BEAZER HOMES USA INC
Form 10-K
November 15, 2011

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

Form 10-K

(Mark One)

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

For the fiscal year ended September 30, 2011

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

Commission file number: 001-12822

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

Delaware	**58-2086934**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1000 Abernathy Road, Suite 260, Atlanta, Georgia 30328
(Address of principal executive offices) (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Securities	Exchanges on Which Registered
Common Stock, $.001 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act) Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 such filing requirements for the past 90 days. Yes þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the registrant s Common Stock held by non-affiliates of the registrant (75,687,528 shares) as of March 31, 2011, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was $345,892,003.

The number of shares outstanding of the registrant s Common Stock as of November 9, 2011 was 75,548,949.

DOCUMENTS INCORPORATED BY REFERENCE

	Part of 10-K Where Incorporated
Portions of the registrant s Proxy Statement for the 2012 Annual Meeting of Stockholders	III

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References to we, us, our, Beazer, Beazer Homes, and the Company in this annual report on Form 10-K refer
Beazer Homes USA, Inc.

FORWARD-LOOKING STATEMENTS

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

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

- the final outcome of various putative class action lawsuits, multi-party suits and similar proceedings as well as the results of any other litigation or government proceedings and fulfillment of the obligations in the Deferred Prosecution Agreement and consent orders with governmental authorities and other settlement agreements;

- additional asset impairment charges or writedowns;

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

- the effect of changes in lending guidelines and regulations;

- a slower economic rebound than anticipated, coupled with persistently high unemployment and additional foreclosures;

- continued or increased downturn in the homebuilding industry;

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

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

- our cost of and ability to access capital and otherwise meet our ongoing liquidity needs including the impact of any downgrades of our credit ratings or reductions in our tangible net worth or liquidity levels;

- potential inability to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;

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

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

factors affecting margins such as decreased land values underlying land option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce production and overhead cost structure;

the performance of our joint ventures and our joint venture partners;

the impact of construction defect and home warranty claims including those related to possible installation of drywall imported from China;

the cost and availability of insurance and surety bonds;

delays in land development or home construction resulting from adverse weather conditions;

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

- potential exposure related to additional repurchase claims on mortgages and loans originated by Beazer Mortgage Corporation;

- estimates related to the potential recoverability of our deferred tax assets;

- effects of changes in accounting policies, standards, guidelines or principles; or

- terrorist acts, acts of war and other factors over which the Company has little or no control.

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

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PART I

Item 1. *Business*

We are a geographically diversified homebuilder with active operations in 16 states. Our homes are designed to appeal to homeowners at various 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 time.

Our principal executive offices are located at 1000 Abernathy Road, Suite 260, Atlanta, Georgia 30328, telephone (770) 829-3700. We also provide information about our active communities through our Internet website located at http://www.beazer.com. Information on our website is not a part of and shall not be deemed incorporated by reference in this report.

Industry Overview and Current Market Conditions

The sale of new homes has been and will likely remain a large industry in the United States for four primary reasons: historical growth in both population and households, demographic patterns that indicate an increased likelihood of home ownership as age and income increase, job creation within geographic markets that necessitate new home construction and consumer demand for home features that can be more easily provided in a new home than an existing home.

In any year, the demand for new homes is closely tied to job growth, the availability and cost of mortgage financing, the supply of new and existing homes for sale and, importantly, consumer confidence. Consumer confidence is perhaps the most important of these demand variables and is the hardest one to predict accurately because it is a function of, among other things, consumers views of their employment and income prospects, recent and likely future home price trends, localized new and existing home inventory, the level of current and near-term interest and mortgage rates, the availability of consumer credit, valuations in stock and bond markets, and other geopolitical factors.

The supply of new homes within specific geographic markets consists of both new homes built pursuant to pre-sale arrangements and speculative homes (frequently referred to as spec homes) built by home builders prior to their sale. The ratio of pre-sold to spec homes differs both by geographic market and over time within individual markets based on a wide variety of factors, including the availability of land and lots, access to construction financing, the availability and cost of construction labor and materials, the inventory of existing homes for sale and job growth characteristics.

In general, high levels of employment, low mortgage interest rates and low new home and resale inventories contribute to a strong and growing homebuilding market environment. Conversely, rising or continued high levels of unemployment, higher interest rates and larger new and existing home inventories generally lead to weak industry conditions. In an effort to provide relief to homebuyers and stabilize the housing industry, the federal government enacted several laws in 2008 to provide eligible homebuyers with a tax credit and to facilitate the modification of mortgage loans. These tax credits expired in fiscal 2010. In spite of these government actions, we, like many other homebuilders, have experienced a material reduction in revenues and margins and have incurred significant net losses in fiscal 2009 through 2011. Please see *Management s Discussion and Analysis of Results of Operations and Financial Condition* for additional information.

