completion of work necessary to claim an additional \$1.2 million in tax credits, which were recorded in our fiscal 2017 but related to our fiscal 2016.

Deferred Tax Assets and Liabilities. The Tax Act is comprehensive tax reform legislation that was enacted by the U.S. government on December 22, 2017. The Tax Act includes significant changes to the Internal Revenue Code, including a reduction in the corporate tax rate from 35% to 21%. Additionally, the Tax Act establishes new laws that will impact our fiscal 2019, including, but not limited to, eliminating the corporate alternative minimum tax (AMT), changes to how existing AMT credits can be realized, and imposing new limitations on the deductibility of certain executive compensation.

In connection with our initial analysis of the Tax Act's impacts, and in accordance with the guidance in SAB 118, we recorded a discrete net tax expense of \$112.6 million in the period ending December 31, 2017. This net expense is primarily related to the corporate tax rate reduction and the associated remeasurement of our deferred tax assets. While we have recorded a provisional tax expense of \$112.6 million based on reasonable estimates of the impact for the reduction in the corporate tax rate, our estimate may be affected by additional analyses related to the Tax Act and temporary differences that will reverse during our fiscal 2018 and subsequent tax years.

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 these deferred tax assets will not be realized. As of September 30, 2017 and again as of December 31, 2017, we concluded that it is more likely than not that a substantial portion of our deferred tax assets will be realized. As part of our analysis, we considered both the positive and negative factors that impact our profitability, and whether those factors would lead to a change in the estimate of our deferred tax assets that may be realized in the future. Although the Tax Act may result in changes to our taxable income in the future, we do not anticipate these changes would be significant enough to result in a change in our estimate when taken into account with all our factors. As of December 31, 2017, our conclusions on the valuation allowance and Internal Revenue Code Section 382 limitations related to our deferred tax assets remain consistent with the determinations we made during the period ended September 30, 2017, and are based on similar company specific and industry factors to those discussed in Note 13 to the audited consolidated financial statements within our 2017 Annual Report.

(11) Stock-based Compensation

Our total stock-based compensation expense is included in G&A expenses in our 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,	
(In thousands)	2017	2016
Stock options expense	\$60	\$107
Restricted stock awards expense	2,550	2,069
Before tax stock-based compensation expense	2,610	2,176

Edgar Filing: BEAZER HOMES USA INC - Form 10-Q

Tax benefit	(662)	(774)
After tax stock-based compensation expense	\$1,948	\$1,402

During the three months ended December 31, 2017 and 2016, employees surrendered 62,231 shares and 30,018 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 \$1.3 million and \$0.4 million for the three months ended December 31, 2017 and 2016, respectively.

17

Table of Contents

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, 2017, the intrinsic value of our stock options outstanding, vested and expected to vest and exercisable were \$2.9 million, \$2.9 million and \$1.9 million, respectively. As of December 31, 2017 and September 30, 2017, there were \$0.4 million and \$0.3 million, respectively, of total unrecognized compensation cost related to nonvested stock options. The cost remaining as of December 31, 2017 is expected to be recognized over a weighted-average period of 2.0 years.

During the three months ended December 31, 2017, we issued 23,680 stock options, each for one share of the Company's stock. These stock options typically vest ratably over three years from the date of grant, or two years from the date of grant if issued under the Employee Stock Option Program (EOP; refer to Note 16 of the notes to the consolidated financial statements in our 2017 Annual Report). We used the following assumptions for stock options granted, which derived the weighted average fair value shown, for the period presented:

	Three Months Ended December 31, 2017	
Expected life of options	5.0 years	
Expected volatility	44.71	%
Expected dividends	—	
Weighted average risk-free interest rate	2.06	%
Weighted average fair value	\$ 8.49	

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

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

	Three Months Ended December 31, 2017	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	593,753	\$ 14.76
Granted	23,680	20.46
Exercised	(1,666)	7.56
Expired	(56,967)	23.65
Forfeited	(2,641)	13.87
Outstanding at end of period	556,159	\$ 14.11

Exercisable at end of period 435,432 \$ 14.81
Vested or expected to vest in the future 554,381 \$ 14.11

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

Compensation cost arising from restricted stock awards granted to employees is recognized as an expense using the straight-line method over the vesting period. As of December 31, 2017 and September 30, 2017, there was \$14.7 million and \$8.8 million, respectively, of total unrecognized compensation cost related to nonvested restricted stock awards. The cost remaining as of December 31, 2017 is expected to be recognized over a weighted average period of 2.0 years.

We issued two types of restricted stock awards during the three months ended December 31, 2017 as follows: (1) performance-based restricted stock awards with a payout based on the Company's performance and certain market conditions; and (2) time-based restricted stock awards. Each award type is discussed further below.

Table of Contents

Performance-Based Restricted Stock Awards. During the three months ended December 31, 2017, we issued 144,746 shares of performance-based restricted stock (2018 Performance Shares) to our executive officers and certain other employees with market conditions. The 2018 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 these 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 2018 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 \$22.40 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 in the Monte Carlo valuation model to determine the fair value as of the grant date for the 2018 Performance Shares: 0% dividend yield for the Company; expected price volatility ranging from 21.1% to 50.0%; and a risk-free interest rate of 1.81%. 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.

Each Performance Share represents a contingent right to receive one share of the Company's common stock if vesting is satisfied at the end of the three-year performance period. Any 2018 Performance Shares earned in excess of the target number of 144,746 shares may be settled in cash or additional shares at the discretion of the Compensation Committee of our Board of Directors. Any portion of these that do not vest at the end of the period will be forfeited. Time-Based Restricted Stock Awards. During three months ended December 31, 2017, we also issued 189,372 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 one-year anniversary of the date of grant, while the Restricted Shares granted to our executive officers and other employees vest ratably on each anniversary over three years from the date of grant.

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

	Three Months Ended December 31, 2017					
	Performance-Based Restricted Stock		Time-Based Restricted Stock		Total Restricted Stock	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of period	668,766	\$ 15.72	872,181	\$ 16.47	1,540,947	\$ 16.14
Granted	144,746	22.40	189,372	20.46	334,118	21.30
Vested	—	—	(225,332)	14.01	(225,332)	14.01
Forfeited	(185,601)	19.03	(8,144)	16.49	(193,745)	18.92
End of period	627,911	\$ 16.28	828,077	\$ 18.06	1,455,988	\$ 17.29

(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 both the three months ended December 31, 2017 and December 31, 2016, accordingly, for these respective periods, all common stock equivalents were excluded from the computation of

diluted loss per share because inclusion would have resulted in anti-dilution. For the three months ended December 31, 2017 and December 31, 2016, respectively, 1.4 million and 1.5 million shares related to nonvested stock-based compensation awards were excluded from our calculation of diluted income per share as a result of their anti-dilutive effect.

Table of Contents

(13) Other Liabilities

Our other liabilities include the following as of December 31, 2017 and September 30, 2017:

(In thousands)	December 31, September 30,	
	2017	2017
Accrued interest	\$ 24,653	\$ 11,024
Accrued bonus and deferred compensation	16,638	36,753
Accrued warranty expense	15,816	18,091
Customer deposits	13,837	11,704
Litigation accrual	3,970	3,899
Income tax liabilities	1,033	811
Other	27,210	25,377
Total other liabilities	\$ 103,157	\$ 107,659

(14) Segment Information

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

West: Arizona, California, Nevada and Texas

East: Delaware, Indiana, Maryland, New Jersey^(a), Tennessee and Virginia

Southeast: Florida, Georgia, North Carolina and South Carolina

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

Management's evaluation of segment performance is based on segment operating income. Operating income for our homebuilding segments is defined as homebuilding, land sale and other revenues less home construction, land development and land sales expense, commission expense, depreciation and amortization and certain G&A expenses that are incurred by or allocated to our homebuilding segments. The accounting policies of our segments are described in Note 2 to the consolidated financial statements within our 2017 Annual Report.