While we believe that long-term fundamentals for new home construction remain intact, the national economic environment continues to be characterized by high unemployment levels and consumer and business uncertainty regarding the health of the economy. Against this backdrop, prospective home buyers have been further challenged by evidence of falling home prices, a significant current and anticipated future inventory of distressed homes for sale, and limited availability of mortgage credit. Although home prices and home ownership costs are very low compared to historical levels, and despite the fact that for many consumers it is less expensive to be a home owner than an apartment renter, demand for new homes has been exceptionally weak for several years. The supply of new and resale homes in the marketplace has decreased recently. However, the homebuilding market is still challenged by an increased number of foreclosed homes offered at substantially reduced prices. These pressures in the marketplace have resulted in the use of increased sales incentives and price reductions in an effort to generate sales and reduce inventory levels by us and many of our competitors.

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We have responded to this challenging environment with a disciplined approach to the business and have taken actions including the following:

- Exited numerous markets that we determined were not core to our long-term profitability objectives;
- Reduced overhead expenses significantly by eliminating headcount and centralizing or regionalizing various functional activities;
- Value-engineered our homes to reduce direct construction costs;
- Limited our construction of unsold homes to align our inventory with anticipated near-term demand; and
- Scaled back our land and land development spending.

Each of these efforts has been undertaken to allow the Company to generate or conserve liquidity while maintaining a substantial homebuilding presence in large markets to participate in the eventual housing recovery. We expect to continue this disciplined approach to managing our business during these uncertain times as we strive toward returning to profitability.

Long-Term Business Strategy

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

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

Differentiated Product. Our product strategy is to design and build high performance homes that are more enjoyable, more desirable and more affordable. Our homes are engineered for energy-efficiency, cost savings and comfort. Using the ENERGYSTAR^{tm} standards as our minimum performance criteria, our homes minimize the impact on the environment while reducing our homebuyers annual operating costs. We continue to evolve our floor plans based on market opportunity and demand. We make our homes more livable by arranging spaces to progress logically from public to private areas. We also offer upgrade packages that give our homebuyers the option to personalize their home.

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

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

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

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

Reportable Business Segments

In our homebuilding operations, we design, sell and build single-family and multi-family homes in the following geographic regions which are presented as reportable segments. Beginning in fiscal 2011, we launched our Pre-Owned Homes Division which acquires, improves and rents out recently built, previously owned homes within select markets in which we have homebuilding operations.

Segment/State	**Market(s)/Year Entered**
Homebuilding West:	
Arizona	Phoenix (1993)
California	Los Angeles County (1993), Orange County (1993), Riverside and San Bernardino Counties (1993), San Diego County (1992), Ventura County (1993), Sacramento (1993), Kern County (2005)
Nevada	Las Vegas (1993)
Texas	Dallas/Ft. Worth (1995), Houston (1995)
Homebuilding East:	
Indiana	Indianapolis (2002)
Maryland/Delaware	Baltimore (1998), Metro-Washington, D.C. (1998), Delaware (2003)
New Jersey/Pennsylvania/New York	Central and Southern New Jersey (1998), Bucks County, PA (1998), Orange County, NY (2011)
Tennessee	Nashville (1987)
Virginia	Fairfax County (1998), Loudoun County (1998), Prince William County (1998)
Homebuilding Southeast:	
Florida	Tampa/St. Petersburg (1996), Orlando (1997)
Georgia	Atlanta (1985), Savannah (2005)
North Carolina	Raleigh/Durham (1992)
South Carolina	Charleston (1987), Myrtle Beach (2002)
Pre-Owned Homes	Phoenix (2011), Las Vegas (2011)

In fiscal 2011, we decided to exit our Northwest Florida market and reallocate those resources to optimize the related capital, enhance our financial position and to increase shareholder value. As of September 30, 2011, we have substantially concluded our homebuilding operations in this market, but remain committed to our remaining customer care responsibilities (primarily warranty-related). The results of operations of all of the homebuilding markets we have exited over the past few years are reported as discontinued operations in our Consolidated Statements of Operations.

Seasonal and Quarterly Variability

Our homebuilding operating cycle generally reflects higher levels of new home order activity in the second and third fiscal quarters and increased closings in the third and fourth fiscal quarters. However, during periods of an economic downturn in the industry such as we have experienced in recent years, decreased revenues and closings as compared to prior periods including prior quarters, will typically reduce seasonal patterns. Specifically, the expiration of the $8,000 First-time Homebuyer Tax Credit on June 30, 2010 incentivized homebuyers to purchase homes during the first half of fiscal 2010. This resulted in a change to our typical seasonal variations, as we experienced increased closings in our third quarter of fiscal 2010 as compared to our fourth quarter of fiscal 2010 and third quarter of fiscal 2011.

Markets and Product Description

We evaluate a number of factors in determining which geographic markets to enter as well as which consumer segments to target with our homebuilding activities. We attempt to anticipate changes in economic and real estate conditions by evaluating such statistical information as the historical and projected growth of the population; the number of new jobs created or projected to be created; the number of housing starts in previous periods; building lot availability and price; housing inventory; level of competition; and home sale absorption rates.

We generally seek to differentiate ourselves from our competition in a particular market with respect to customer service, product type, incorporating energy efficient features, and design and construction quality. We maintain the flexibility to alter our product mix within a given market, depending on market conditions. In determining our product mix, we consider demographic trends, demand for a particular type of product, consumer preferences, margins, timing and the economic strength of the market. Although some of our homes are priced at the upper end of the market, and we offer a selection of amenities and home customization options, we generally do not build custom homes. We attempt to maximize efficiency by using standardized design plans whenever possible. In all of our home offerings, we attempt to maximize customer satisfaction by incorporating quality and energy-efficient materials, distinctive design features, convenient locations and competitive prices.

During fiscal year 2011, the average sales price of our homes closed related to continuing operations was approximately $219,400. The following table summarizes certain operating information of our reportable homebuilding segments and our discontinued homebuilding operations as of and for the fiscal years ended September 30, 2011, 2010 and 2009. Please see *Management s Discussion and Analysis of Results of Operations and Financial Condition for additional information.*

	2011		2010		2009	
	Number of Homes Closed	Average Closing Price	Number of Homes Closed	Average Closing Price	Number of Homes Closed	Average Closing Price
			($ in 000 s)			
West	1,115	$ 195.9	1,777	$ 203.0	1,883	$ 216.5
East	1,316	258.1	1,729	258.5	1,432	260.8
Southeast	818	189.0	915	190.4	837	211.9
Continuing Operations	3,249	$ 219.4	4,421	$ 222.1	4,152	$ 230.9
Discontinued Operations	101	$ 196.2	224	$ 208.6	236	$ 239.1

	September 30, 2011	September 30, 2010	September 30, 2009

	Units in Backlog	Dollar Value in Backlog	Units in Backlog	Dollar Value in Backlog	Units in Backlog	Dollar Value in Backlog
				($ in 000 s)		
West	570	$ 113,931	269	$ 55,167	431	$ 88,883
East	638	169,851	366	102,186	532	143,887
Southeast	242	50,724	137	27,391	185	37,313
Continuing Operations	1,450	$ 334,506	772	$ 184,744	1,148	$ 270,083
Discontinued Operations	17	$ 3,800	24	$ 4,330	45	$ 10,684

Corporate Operations

We perform all or most of the following functions at our corporate office:

evaluate and select geographic markets;

allocate capital resources to particular markets for land acquisitions;

maintain and develop relationships with lenders and capital markets to create access to financial resources;

coordinate efforts with architects and engineers for our land planning and home design needs;

operate and manage information systems and technology support operations; and

monitor the operations of our subsidiaries and divisions.

We allocate capital resources necessary for new investments in a manner consistent with our overall business strategy. We will vary the capital allocation based on market conditions, results of operations and other factors. Capital commitments are determined through consultation among selected executive and operational personnel, who play an important role in ensuring that new investments are consistent with our strategy. Centralized financial controls are also maintained through the standardization of accounting and financial policies and procedures.

Field Operations

The development and construction of each new home community is managed by our operating divisions, each of which is generally led by a market leader who, in turn, reports directly to our Chief Executive Officer. At the development stage, a manager (who may be assigned to several communities and reports to the market leader of the division) supervises development of buildable lots. Together with our operating divisions, our field teams are equipped with the skills to complete the functions of identification of land acquisition opportunities, land entitlement, land development, home construction, marketing, sales and warranty service. The accounting, accounts payable, and certain purchasing functions of our field operations are concentrated in one or more of our three regional accounting centers.