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

(In thousands)	Three Months	
	2017	2016
Revenue		
West	\$ 177,971	\$ 171,749
East	88,853	84,159
Southeast	105,665	83,333
Total revenue	\$ 372,489	\$ 339,241

Table of Contents

(In thousands)	Three Months Ended December 31,	
	2017	2016
Operating income ^(a)		
West	\$21,110	\$21,015
East ^(b)	7,396	1,557
Southeast	6,910	5,015
Segment total	35,416	27,587
Corporate and unallocated ^(c)	(28,735)	(26,312)
Total operating income	\$6,681	\$1,275

(In thousands)	Three Months Ended December 31,	
	2017	2016
Depreciation and amortization		
West	\$1,256	\$1,248
East	439	529
Southeast	579	466
Segment total	2,274	2,243
Corporate and unallocated ^(c)	233	434
Total depreciation and amortization	\$2,507	\$2,677

^(a) Operating income is impacted by impairment and abandonment charges incurred during the periods presented (see Note 5).

^(b) Operating income for our East segment for the three months ended December 31, 2016 was impacted by a charge to G&A of \$2.7 million related to the write-off of a deposit on a legacy investment in a development site that we deemed uncollectible.

^(c) Corporate and unallocated operating loss includes amortization of capitalized interest; movement in capitalized indirects; expenses related to numerous shared services functions that benefit all segments but are not allocated to the operating segments reported above, including information technology, treasury, corporate finance, legal, branding and national marketing; and certain other amounts that are not allocated to our operating segments. Corporate and unallocated depreciation and amortization represents depreciation and amortization related to assets held by our 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,	
	2017	2016
Capital Expenditures		
West	\$1,776	\$1,184
East	595	771
Southeast	743	618
Corporate and unallocated	588	301
Total capital expenditures	\$3,702	\$2,874

Table of Contents

The following table contains our asset balance by segment as of December 31, 2017 and September 30, 2017:

(In thousands)	December 31, 2017	September 30, 2017
Assets		
West	\$ 810,232	\$ 779,964
East	303,429	298,532
Southeast	354,659	331,618
Corporate and unallocated ^(a)	609,662	810,881
Total assets	\$ 2,077,982	\$ 2,220,995

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

(15) Supplemental Guarantor Information

As discussed in Note 7, our obligations to pay principal, premium, if any, and interest under certain debt 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 condensed consolidated financial statements separated by amounts related to the parent issuer, guarantor subsidiaries, non-guarantor subsidiaries and consolidating adjustments as of or for the periods presented.

Table of Contents

Beazer Homes USA, Inc.
 Unaudited Condensed Consolidating Balance Sheet Information
 December 31, 2017
 (In thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	\$ 180,282	\$ 3,047	\$ 730	\$(6,247)	\$ 177,812
Restricted cash	10,941	1,141	—	—	12,082
Accounts receivable (net of allowance of \$329)	—	31,804	—	—	31,804
Income tax receivable	88	—	—	—	88
Owned inventory	—	1,626,721	—	—	1,626,721
Investments in unconsolidated entities	773	3,504	—	—	4,277
Deferred tax assets, net	200,101	—	—	—	200,101
Property and equipment, net	—	18,742	—	—	18,742
Investments in subsidiaries	710,741	—	—	(710,741)	—
Intercompany	796,658	—	2,331	(798,989)	—
Other assets	908	5,447	—	—	6,355
Total assets	\$ 1,900,492	\$ 1,690,406	\$ 3,061	\$(1,515,977)	\$ 2,077,982
LIABILITIES AND STOCKHOLDERS' EQUITY					
EQUITY					
Trade accounts payable	\$ —	\$ 97,535	\$ —	\$ —	\$ 97,535
Other liabilities	25,025	77,882	250	—	103,157
Intercompany	2,331	802,905	—	(805,236)	—
Total debt (net of premium and debt issuance costs)	1,320,355	4,154	—	—	1,324,509
Total liabilities	1,347,711	982,476	250	(805,236)	1,525,201
Stockholders' equity	552,781	707,930	2,811	(710,741)	552,781
Total liabilities and stockholders' equity	\$ 1,900,492	\$ 1,690,406	\$ 3,061	\$(1,515,977)	\$ 2,077,982

Table of Contents

Beazer Homes USA, Inc.
 Unaudited Condensed Consolidating Balance Sheet Information
 September 30, 2017
 (In thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	\$ 283,191	\$ 15,393	\$ 724	\$(7,161)	) \$ 292,147
Restricted cash	11,001	1,461	—	—	) 12,462
Accounts receivable (net of allowance of \$330)	—	36,322	1	—	) 36,323
Income tax receivable	88	—	—	—	) 88
Owned inventory	—	1,542,807	—	—	) 1,542,807
Investments in unconsolidated entities	773	3,221	—	—	) 3,994
Deferred tax assets, net	307,896	—	—	—	) 307,896
Property and equipment, net	—	17,566	—	—	) 17,566
Investments in subsidiaries	808,067	—	—	(808,067)) —
Intercompany	606,168	—	2,337	(608,505)) —
Other assets	599	7,098	15	—	) 7,712
Total assets	\$ 2,017,783	\$ 1,623,868	\$ 3,077	\$(1,423,733)	) \$ 2,220,995
LIABILITIES AND STOCKHOLDERS' EQUITY					
EQUITY					
Trade accounts payable	\$ —	\$ 103,484	\$ —	\$ —	) \$ 103,484
Other liabilities	11,229	96,189	241	—	) 107,659
Intercompany	2,337	613,329	—	(615,666)) —
Total debt (net of premium and debt issuance costs)	1,321,777	5,635	—	—	) 1,327,412
Total liabilities	1,335,343	818,637	241	(615,666)	) 1,538,555
Stockholders' equity	682,440	805,231	2,836	(808,067)	) 682,440
Total liabilities and stockholders' equity	\$ 2,017,783	\$ 1,623,868	\$ 3,077	\$(1,423,733)	) \$ 2,220,995

Table of Contents

Beazer Homes USA, Inc.

Unaudited Consolidating Statements of Income (Loss) and Unaudited Comprehensive Income (Loss)

(In thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.	
Three Months Ended December 31, 2017						
Total revenue	\$ —	\$ 372,489	\$ 14	\$ (14	) \$ 372,489
Home construction and land sales expenses	16,468	295,206	—	(14	) 311,660
Gross (loss) profit	(16,468	) 77,283	14	—	60,829
Commissions	—	14,356	—	—	14,356	
General and administrative expenses	—	37,244	41	—	37,285	
Depreciation and amortization	—	2,507	—	—	2,507	
Operating (loss) income	(16,468	) 23,176	(27	) —	6,681
Equity in loss of unconsolidated entities	—	(101) —	—	(101)
Loss on extinguishment of debt	(25,904) —	—	—	(25,904)
Other (expense) income, net	(3,435) 296	(6) —	(3,145)
(Loss) income before income taxes	(45,807) 23,371	(33) —	(22,469)
(Benefit) expense from income taxes	(12,185	) 120,303	(12	) —	108,106
Equity in income of subsidiaries	(96,953	) —	—	96,953	—
Loss from continuing operations	(130,575) (96,932) (21) 96,953	(130,575)
Loss from discontinued operations	—	(369) (3) —	(372)
Equity in loss of subsidiaries from discontinued operations	(372	) —	—	372	—
Net loss and comprehensive loss	\$ (130,947) \$ (97,301) \$ (24) \$ 97,325	\$ (130,947)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.	
Three Months Ended December 31, 2016						
Total revenue	\$ —	\$ 339,241	\$ 36	\$ (36	) \$ 339,241
Home construction and land sales expenses	15,644	269,970	—	(36	) 285,578
Gross (loss) profit	(15,644	) 69,271	36	—	53,663
Commissions	—	13,323	—	—	13,323	
General and administrative expenses	—	36,365	23	—	36,388	
Depreciation and amortization	—	2,677	—	—	2,677	
Operating (loss) income	(15,644	) 16,906	13	—	1,275
Equity in income of unconsolidated entities	—	22	—	—	22	
Other (expense) income, net	(5,252) 57	(1) —	(5,196)
(Loss) income before income taxes	(20,896) 16,985	12	—	(3,899)
(Benefit) expense from income taxes	(7,569) 5,025	4	—	(2,540)
Equity in income of subsidiaries	11,968	—	—	(11,968) —	
(Loss) income from continuing operations	(1,359) 11,960	8	(11,968) (1,359)
Loss from discontinued operations	(70) —	—	—	(70)
Equity in loss of subsidiaries from discontinued operations	—	(67	) (3	) 70	—
Net (loss) income and comprehensive (loss) income	\$ (1,429) \$ 11,893	\$ 5	\$ (11,898) \$ (1,429)

Table of Contents

Beazer Homes USA, Inc.

Unaudited Condensed Consolidating Statements of Cash Flow Information

(In thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended December 31, 2017					
Net cash provided by (used in) operating activities	\$ 91,465	\$(193,721)	\$ 32	\$ —	\$(102,224)
Cash flows from investing activities:					
Capital expenditures	—	(3,702)	—	—	(3,702)
Proceeds from sale of fixed assets	—	84	—	—	84
Investments in unconsolidated entities	—	(421)	—	—	(421)
Advances to/from subsidiaries	(187,451)	—	(26)	187,477	—
Net cash used in investing activities	(187,451)	(4,039)	(26)	187,477	(4,039)
Cash flows from financing activities:					
Repayment of debt	(400,012)	(1,469)	—	—	(401,481)
Proceeds from issuance of new debt	400,000	—	—	—	400,000
Debt issuance costs	(5,649)	—	—	—	(5,649)
Advances to/from subsidiaries	—	186,563	—	(186,563)	—
Other financing activities	(1,322)	—	—	—	(1,322)
Net cash (used in) provided by financing activities	(6,983)	185,094	—	(186,563)	(8,452)
(Decrease) increase in cash, cash equivalents and restricted cash	(102,969)	(12,666)	6	914	(114,715)
Cash, cash equivalents and restricted cash at beginning of period	294,192	16,854	724	(7,161)	304,609
Cash, cash equivalents and restricted cash at end of period	\$ 191,223	\$ 4,188	\$ 730	\$ (6,247)	\$ 189,894
Three Months Ended December 31, 2016					
Net cash used in operating activities	\$(2,902)	\$(59,928)	\$(4)	\$ —	\$(62,834)
Cash flows from investing activities:					
Capital expenditures	—	(2,874)	—	—	(2,874)
Proceeds from sale of fixed assets	—	46	—	—	46
Investments in unconsolidated entities	—	(1,397)	—	—	(1,397)
Return of capital from unconsolidated entities	—	1,621	—	—	1,621
Advances to/from subsidiaries	(50,314)	—	—	50,314	—
Net cash used in investing activities	(50,314)	(2,604)	—	50,314	(2,604)
Cash flows from financing activities:					
Repayment of debt	—	(2,525)	—	—	(2,525)
Debt issuance costs	(340)	—	—	—	(340)
Advances to/from subsidiaries	—	52,224	(2)	(52,222)	—
Other financing activities	(387)	—	—	—	(387)
	(727)	49,699	(2)	(52,222)	(3,252)

Edgar Filing: BEAZER HOMES USA INC - Form 10-Q

Net cash (used in) provided by financing activities

Decrease in cash, cash equivalents and restricted cash	(53,943	)	(12,833	)	(6	)	(1,908	)	(68,690)
Cash, cash equivalents and restricted cash at beginning of period	228,513		18,404		859		(4,500	)	243,276	
Cash, cash equivalents and restricted cash at end of period	\$ 174,570		\$ 5,571		\$ 853		\$ (6,408	)	\$ 174,586	

26

Table of Contents

(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 stockholder 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. 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, the results of our New Jersey division are not included in the discontinued operations information shown below.

We have classified the results of operations of our discontinued operations separately in the accompanying unaudited condensed consolidated statements of income for all periods presented. There were no material assets or liabilities related to these discontinued operations as of December 31, 2017 or September 30, 2017. Discontinued operations were not segregated in the unaudited condensed consolidated statements of cash flows. Therefore, amounts for certain captions in the unaudited condensed consolidated statements of cash flows will not agree with the respective data in the unaudited condensed consolidated statements of income. The results of our discontinued operations in the unaudited condensed consolidated statements of income for the periods presented were as follows:

	Three Months Ended December 31,	
(In thousands)	2017	2016
Total revenue	\$625	\$—
Home construction and land sales expenses	667	78
Inventory impairments and lot option abandonments	450	—
Gross loss	(492)	(78)
General and administrative expenses	16	31
Operating loss	(508)	(109)
Equity in income of unconsolidated entities	12	—
Other expense, net	(3)	—
Loss from discontinued operations before income taxes	(499)	(109)
Benefit from income taxes	(127)	(39)
Loss from discontinued operations, net of tax	\$(372)	\$(70)

Table of Contents

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 dependent on a variety of demographic and economic factors, including household formation, job and wage growth, the availability and cost of mortgage financing, the supply of new and existing homes, home price affordability and, importantly, consumer confidence. These factors all fluctuate over time at both a national and a more localized market level. Additionally, changes in government policy, including tax-related issues, could have a significant impact on the demand for housing. For example, the recently enacted Tax Cuts and Jobs Act includes provisions related to the deductibility of mortgage interest and state and local taxes, which could have an impact on the overall demand for home ownership. In general, these factors are contributing to stable and modestly improving conditions for new home sales, but there are risks and challenges that could adversely impact our business in fiscal 2018 and beyond. On the positive side are rising levels of household formation, a constrained supply of new and used homes, wage growth, strong employment conditions and mortgage rates that continue to be low by historical standards. Challenges include early signs of home price affordability constraints (largely driven by the historically low levels of homes available for sale and still constrained level of new home construction), as well as volatility in domestic and international financial markets. Overall, we continue to believe that we are well positioned in key markets, and that the underlying fundamentals that drive home purchases are supportive.

Overview of Results for Our Fiscal First Quarter

We continued toward achieving our "2B-10" goals and the execution of our balanced growth strategy. Additionally, we successfully improved our balance sheet by extending debt maturities and reducing our cash interest expense. We also activated an additional land parcel previously classified as land held for future development.

In December 2017, we acquired more than 450 lots spread across four new home communities in Raleigh and three in Myrtle Beach from Bill Clark Homes. These communities have been incorporated into the Company's existing operations in these respective divisions and will contribute to both revenue and Adjusted EBITDA in fiscal 2018. The transaction value was approximately \$29.0 million and was funded from available cash.