Land Acquisition and Development

Generally, the land we acquire is purchased only after necessary entitlements have been obtained so that we have the right to begin development or construction as market conditions dictate. During much of the downturn in the homebuilding industry, we made very few significant land acquisitions; however, we have continued to consider attractive opportunities as they arise. We expect to continue to consider land acquisition opportunities as the market improves and particularly in markets where our land bank has been depleted. In a very small number of situations, we will purchase property without all necessary entitlements where we perceive an opportunity to build on such property in a manner consistent with our strategy. The term entitlements refers to subdivision approvals, development agreements, tentative maps or recorded plats, depending on the jurisdiction within which the land is located. Entitlements generally give a developer the right to obtain building permits upon compliance with conditions that are usually within the developer s control. Although entitlements are ordinarily obtained prior to the purchase of land, we are still required to obtain a variety of other governmental approvals and permits during the development process.

We select our land for development based upon a variety of factors, including:

internal and external demographic and marketing studies;

suitability for development during the time period of one to five years from the beginning of the development process to the last closing;

financial review as to the feasibility of the proposed project, including profit margins and returns on capital employed;

- the ability to secure governmental approvals and entitlements;
- environmental and legal due diligence;
- competition in the area;
- proximity to local traffic corridors and amenities; and
- management s judgment as to the real estate market and economic trends and our experience in a particular market.

We generally purchase land or obtain an option to purchase land, which, in either case, requires certain site improvements prior to construction. Where required, we then undertake or, in the case of land under option, the grantor of the option then undertakes, the development activities (through contractual arrangements with local developers), which include site planning and engineering, as well as constructing road, sewer, water, utilities, drainage and recreational facilities and other amenities. When available in certain markets, we also buy finished lots that are ready for construction.

We strive to develop a design and marketing concept for each of our communities, which includes determination of size, style and price range of the homes, layout of streets, layout of individual lots and overall community design. The product line offered in a particular new home community depends upon many factors, including the housing generally available in the area, the needs of a particular market and our cost of lots in the new home community. We are, however, often able to use standardized home design plans.

Option Contracts. We acquire certain lots by means of option contracts. Option contracts generally require the payment of a cash deposit or issuance of a letter of credit for the right to acquire lots during a specified period of time at a fixed or variable price.

Under 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, which aggregated approximately $25.9 million at September 30, 2011. At September 30, 2011, future amounts under option contracts aggregated approximately $225.2 million, net of cash deposits.

The following table sets forth, by reportable segment, land controlled by us as of September 30, 2011:

	Lots Owned							
	Homes Under Construction(1)	**Finished Lots**	**Lots for Current Development**	**Lots for Future Development**	**Land Held for Sale**	**Total Lots Owned**	**Total Lots Under Contract**	**Total Lots Controlled**
West								
Arizona	192	720	118	571	1	1,602	64	1,666
California	161	278	443	3,792	43	4,717		4,717
Nevada	125	662	106	800		1,693	223	1,916
Texas	365	1,087	1,404		16	2,872	639	3,511
Total West	843	2,747	2,071	5,163	60	10,884	926	11,810
East								
Indiana	225	567	1,443		250	2,485	275	2,760
Maryland	287	375	587	806	1	2,056	260	2,316
New Jersey	120	233	473	81		907	421	1,328
Tennessee	106	220	910			1,236	134	1,370
Virginia	44	93	129		24	290	589	879
Total East	782	1,488	3,542	887	275	6,974	1,679	8,653
Southeast								

Georgia	24	83	253	88		448	44	492
Florida	128	192	165	308	30	823	855	1,678
North Carolina	119	168	274	21		582	323	905
South Carolina	117	216	1,679	80		2,092	730	2,822
Total Southeast	388	659	2,371	497	30	3,945	1,952	5,897
Discontinued Operations	19	1			289	309		309
Total	2,032	4,895	7,984	6,547	654	22,112	4,557	26,669

(1) The category Homes Under Construction represents lots upon which construction of a home has commenced, including model homes.

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The following table sets forth, by reportable segment, land held for development, land held for future development and land held for sale as of September 30, 2011 (*in thousands*):

	Land Held for Development	Land Held for Future Development	Land Held for Sale
West	$ 179,217	$ 318,732	$ 2,681
East	172,170	41,993	5,056
Southeast	72,668	24,036	75
Discontinued Operations			5,025
Total	$ 424,055	$ 384,761	$ 12,837

Joint Ventures. We participate in land development joint ventures in which Beazer Homes has less than a controlling interest. We enter into joint ventures in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. Over the past few years for economic and strategic reasons, we have terminated our investment in a number of joint ventures.