Profitability

For the quarter ended December 31, 2017, we recorded a net loss from continuing operations of \$130.6 million, a decline of \$129.2 million over the prior year quarter's net loss from continuing operations of \$1.4 million. The following items impacted the comparability of our results from continuing operations between periods: (1) we recorded a tax expense of \$112.6 million in the current quarter due to the remeasurement of our deferred tax assets as a result of the recently passed Tax Cuts and Jobs Act (see Note 10 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q); and (2) we recorded a \$25.9 million loss on extinguishment of debt during the current quarter, compared to none in the prior year quarter.

Looking at our underlying operating results, year-over-year closings increased by 7.1%, from 995 in the prior year quarter to 1,066 in the current quarter, and our average selling price (ASP) increased by 2.1%, from \$337.8 thousand in the prior year quarter to \$345.0 thousand in the current quarter. Combined, these factors resulted in a 9.4% increase in homebuilding revenue, which climbed from \$336.1 million in the prior year quarter to \$367.8 million in the current quarter. Our homebuilding gross margin, excluding impairments, abandonments and interest, showed year-over-year improvement to 20.9% in the current quarter from 20.5% in the prior year quarter. Commission expense was higher year-over-year due to the revenue increase, but decreased slightly as a percentage of homebuilding revenue. Finally, our general and administrative expenses (G&A) increased year-over-year by \$0.9 million, but declined as a percentage of total revenue from 10.7% in the prior year quarter to 10.0% in the current quarter.

New order activity in the current quarter was 10.4% higher than the prior year quarter as we sold 1,110 units compared to 1,005 last year. Sales per community also increased year-over-year as we sold 2.4 homes per community per month in the current quarter compared to 2.2 in last year's quarter, a 10.9% increase. We ended the quarter with a backlog of 1,899 units, which represents a 1.4% decrease from the 1,926 backlog units we had as of the end of the prior year quarter. The current quarter ending backlog has an ASP of \$370.9 thousand, a year-over-year increase of 7.2%, leading to a 5.7% increase in the dollar value of our backlog compared to the prior year quarter.

Debt Reduction and Capital Efficiency

During the first quarter of our fiscal 2018, we successfully extended our maturities and decreased future interest expense by approximately \$2.1 million annually through the issuance of \$400.0 million in unsecured Senior Notes due 2027. The proceeds from the issuance of the Senior Notes due 2027 were used, as well as cash on hand, to redeem \$225.0 million of our Senior Notes due 2019 and \$175.0 million of our Senior Notes due 2023. We anticipate redeeming the remaining \$96.4 million of the Senior

Table of Contents

Notes due 2019 by the end of the current fiscal year, as the fulfillment of our previously announced debt reduction plan. See Note 7 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q for further discussion of our outstanding borrowings.

We have employed a number of strategies to improve capital efficiency, including greater use of option contracts and land banking, acquisition of shorter duration land parcels and activation of previously land held for future development communities. As of December 31, 2017, our land held for future development balance declined by approximately \$15.4 million from September 30, 2017, primarily due to the activation of a parcel for homebuilding activities.

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. Since the plan's introduction, we have consistently noted that there are many paths to achieving our underlying goal of \$200 million of Adjusted EBITDA, and we continually revisit our established ranges for each metric. We remain committed to reaching the “2B-10” objectives as soon as possible, and expect to reach them by making further improvements in each of the five key metrics embedded in the plan: (1) sales per community per month (our absorption rate); (2) ASP; (3) active community count; (4) homebuilding gross margin; and (5) cost leverage as measured by selling, general and administrative expenses (SG&A) as a percentage of total revenue.

Since introducing our “2B-10” plan, we have made significant progress toward achieving our goals, having more than doubled our revenue and our Adjusted EBITDA, with trailing twelve month Adjusted EBITDA reaching \$182.7 million as of December 31, 2017, compared to \$154.8 million as of December 31, 2016 and \$86.3 million at the time we introduced the plan (as of September 30, 2013). Our progress on each metric is discussed in more detail below: Sales per community per month was 2.4 and 2.2 for the quarters ended December 31, 2017 and December 31, 2016, respectively. Our strong emphasis on sales absorptions allowed us to expand the unit and dollar value of our backlog despite higher year-over-year closings and a smaller community count. Sales per community per month increased to 3.0 for the trailing 12 months ended December 31, 2017 versus 2.8 a year ago, and is within the range established in our “2B-10” plan of 2.8 to 3.2. We continue to believe that we are among the industry leaders in sales absorption rates, and are focused on driving further increases in our sales pace moving forward.

Our ASP for homes closed during the quarter ended December 31, 2017 was \$345.0 thousand, up 2.1% compared to the prior year. ASP for closings during the trailing 12 months ended December 31, 2017 was \$344.4 thousand, up 3.6% year-over-year, and our ASP in backlog as of December 31, 2017 has risen 7.2% versus the prior year quarter to \$370.9 thousand. Our targeted “2B-10” metric for ASP is a range of \$340.0 thousand to \$350.0 thousand.

During the current quarter, we had an average active community count of 155, down 0.4% from the prior year quarter, and ended the quarter with 156 active communities. We expect our year-over-year increase in spending on land and land development activities to lead to growth in community count going forward. We invested \$141.7 million in land and land development during the current quarter, compared to \$103.2 million in the prior year quarter. We consistently evaluate strategic opportunities to purchase land within our geographic footprint, balancing our desire to reduce our leverage with land acquisition strategies that minimize our capital employed. Our “2B-10” target metric is an active community count range between 170 and 175.

Homebuilding gross margin excluding impairments and abandonments and interest for the quarter ended December 31, 2017 was 20.9%, up from 20.5% in the prior year quarter. For the trailing 12 months ended December 31, 2017, this adjusted gross margin was 21.3%, which is within our “2B-10” target metric range of 21.0% to 22.0%. Our homebuilding gross margin has been favorably impacted this year by a number of factors, including our efforts to reduce construction costs, improve cycle time, raise home prices where possible and, to a lesser extent, some non-recurring benefits. Working against these efforts have been increases in land costs, driven by the location and structure of our land deals, cost pressures in certain labor and material categories and community mix (including an increasing number of closings from recently activated assets formerly classified as land held for future development, which generally have lower margins).

SG&A for the quarter ended December 31, 2017 was 13.9% of total revenue, compared to 14.7% in the prior year quarter. A \$2.7 million charge was recorded within our SG&A during the prior year quarter to write off an uncollectible deposit on a legacy investment, and excluding this write-off, our SG&A as a percentage of homebuilding revenue was flat year-over-year. SG&A for the trailing 12 months ended December 31, 2017 was 12.2% of total revenue, a decrease of 40 basis points from the prior year. Although SG&A for the trailing 12 months remains slightly above our “2B-10” target range of 11.0% to 12.0%, we believe that revenue growth in our fiscal 2018 and beyond will allow us to attain our “2B-10” target range.

Table of Contents

For the trailing 12 months ended December 31, 2017, our revenue was \$1.9 billion, up 7.3% year-over-year. Excluding the non-recurring items detailed in the 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, 2017 increased \$27.9 million, or 18.1%, to \$182.7 million. We expect to continue focusing on our “2B-10” metrics during fiscal 2018, with particular emphasis on driving sales absorptions and improving our SG&A leverage.

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, 2017 may not accurately predict our ultimate full year results.

Table of Contents

RESULTS OF CONTINUING OPERATIONS:

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

(\$ in thousands)	Three Months Ended			
	December 31,			
	2017	2016		
Revenues:				
Homebuilding	\$367,754	\$336,126		
Land sales and other	4,735	3,115		
Total	\$372,489	\$339,241		
Gross profit:				
Homebuilding	\$60,232	\$53,204		
Land sales and other	597	459		
Total	\$60,829	\$53,663		
Gross margin:				
Homebuilding	16.4	% 15.8	%	
Land sales and other	12.6	% 14.7	%	
Total	16.3	% 15.8	%	
Commissions	\$14,356	\$13,323		
General and administrative expenses (G&A) ^(a)	37,285	36,388		
SG&A (commissions plus G&A) as a percentage of total revenue	13.9	% 14.7	%	
G&A as a percentage of total revenue	10.0	% 10.7	%	
Depreciation and amortization	\$2,507	\$2,677		
Operating income	\$6,681	\$1,275		
Operating income as a percentage of total revenue	1.8	% 0.4	%	
Effective Tax Rate ^(b)	(481.1	)% 65.1	%	
Equity in (loss) income of unconsolidated entities	\$(101	)	\$22	
Loss on extinguishment of debt	25,904	—		

^(a) In addition to other items impacting G&A, for the three months ended December 31, 2016, this metric was impacted by a \$2.7 million charge to write off a deposit on a legacy investment in a development site that we deemed uncollectible.

^(b) Calculated as tax expense (benefit) for the period divided by income (loss) from continuing operations. Due to the effect of a variety of factors, including the impact of discrete tax items on our effective tax rate, our income tax expense (benefit) is not always directly correlated to the amount of pretax income (loss) for the associated periods, particularly when focusing on individual quarters.

Table of Contents**EBITDA: Reconciliation of Net Income (Loss) to Adjusted EBITDA**

Reconciliation of Adjusted EBITDA to total company net income (loss), the most directly comparable GAAP measure, is provided for each period discussed below. Management believes that Adjusted EBITDA 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.

The reconciliation of Adjusted EBITDA to total company net income (loss) below differs from the prior year, as it provides a more simplified presentation of EBIT, EBITDA and Adjusted EBITDA that excludes certain non-recurring amounts recorded during the periods presented. Management believes that this presentation best reflects the operating characteristics of the Company.

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

(In thousands)	Three Months Ended December 31,			LTM Ended December 31, ^(a)		
	2017	2016	17 vs 16	2017	2016	17 vs 16
Net (loss) income	\$(130,947)	\$(1,429)	\$(129,518)	\$(97,705)	\$2,265	\$(99,970)
Expense (benefit) from income taxes	107,979	(2,579)	110,558	113,179	13,139	100,040
Interest amortized to home construction and land sales expenses and capitalized interest impaired	16,476	15,644	832	89,652	81,315	8,337
Interest expense not qualified for capitalization	3,435	5,252	(1,817)	13,819	23,208	(9,389)
EBIT	(3,057)	16,888	(19,945)	118,945	119,927	(982)
Depreciation and amortization and stock-based compensation amortization	5,117	4,859	258	22,431	21,864	567
EBITDA	2,060	21,747	(19,687)	141,376	141,791	(415)
Loss on extinguishment of debt	25,904	—	25,904	38,534	12,595	25,939
Inventory impairments and abandonments ^(b)	450	—	450	2,839	13,216	(10,377)
Additional insurance recoveries from third-party insurer	—	—	—	—	(15,500)	15,500
Write-off of deposit on legacy land investment	—	2,700	(2,700)	—	2,700	(2,700)
Adjusted EBITDA	\$28,414	\$24,447	\$3,967	\$182,749	\$154,802	\$27,947

^(a) "LTM" indicates amounts for the trailing 12 months.

^(b) In periods during which we impaired certain of our inventory assets, capitalized interest that is impaired is included in the line above titled "Interest amortized to home construction and land sales expenses and capitalized interest impaired."

Table of Contents

Homebuilding Operations Data

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

	Three Months Ended December 31,				
	New Orders, net		Cancellation Rates		
	2017	2016	17 vs 16	2017	2016
West	534	467	14.3%	18.5 %	20.2 %
East	259	228	13.6%	23.1 %	22.7 %
Southeast	317	310	2.3 %	15.9 %	21.5 %
Total	1,110	1,005	10.4%	18.9 %	21.2 %

Sales per community per month was 2.4 and 2.2 for the quarters ended December 31, 2017 and December 31, 2016, respectively, an increase of 10.9%, driven by our continued emphasis on sales absorptions. Our year-over-year absorptions improved in the majority of our markets, driven by our community mix and the maturation of certain communities versus the prior year quarter. Our average active communities declined slightly by 0.4% year-over-year, from 156 to 155 during the quarter ended December 31, 2017, partially offsetting our stronger absorptions and ultimately resulting in a 10.4% increase in new orders, net.

For the three months ended December 31, 2017, the increase in new orders, net in our West segment was mainly attributable to a significant year-over-year increase in our Las Vegas market, where new order activity from former land held for future development parcels was a strong contributor to the year-over-year increase we experienced. The increase in new orders, net in our East segment for the three months ended December 31, 2017 was mainly attributable to a significant year-over-year increase in our Maryland market, where we experienced increases in sales pace. Finally, the year-over-year increase in new orders, net for the three months ended December 31, 2017 in our Southeast segment was primarily driven by our Atlanta market, due to a strong sales performance in certain communities. In addition, our Southeast segment recorded 21 sales across our Raleigh and Myrtle Beach markets related to the assets acquired from Bill Clark Homes as of December 31, 2017.

The table below summarizes backlog units by reportable segment, as well as aggregate dollar value of homes in backlog and ASP for homes in backlog as of December 31, 2017 and December 31, 2016:

	As of December 31,		
	2017	2016	17 vs 16
Backlog Units:			
West	887	785	13.0 %
East	447	455	(1.8)%
Southeast	565	686	(17.6)%
Total	1,899	1,926	(1.4)%
Aggregate dollar value of homes in backlog (in millions)	\$704.4	\$666.1	5.7 %
ASP in backlog (in thousands)	\$370.9	\$345.8	7.2 %

Backlog 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. Homes in backlog are generally delivered within three to six months following commencement of construction. Backlog units as of December 31, 2017 decreased by 1.4% over the prior year due to a 7.1% improvement in our year-over-year closings. We entered the current quarter with fewer backlog units when compared to the prior year period, but, despite a lower community count, were able to grow our backlog during the quarter due to an improvement in sales absorptions of 10.9% year-over-year. Additionally, the dollar value of homes in backlog has increased by 5.7% due in large part to the continued upward trend in our year-over-year ASP.

Table of Contents

Homebuilding Revenue, Average Selling Price and Closings

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

(\$ in thousands)	Three Months Ended December 31,			Homebuilding Revenue			Average Selling Price			Closings		
	2017	2016	17 vs 16	2017	2016	17 vs 16	2017	2016	17 vs 16	2017	2016	17 vs 16
West	\$176,556	\$171,749	2.8 %	\$335.7	\$336.8	(0.3)%	526	510	3.1 %			
East	85,688	81,250	5.5 %	380.8	374.4	1.7 %	225	217	3.7 %			
Southeast	105,510	83,127	26.9%	335.0	310.2	8.0 %	315	268	17.5%			
Total	\$367,754	\$336,126	9.4 %	345.0	337.8	2.1 %	1,066	995	7.1 %			

The increase in ASP for the three months ended December 31, 2017 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 period. It was also positively impacted by our operational strategies, as well as improved market conditions in certain geographies. On average, we anticipate that our ASP will likely continue to increase in future quarters, as indicated by our ASP for homes in backlog.