Our joint ventures typically obtain secured acquisition, development and construction financing. In some instances, Beazer Homes and our joint venture partners have provided varying levels of guarantees of debt of our unconsolidated joint ventures. At September 30, 2011, these guarantees included, for certain joint ventures, construction completion guarantees, repayment guarantees and environmental indemnities At September 30, 2011, our unconsolidated joint ventures had borrowings outstanding totaling $394.4 million of which $327.9 million related to our South Edge LLC (South Edge) joint venture in which we are a 2.58% partner. Under the terms of the settlement agreement with the South Edge lenders, we currently estimate that we will pay the lenders an amount between $15.7 million and $17.2 million (see Note 3 to the Consolidated Financial Statements for additional information).

Construction

We typically act as the general contractor for the construction of our new home communities. Our project development operations are controlled by our operating divisions, whose employees supervise the construction of each new home community, coordinate the activities of subcontractors and suppliers, subject their work to quality and cost controls and assure compliance with zoning and building codes. We specify that quality, durable materials be used in the construction of our homes. Our subcontractors follow design plans prepared by architects and engineers who are retained or directly employed by us and whose designs are geared to the local market. Our home plans are created in a collaborative effort with industry leading architectural firms, allowing us to stay current in our home designs with changing trends, as well as to expand our focus on value engineering without losing design value to our customers.

Subcontractors typically are retained on a project-by-project basis to complete construction at a fixed price. Agreements with our subcontractors and materials suppliers are generally entered into after competitive bidding. In connection with this competitive bid process, we obtain information from prospective subcontractors and vendors with respect to their financial condition and ability to perform their agreements with us. We do not maintain significant inventories of construction materials, except for materials being utilized for homes under construction. We have numerous suppliers of raw materials and services used in our business, and such materials and services have been, and continue to be, available. Material prices may fluctuate, however, due to various factors, including demand or supply shortages, which may be beyond the control of our vendors. Whenever possible, we enter into regional and national supply contracts with certain of our vendors. We believe that our relationships with our suppliers and subcontractors are good.

Construction time for our homes depends on the availability of labor, materials and supplies, product type and location. Homes are designed to promote efficient use of space and materials, and to minimize construction costs and time. In all of our markets, construction of a home is typically completed within three to six months following commencement of construction. At September 30, 2011, excluding models, we had 1,765 homes at various stages of completion of which 1,053 were under contract and included in backlog at such date and 712 homes (334 were substantially completed and 378 under construction) were not under a sales contract, either because the construction of the home was begun without a sales contract or because the original sales contract had been cancelled.

Warranty Program

For certain homes sold through March 31, 2004 (and in certain markets through July 31, 2004), we self-insured our warranty obligations through our wholly owned risk retention group. We continue to maintain reserves to cover potential claims on homes covered under this warranty program. Beginning with homes sold on or after April 1, 2004 (August 1, 2004 in certain markets), our warranties are issued, administered and insured, subject to applicable self-insured retentions, by independent third parties. We currently provide a limited warranty (ranging from one to two years) covering workmanship and materials per our defined performance quality standards. In addition, we provide a limited warranty (generally ranging from a minimum of five years up to the period covered by the applicable statute of repose) covering only certain defined construction defects. We also provide a defined structural warranty with single-family homes and townhomes in certain states.

Since we subcontract our homebuilding work to subcontractors whose contracts generally include an indemnity obligation and a requirement that certain minimum insurance requirements be met, including providing us with a certificate of insurance prior to receiving payments for their work, many claims relating to workmanship and materials are the primary responsibility of our subcontractors.

In addition, we maintain third-party insurance, subject to applicable self-insured retentions, for most construction defects that we encounter in the normal course of business. We believe that our warranty and litigation accruals and third-party insurance are adequate to cover the ultimate resolution of our potential liabilities associated with known and anticipated warranty and construction defect related claims and litigation. Please see *Management s Discussion and Analysis of Results of Operations and Financial Condition* and Note 13, Contingencies to the Consolidated Financial Statements for additional information. There can be no assurance, however, that the terms and limitations of the limited warranty will be effective against claims made by the homebuyers, that we will be able to renew our insurance coverage or renew it at reasonable rates, that we will not be liable for damages, the cost of repairs, and/or the expense of litigation surrounding possible construction defects, soil subsidence or building related claims or that claims will not arise out of events or circumstances not covered by insurance and/or not subject to effective indemnification agreements with our subcontractors.

Marketing and Sales

We make extensive use of online and traditional advertising vehicles and other promotional activities, including our Internet website (http://*www.beazer.com*), real estate listing sites, search engine marketing, mass-media advertisements, brochures, direct marketing, directional billboards and the placement of strategically located signboards in the immediate areas of our developments.

We normally build, decorate, furnish and landscape model homes for each community and maintain on-site sales offices. At September 30, 2011, we maintained 271 model homes, of which 267 were owned and 4 were leased from third parties pursuant to sale and leaseback agreements. We believe that model homes play a particularly important role in our marketing efforts.

We generally sell our homes through commissioned new home sales counselors (who typically work from the sales offices located in the model homes used in the subdivision) as well as through independent brokers. Our personnel are available to assist prospective homebuyers by providing them with floor plans, price information, tours of model homes, and a detailed explanation of the energy-efficient features and associated savings opportunities. The selection of interior features is a principal component of our marketing and sales efforts. Sales personnel are trained by us and participate in a structured training program to be updated on sales techniques, product enhancements, competitive products in the area, the availability of financing, construction schedules, marketing and advertising plans and Company policies including compliance, which management believes results in a sales force with extensive knowledge of our operating policies and housing products. Our policy also provides that sales personnel be licensed real estate agents where required by law. Depending on market conditions, we also at times begin construction on a number of homes for which no signed sales contract exists. The use of an inventory of such homes satisfies the requirements of relocated personnel, first time buyers and of independent brokers, who often represent customers who require a completed home within 60 days. We sometimes use various sales incentives in order to attract homebuyers. The use of incentives depends largely on local economic and competitive market conditions.

Customer Financing

We do not provide mortgage origination services. However, we have entered into a preferred lending arrangement with a national third-party mortgage provider. Approximately 62% of fiscal 2011 customers elected to use this third-party provider to finance their home purchases. See Item 3 Legal Proceedings for discussion of the investigations and litigation related to our prior mortgage origination business (Beazer Mortgage). Up until September 30, 2010, we offered title insurance services to our homebuyers in several of our markets. Effective September 30, 2010, we sold or discontinued all of our title services operations. The operating results of Beazer Mortgage and our title services operations are included in loss from discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented.

Competition

The development and sale of residential properties is highly competitive and fragmented, particularly in the current weak housing environment. We compete for residential sales on the basis of a number of interrelated factors, including location, reputation, amenities, design, quality and price, with numerous large and small homebuilders, including some homebuilders with nationwide operations and greater financial resources and/or lower costs than us. We also compete for residential sales with individual resales of existing homes (including a growing number of foreclosed homes offered at substantially reduced prices), available rental housing and, to a lesser extent, resales of condominiums. In the past few years, short sales (a transaction in which the seller s mortgage lender agrees to accept a payoff of less than the balance due on the loan) and foreclosures have become a sizable portion of the existing home market.

We utilize our experience within our geographic markets and breadth of product line to vary our regional product offerings to reflect changing market conditions. We strive to respond to market conditions and to capitalize on the opportunities for advantageous land acquisitions in desirable locations. To further strengthen our competitive position, we rely on quality design, construction and service to provide customers with a higher measure of home.

Government Regulation and Environmental Matters

Generally, our land is purchased with entitlements, giving us the right to obtain building permits upon compliance with specified conditions, which generally are within our control. The length of time necessary to obtain such permits and approvals affects the carrying costs of unimproved property acquired for the purpose of development and construction. In addition, the continued effectiveness of permits already granted is subject to factors such as changes in policies, rules and regulations and their interpretation and application. Many governmental authorities have imposed impact fees as a means of defraying the cost of providing certain governmental services to developing areas. To date, the governmental approval processes discussed above have not had a material adverse effect on our development activities, and indeed all homebuilders in a given market face the same fees and restrictions. There can be no assurance, however, that these and other restrictions will not adversely affect us in the future.

We may also be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums, slow-growth or no-growth initiatives or building permit allocation ordinances which could be implemented in the future in the states and markets in which we operate. Substantially all of our land is entitled and, therefore, the moratoriums generally would only adversely affect us if they arose from health, safety and welfare issues such as insufficient water or sewage facilities. Local and state governments also have broad discretion regarding the imposition of development fees for communities in their jurisdictions. These fees are normally established, however, when we receive recorded final maps and building permits. We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. These laws may result in delays, cause us to incur substantial compliance and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas.

In order to provide homes to homebuyers qualifying for FHA-insured or VA-guaranteed mortgages, we must construct homes in compliance with FHA and VA regulations. These laws and regulations include provisions regarding operating procedures, investments, lending and privacy disclosures, forms of policies and premiums.

In some states, we are required to be registered as a licensed contractor and comply with applicable rules and regulations. Also, in various states, our new home counselors are required to be licensed real estate agents and to comply with the laws and regulations applicable to real estate agents.