Closings for the three months ended December 31, 2017 increased in all three segments, primarily driven by (1) strong growth in our Las Vegas and Phoenix divisions in the West segment, where we sold a significant number of homes in certain communities; and (2) increased closings in our Raleigh and Tampa divisions in the Southeast segment. This overall increase in closings was partially offset by a decline in closings in our Houston division in the West segment, where hurricane repair work has created labor constraints that resulted in increased construction cycle times.

Our higher ASP, coupled with the overall increase in closings described above, resulted in homebuilding revenue that was up for the three months ended December 31, 2017, especially in our Southeast segment, where we experienced a significant year-over-year growth in homebuilding revenue.

Homebuilding Gross Profit and Gross Margin

The following tables present our homebuilding (HB) gross profit and gross margin by reportable segment and in total, 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 revenue 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).

Table of Contents

Three Months Ended December 31, 2017

(\$ in thousands)	HB Gross Profit (Loss)	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit (Loss) I&A	HB Gross Margin w/o I&A	Interest Amortized COS (Interest)	HB Gross Profit w/o I&A and Interest	HB Gross Margin w/o I&A and Interest
West	\$38,082	21.6 %	\$ —	—\$ 38,082	21.6 %	\$ —	\$ 38,082	21.6 %
East	16,436	19.2 %	—	16,436	19.2 %	—	16,436	19.2 %
Southeast	18,578	17.6 %	—	18,578	17.6 %	—	18,578	17.6 %
Corporate & unallocated	(12,864)		—	(12,864)		16,468	3,604	
Total homebuilding	\$60,232	16.4 %	\$ —	—\$ 60,232	16.4 %	\$ 16,468	\$ 76,700	20.9 %

Three Months Ended December 31, 2016

(\$ in thousands)	HB Gross Profit (Loss)	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit (Loss) I&A	HB Gross Margin w/o I&A	Interest Amortized COS (Interest)	HB Gross Profit w/o I&A and Interest	HB Gross Margin w/o I&A and Interest
West	\$36,817	21.4 %	\$ —	—\$ 36,817	21.4 %	\$ —	\$ 36,817	21.4 %
East	13,428	16.5 %	—	13,428	16.5 %	—	13,428	16.5 %
Southeast	14,577	17.5 %	—	14,577	17.5 %	—	14,577	17.5 %
Corporate & unallocated	(11,618)		—	(11,618)		15,644	4,026	
Total homebuilding	\$53,204	15.8 %	\$ —	—\$ 53,204	15.8 %	\$ 15,644	\$ 68,848	20.5 %

Our homebuilding gross profit increased by \$7.0 million to \$60.2 million for the three months ended December 31, 2017, from \$53.2 million in the prior year quarter, due to higher homebuilding revenue (driven by higher year-over-year closings and ASP, as previously discussed) and higher gross margin. However, the comparability of our gross profit and gross margin, as shown in the tables above, was impacted by interest amortized to homebuilding cost of sales, which increased by \$0.8 million, from \$15.6 million in the prior year quarter to \$16.5 million in the current quarter (see Note 6 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q). Excluding interest amortized to homebuilding cost of sales, year-over-year gross profit increased by \$7.9 million, and our homebuilding gross margin improved by 40 basis points to 20.9%.

The year-over-year improvement in our homebuilding gross margin for the three months ended December 31, 2017, once adjusted for the item detailed above, is due to a variety of factors, including: (1) mix of closings between geographies/markets, individual communities within each market and product type; (2) our pricing strategies, including the resulting higher margin on homes closed during the current quarter; (3) increased focus on managing our house costs and improving our cycle times; and (4) favorable discrete items in the current period, such as lower warranty costs. Going forward, however, our gross margin will continue to be impacted by several headwinds, including our activation of land assets formerly classified as land held for future development, which generally have lower margins, the structure of some of our land purchase transactions, such as finished lot purchases, which tend to result in lower gross margins, and increasing land and direct homebuilding costs.

Total homebuilding gross profit and gross margin excluding inventory impairments and abandonments, interest amortized to cost of sales and other non-recurring items that we disclose are not GAAP financial measures. These measures should not be considered alternatives to homebuilding gross profit and gross margin determined in accordance with GAAP as an indicator of operating performance.

In particular, the magnitude and volatility of non-cash inventory impairment and abandonment charges for the Company, and for other homebuilders, have been significant historically and, as such, have made financial analysis of our industry more difficult. Homebuilding metrics excluding these charges, as well as interest amortized to cost of sales, 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 to measure cash available for discretionary spending.

In a given period, our reported gross profit is 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

Table of Contents

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 margin for each home closing is 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 margins 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 margin 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, our homebuilding gross margin was 16.6% and excluding interest and inventory impairments, it was 21.3%. For the same trailing 12-month period, homebuilding gross margin was as follows in those communities that have previously been impaired, which represented 9.4% of total closings during this period:

Homebuilding Gross Margin from previously impaired communities:	
Pre-impairment turn gross margin	(22.6)%
Impact of interest amortized to COS related to these communities	23.5 %
Pre-impairment turn gross margin, excluding interest amortization	0.9 %
Impact of impairment turns	17.1 %
Gross margin (post impairment turns), excluding interest amortization	18.0 %

For a further discussion of our impairment policies, see Notes 2 and 5 of the notes to unaudited condensed consolidated financial statements in this Form 10-Q.

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 certain markets. Other revenues included net fees we received for general contractor services we performed on behalf of a third party and broker fees. The following tables summarize our land sales and other revenues and related gross profit (loss) by reportable segment for the periods presented:

	Land Sales and Other Revenues			Land Sales and Other Gross Profit (Loss)		
	Three Months Ended December 31,			Three Months Ended December 31,		
(In thousands)	2017	2016	17 vs 16	2017	2016	17 vs 16
West	\$ 1,415	\$ —	\$ 1,415	\$ 363	\$ 278	\$ 85
East	3,165	2,909	256	213	131	82
Southeast	155	206	(51)	31	50	(19)
Corporate and unallocated ^(a)	—	—	—	(10)	—	(10)
Total	\$ 4,735	\$ 3,115	\$ 1,620	\$ 597	\$ 459	\$ 138

^(a) Corporate and unallocated includes interest and indirects related to land sold that was costed off.

Although not as significant as in the prior year periods, 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, 2017 that did not fit

within our strategic plans. We expect additional land sales to occur during the remainder of our fiscal 2018. However, future land and lot sales will depend on a variety of factors, including local market conditions, individual community performance and changing strategic plans.

Table of Contents

Operating Income

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

(In thousands)	Three Months Ended December 31,		
	2017	2016	17 vs 16
West	\$21,110	\$21,015	\$95
East ^(a)	7,396	1,557	5,839
Southeast	6,910	5,015	1,895
Corporate and Unallocated ^(b)	(28,735)	(26,312)	(2,423)
Operating income ^(c)	\$6,681	\$1,275	\$5,406

^(a) Operating income for our East segment for the three months ended December 31, 2016 was impacted by a charge to G&A of \$2.7 million related to the write-off of a deposit on a legacy investment in a development site that we deemed uncollectible.

^(b) Corporate and unallocated operating loss includes: amortization of capitalized interest; movement in capitalized indirects; expenses related to numerous shared services functions that benefit all segments but are not allocated to the operating segments; and certain other amounts that are not allocated to our operating segments.

^(c) Operating income is impacted by impairment and abandonment charges incurred during the periods presented (see Note 5 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q).

Our operating income increased by \$5.4 million to \$6.7 million for the three months ended December 31, 2017, compared to \$1.3 million for the three months ended December 31, 2016. This resulted from a \$7.0 million increase in homebuilding gross profit offset by (1) higher year-over-year commissions due to higher homebuilding revenue (however, commissions expense as a percentage of homebuilding revenue was down slightly by 10 basis points year-over-year); and (2) an increase in G&A (G&A as a percentage of total revenues, however, was down 70 basis points year-over-year). The increase in G&A spend was mainly due to higher sales and marketing costs as we prepare for growth, incentive compensation increases related to the year-over-year improvement in the business and the expansion of our active adult business under the Gatherings brand.

Below operating income, we had two noteworthy year-over-year fluctuations as follows: (1) for the three months ended December 31, 2017, we had a decline in our other expense, net, mainly driven by a reduction in our interest expense not qualified to be capitalized; and (2) we recorded a loss of \$25.9 million on the extinguishment of debt during the current three months versus zero in the prior year due to the management of our debt portfolio, primarily driven by redeeming a portion of our 2019 and 2023 Senior Notes (see Note 7 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q for a further discussion of these items).

Income taxes

Our income tax assets and liabilities and related effective tax rate are affected by various factors, the most significant of which is the valuation allowance recorded against substantially all of our deferred tax assets, which 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 had not been meaningful metrics, as our income tax expense/benefit was not directly correlated to the amount of pretax income or loss for the associated periods. Beginning in our fiscal 2016, the Company started using an annualized effective tax rate in interim periods to determine its tax expense/benefit, which we believe more closely correlates with our pretax income or loss in periods. The annualized effective tax rate will continue to be impacted by discrete tax items.

Our current quarter income tax expense was primarily driven by the remeasurement of our deferred tax assets that resulted from the reduced federal corporate tax rate related to the Tax Cuts and Jobs Act enacted on December 22, 2017 and, to a lesser extent, the loss in earnings from continuing operations in the current fiscal year. The tax benefit for the three months ended December 31, 2016 was primarily driven by our loss from continuing operations, offset by the Company's completion of work necessary to claim \$1.2 million in tax credits, which were recorded during our fiscal 2017 but related to our fiscal 2016.

As discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, we executed a restructuring effort in the first quarter of the current fiscal year that involved changes in the legal forms and tax elections for certain of our operating entities. These efforts were undertaken to reduce our effective tax rate to an amount that is in-line with our peers, while also providing cash tax savings in jurisdictions where we no longer have significant loss carryforwards available. We expect our fiscal 2018 annualized effective tax rate, inclusive of the rate change from the Tax Cuts and Jobs Act but excluding the impact of discrete items recorded in the period, to be approximately 27%. We expect our fiscal 2019 will be approximately 24% and remain at or near that level in subsequent fiscal years.

Table of Contents

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

Three months ended December 31, 2017 as compared to 2016

West Segment: Homebuilding revenue increased 2.8% for the three months ended December 31, 2017 compared to the prior year quarter, primarily due to a 3.1% increase in closings (particularly in our Las Vegas and Phoenix markets, where closings grew more than 50%), slightly offset by a year-over-year decrease in ASP of 0.3%. As compared to the prior year quarter, our homebuilding gross profit increased by \$1.3 million due to the increase in revenue already discussed, as well as an increase in homebuilding gross margin from 21.4% to 21.6%. Gross margin increased in the majority of our markets in the West segment, particularly in Las Vegas where our communities continue to gain momentum. The small increase in operating income resulted from the aforementioned increase in homebuilding gross profit, offset by an increase in commissions expense and G&A costs on higher homebuilding revenue.

East Segment: Homebuilding revenue increased by 5.5% for the three months ended December 31, 2017 compared to the prior year quarter due to a 3.7% increase in closings (particularly in our Nashville and Virginia markets, offset by a lower year-over-year activity in our Indianapolis market) and a 1.7% increase in ASP. As compared to the prior year quarter, our homebuilding gross profit increased by \$3.0 million, as well as an increase in our gross margin, from 16.5% to 19.2%. This increase in gross margin was attributable to the shift of closings between markets, as well as margin improvement in the majority of the divisions in this segment, particularly in Nashville and Virginia, due to our pricing strategies resulting from favorable market conditions and community mix. The \$5.8 million increase in operating income resulted from the additional gross profit as previously discussed, as well as lower commissions and G&A costs compared to the prior year quarter.

Southeast Segment: Homebuilding revenue increased by 26.9% for the three months ended December 31, 2017 compared to the prior year quarter due to a 17.5% increase in closings (particularly in our Raleigh and Tampa markets) and an 8.0% increase in ASP. Our homebuilding gross profit in the Southeast segment increased by \$4.0 million due to the aforementioned climb in homebuilding revenue and a slight increase in gross margin from 17.5% to 17.6%, which was driven by our Florida markets due to the mix of communities and product type, as well as our pricing strategies resulting from favorable market conditions. The increase in operating income of \$1.9 million resulted from the higher gross profit already described, offset by higher commissions on additional homebuilding revenue and higher G&A costs due to our business growth in this region.

Corporate and Unallocated: Our Corporate and unallocated results include: amortization of capitalized interest; movement in capitalized indirects; expenses for various shared services functions that benefit all segments but are not allocated, including information technology, treasury, corporate finance, legal, branding and national marketing; and certain other amounts that are not allocated to our operating segments. For the three months ended December 31, 2017, corporate and unallocated net costs increased by \$2.4 million from the prior year quarter, primarily due to (1) a year-over-year increase in interest amortized to cost of sales of \$0.8 million (see Note 6 of the notes to our unaudited condensed consolidated financial statements included in this Form 10-Q); and (2) higher corporate costs incurred due to business growth, including costs associated with the opportunity to increase the scope of our Gatherings projects for active adults and business improvement.

Derivative Instruments and Hedging Activities

We are exposed to fluctuations in interest rates. From time-to-time, we may enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates. However, as of December 31, 2017, 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.

Table of Contents

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

(In thousands)	Three Months Ended	
	2017	2016
Cash used in operating activities	\$(102,224)	\$(62,834)
Cash used in investing activities	(4,039)	(2,604)
Cash used in financing activities	(8,452)	(3,252)
Net decrease in cash, cash equivalents and restricted cash	\$(114,715)	\$(68,690)

Operating Activities. Our net cash used in operating activities was \$102.2 million for the three months ended December 31, 2017, compared to \$62.8 million for the three months ended December 31, 2016. The increase in cash used in operations was primarily attributed to the increase in our land-related spending, as well as the asset acquisitions from Bill Clark Homes, which approximated \$29.0 million. We spent \$141.7 million on land and land development activities during the three months ended December 31, 2017, of which \$20.5 million related to the Bill Clark Homes acquisition, an increase of \$38.5 million, or 37.3%, compared to \$103.2 million in land-related spending for the three months ended December 31, 2016. The level of land and land development spend, which partly drives our change in inventory, has a significant impact on our cash flows from operating activities in both periods. We expect our spend on land and land development activities to increase during the remainder of our fiscal 2018 as we continue to grow our community count.

Investing Activities. Net cash used in investing activities was \$4.0 million for the three months ended December 31, 2017, mainly driven by capital expenditures, primarily for model homes. Net cash used in investing activities was \$2.6 million for the three months ended December 31, 2016, driven by capital expenditures, primarily for model homes, and partially offset by a return of capital from our unconsolidated entities.