Failure to comply with any of these laws or regulations could result in loss of licensing and a restriction of our business activities in the applicable jurisdiction.

Bonds and Other Obligations

In connection with the development of our communities, we are frequently required to provide letters of credit and performance, maintenance and other bonds in support of our related obligations with respect to such developments. The amount of such obligations outstanding at any time varies in accordance with our pending development activities. In the event any such bonds or letters of credit are drawn upon, we would be obligated to reimburse the issuer of such bonds or letters of credit. At September 30, 2011 we had approximately $28.9 million and $174.7 million of outstanding letters of credit and performance bonds, respectively, primarily related to our obligations to local governments to construct roads and other improvements in various developments. This includes outstanding letters of credit of approximately $1.0 million related to our land option contracts.

Employees and Subcontractors

At September 30, 2011, we employed 781 persons, of whom 303 were sales and marketing personnel and 174 were involved in construction. Although none of our employees are covered by collective bargaining agreements, certain of the subcontractors engaged by us are represented by labor unions or are subject to collective bargaining arrangements. We believe that our relations with our employees and subcontractors are good.

Available Information

Our Internet website address is www.beazer.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after we electronically file with or furnish them to the Securities and Exchange Commission (SEC) and are available in print to any stockholder who requests a printed copy. The public may also read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Additionally, the SEC maintains a website that contains reports, proxy statements, information statements and other information regarding issuers, including us, that file electronically with the SEC at www.sec.gov.

In addition, many of our corporate governance documents are available on our website at www.beazer.com. Specifically, our Audit, Finance, Compensation and Nominating/Corporate Governance Committee Charters, our Corporate Governance Guidelines and Code of Business Conduct and Ethics are available. Each of these documents is available in print to any stockholder who requests it.

The content on our website is available for information purposes only and is not a part of and shall not be deemed incorporated by reference in this report.

Item 1A. ***Risk Factors***

The homebuilding industry has been experiencing a severe downturn that may continue for an indefinite period and continue to adversely affect our business, results of operations and stockholders equity.

Most housing markets across the United States continue to be characterized by an oversupply of both new and resale home inventory, including foreclosed homes, reduced levels of consumer demand for new homes, increased cancellation rates, aggressive price competition among homebuilders and increased incentives for home sales. As a result of these factors, we, like many other homebuilders, have experienced a material reduction in revenues and margins. These challenging market conditions are expected to continue for the foreseeable future and, in the near term, these conditions may further deteriorate. We expect that continued weakness in the homebuilding market would adversely affect our business, results of operations and stockholders equity as compared to prior periods and could result in additional inventory impairments in the future.

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Our backlog reflects the number and value of homes for which we have entered into a sales contract with a customer but have not yet delivered the home. Although these sales contracts typically require a cash deposit and do not make the sale contingent on the sale of the customer s existing home, in some cases a customer may cancel the contract and receive a complete or partial refund of the deposit as a result of local laws or as a matter of our business practices. If the current industry conditions continue, economic conditions continue to deteriorate or if mortgage financing becomes less accessible, more homebuyers may have an incentive to cancel their contracts with us, even where they might be entitled to no refund or only a partial refund, rather than complete the purchase. Significant cancellations have had, and could have, a material adverse effect on our business as a result of lost sales revenue and the accumulation of unsold housing inventory. In particular, our cancellation rates, including discontinued operations, for the fiscal quarter and fiscal year ended September 30, 2011 were 34.5% and 26.9%, respectively. It is important to note that both backlog and cancellation metrics are operational, rather than accounting data, and should be used only as a general gauge to evaluate performance. There is an inherent imprecision in these metrics based on an evaluation of qualitative factors during the transaction cycle.

Based on our impairment tests and consideration of the current and expected future market conditions, we recorded inventory impairment charges of $30.0 million and lot option abandonment charges of $5.4 million during fiscal 2011. During fiscal 2011, we also wrote down our right to purchase land from and investment in certain of our joint ventures reflecting $5.6 million and $0.6 million of impairments of inventory held within those ventures, respectively. Future economic or financial developments, including general interest rate increases, poor performance in either the national economy or individual local economies, or our ability to meet our projections could lead to future impairments.

Our home sales and operating revenues could decline due to macro-economic and other factors outside of our control, such as changes in consumer confidence, declines in employment levels and increases in the quantity and decreases in the price of new homes and resale homes in the market.