Financing Activities. Net cash used in financing activities was \$8.5 million for the three months ended December 31, 2017 due to repayment of certain debt issuances (including a portion of our 2019 and 2023 Senior Notes and other miscellaneous borrowings) and the payment of cash for debt issuance costs related to our newly issued Senior Notes due 2027 (the 2027 Notes, discussed below), offset by the proceeds from the same 2027 Notes. Net cash used in financing activities was \$3.3 million for the three months ended December 31, 2016, due to payments made on secured notes payable used to acquire certain land parcels.

Financial Position. As of December 31, 2017, our liquidity position consisted of:

\$177.8 million in cash and cash equivalents;

\$165.8 million of remaining capacity under the Facility (due to the use of the Facility to secure \$34.2 million in letters of credit; as discussed below, we further increased the capacity of the Facility by \$20.0 million during the current quarter); and

\$12.1 million of restricted cash, the majority of which is used to secure certain stand-alone letters of credit.

While we believe we possess sufficient liquidity, we are mindful of potential short-term or seasonal requirements for enhanced liquidity that may arise to operate and grow our business. We expect to be able to meet our liquidity needs in fiscal 2018 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.

Debt. During the first quarter of our fiscal 2018, we issued and sold \$400.0 million aggregate principal amount of 5.875% unsecured Senior Notes due October 2027 (the 2027 Notes). We also redeemed a portion of our outstanding Senior Notes due 2019 and 2023, mainly by utilizing the proceeds received from the 2027 Notes issued, as well as cash on hand. This debt repurchase activity resulted in a loss on extinguishment of debt of \$25.9 million during the three months ended December 31, 2017. See Note 7 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q for more information about our borrowings, including a description of our newly issued 2027 Notes.

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 \$200 million and an available capacity of \$165.8 million as of December 31, 2017 after considering our outstanding letters of credit backed by the

Facility of \$34.2 million. During the first quarter of our fiscal 2018, we executed a Fourth Amendment to the Facility. The Fourth Amendment (1) extends the termination date of the Facility from February 15, 2019 to February 15, 2020; (2) increases the maximum aggregate amount of commitments under the Facility (including borrowings and letters of credit) from \$180.0 million to \$200.0 million; and (3) includes a condition that allows the facility to be increased by an additional \$50.0 million to \$250.0 million, subject to the approval of any lenders providing any such increase.

Table of Contents

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 \$10.7 million of outstanding letters of credit under these facilities (in addition to the \$34.2 million outstanding letters of credit backed by the Facility), which are secured by cash collateral that is maintained in restricted accounts totaling \$10.9 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 condensed consolidated financial statements in this Form 10-Q for more information.

Credit Ratings. Our credit ratings are periodically reviewed by rating agencies. In September 2017, Moody's reaffirmed the Company's issuer default debt rating of B3. Moody's outlook on the Company remains positive. In August 2017, S&P reaffirmed the Company's corporate credit rating of B-. In October 2017, Fitch reaffirmed the Company's default rating of B- and revised its outlook from stable to positive. 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, 2017 or 2016. 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. There were no dividends paid during the three months ended December 31, 2017 or 2016.

Off-Balance Sheet Arrangements and Aggregate Contractual Commitments. As of December 31, 2017, we controlled 22,324 lots. We owned 76.1%, or 16,979 of these lots, and 5,345 of these lots, or 23.9%, 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 \$92.9 million as of December 31, 2017. The total remaining purchase price, net of cash deposits, committed under all options was \$380.4 million as of December 31, 2017. Based on market conditions and our liquidity, 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.

Historically, we and our partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated entities. As of December 31, 2017, we have no repayment guarantees outstanding related to the debt of our unconsolidated entities. See Note 4 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q for more information.

Table of Contents

We had outstanding performance bonds of approximately \$229.3 million as of December 31, 2017, 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 2017 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; and (4) income tax valuation allowances and ownership changes. Since September 30, 2017, there have been no significant changes to these critical accounting policies.

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 as of the date they are made.

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, 2017, as well as Item 1A of this Form 10-Q. 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, changes in consumer confidence, declines in employment levels, inflation or increases in the quantity and decreases in the price of new homes and resale homes on the market;
- the cyclical nature of the homebuilding industry and a potential deterioration in homebuilding industry conditions;
- factors affecting margins, such as decreased land values underlying land option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce our production and overhead cost structure;
- the availability and cost of land and the risks associated with the future value of our inventory, such as additional asset impairment charges or write-downs;
- 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;
- 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;
- a substantial increase in mortgage interest rates, increased disruption in the availability of mortgage financing, the recent change in tax laws regarding the deductibility of mortgage interest for tax purposes or an increased number of foreclosures;
- government actions, policies, programs and regulations directed at or affecting the housing market (including the Tax Cuts and Jobs Act, the Dodd-Frank Act and the tax benefits associated with purchasing and owning a home);
- changes in existing tax laws or enacted corporate income tax rates, including pursuant to the Tax Cuts and Jobs Act;
- 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;

- increased competition or delays in reacting to changing consumer preferences in home design;
- weather conditions or other related events that could result in delays in land development or home construction, increase our costs or decrease demand in the impacted areas;
- estimates related to the potential recoverability of our deferred tax assets;

Table of Contents

potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations or governmental policies, and possible penalties for failure to comply with such laws, regulations or governmental policies, including those related to the environment;

the results of litigation or government proceedings and fulfillment of any related obligations;

the impact of construction defect and home warranty claims, including water intrusion issues in Florida;

the cost and availability of insurance and surety bonds, as well as the sufficiency of these instruments to cover potential losses incurred;

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.

Table of Contents

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 our cash flows or results of operations. As of December 31, 2017, our Junior Subordinated Notes were our only variable-rate debt outstanding. A one percent increase in the interest rate for these notes would result in an increase of our interest expense by \$1.0 million over the next twelve-month period. The estimated fair value of our fixed-rate debt as of December 31, 2017 was \$1.34 billion, compared to a carrying value of \$1.26 billion. 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 \$1.34 billion to \$1.41 billion as of December 31, 2017.

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, 2017, 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, 2017 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

For a discussion of our legal proceedings, see Note 8 of the notes to our unaudited condensed consolidated financial statements in this Form 10-Q.

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, 2017.

Table of Contents

Item 6. Exhibits

- 4.1 Indenture, dated as of October 10, 2017, between the Company, the Guarantors and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 of the Company's Form 8-K filed on October 10, 2017)
- 4.2 Form of 5.875% Senior Note due 2027 (incorporated herein by reference to Exhibit 4.2 of the Company's Form 8-K filed on October 10, 2017)
- 4.3 Registration Rights Agreement, dated as of October 10, 2017, between the Company, the Guarantors and Credit Suisse Securities (USA) LLC, as representative of the Initial Purchasers. (incorporated herein by reference to Exhibit 4.3 of the Company's Form 8-K filed on October 10, 2017)
- 10.1 Fourth Amendment to the Second Amended and Restated Credit Agreement, dated as of September 24, 2012, among the Company, as borrower, the lenders party thereto, the issuers party thereto, and Credit Suisse AG, Cayman Islands Branch, as agent, as amended (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed on October 24, 2017)
- 10.2* Form of 2014 Long-Term Incentive Plan Award Agreement for Performance Shares (Named Executive Officers)
- 10.3* Changes to Employment Agreement dated September 18, 2014 by and between Kenneth F. Khoury and the Company (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed on January 8, 2018)
- 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, 2017, filed on February 6, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated Statements of Income, (iii) Unaudited Condensed Consolidated Statements of Cash Flows and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.

* Represents a management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

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

Date: February 6, 2018 Beazer Homes USA, Inc.

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