Changes in national and regional economic conditions, as well as local economic conditions where we conduct our operations and where prospective purchasers of our homes live, may result in more caution on the part of homebuyers and, consequently, fewer home purchases. These economic uncertainties involve, among other things, conditions of supply and demand in local markets and changes in consumer confidence and income, employment levels, and government regulations. These risks and uncertainties could periodically have an adverse effect on consumer demand for and the pricing of our homes, which could cause our operating revenues to decline. Additional reductions in our revenues could, in turn, further negatively affect the market price of our securities.

We are the subject of pending civil litigation which could require us to pay substantial damages or could otherwise have a material adverse effect on us. The failure to fulfill our obligations under the Deferred Prosecution Agreement (the DPA) with the United States Attorney (or related agreements) and the consent order with the SEC could have a material adverse effect on our operations.

On July 1, 2009, we entered into the DPA with the United States Attorney for the Western District of North Carolina and a separate but related agreement with the United States Department of Housing and Urban Development (HUD) and the Civil Division of the United States Department of Justice (the HUD Agreement). We have paid $5 million to HUD pursuant to the HUD Agreement. Under the DPA, we are obligated to make payments to a restitution fund in an amount not to exceed $50 million. As of September 30, 2011, we have been credited with making $11 million of such payments. Future payments to the restitution fund will be equal to 4% of adjusted EBITDA as defined in the DPA for the first to occur of (x) a period of 60 months and (y) the total of all payments to the restitution fund equaling $50 million. In the event such payments do not equal at least $50 million at the end of 60 months then, under the HUD Agreement, the obligations to make restitution payments will continue until the first to occur of (a) 24 months or (b) the date that $48 million has been paid into the restitution fund. Our obligation to make such payments could limit our ability to invest in our business or make payments of principal or interest on our outstanding debt. In addition, in the event we fail to comply with our obligations under the DPA or the HUD Agreement various federal authorities could bring criminal or civil charges against us which could be material to our consolidated financial position, results of operations and liquidity.

We and certain of our current and former employees, officers and directors have been named as defendants in securities lawsuits and class action lawsuits. In addition, certain of our subsidiaries have been named in class action and multi-party lawsuits regarding claims made by homebuyers. While a number of these suits have been dismissed and/or settled, we cannot be assured that new claims by different plaintiffs will not be brought in the future. We cannot predict or determine the timing or final outcome of the current lawsuits or the effect that any adverse determinations in the lawsuits may have on us. An unfavorable determination in any of the lawsuits could result in the payment by us of substantial monetary damages which may not be covered by insurance. Further, the legal costs associated with the lawsuits and the amount of time required to be spent by management and the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our business, financial condition and results of operations. In addition to expenses incurred to defend the Company in these matters, under Delaware law and our bylaws, we may have an obligation to indemnify our current and former officers and directors in relation to these matters. We have obligations to advance legal fees and expenses to certain directors and officers, and we have advanced, and may continue to advance, legal fees and expenses to certain other current and former employees.

In connection with the settlement agreement with the SEC entered into on September 24, 2008, we consented, without admitting or denying any wrongdoing, to a cease and desist order requiring future compliance with certain provisions of the federal securities laws and regulations. If we are found to be in violation of the order in the future, we may be subject to penalties and other adverse consequences as a result of the prior actions which could be material to our consolidated financial position, results of operations and liquidity.

Our insurance carriers may seek to rescind or deny coverage with respect to certain of the pending lawsuits, or we may not have sufficient coverage under such policies. If the insurance companies are successful in rescinding or denying coverage or if we do not have sufficient coverage under our policies, our business, financial condition and results of operations could be materially adversely affected.

We are dependent on the services of certain key employees, and the loss of their services could hurt our business.

Our future success depends upon our ability to attract, train, assimilate and retain skilled personnel. If we are unable to retain our key employees or attract, train, assimilate or retain other skilled personnel in the future, it could hinder our business strategy and impose additional costs of identifying and training new individuals. Competition for qualified personnel in all of our operating markets is intense.

Potential future downgrades of our credit ratings could adversely affect our access to capital and could otherwise have a material adverse effect on us.

Over the past few years, the rating agencies downgraded the Company s corporate credit rating and ratings on the Company s senior unsecured notes due to the deterioration in our homebuilding operations, credit metrics, other earnings-based metrics and the significant decrease in our tangible net worth. These ratings and our current credit condition affect, among other things, our ability to access new capital, especially debt, and negative changes in these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. Our credit ratings could be further lowered or rating agencies could issue adverse commentaries in the future, which could have a material adverse effect on our business, results of operations, financial condition and liquidity. In particular, a weakening of our financial condition, including a significant increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, result in a credit rating downgrade or change in outlook, or otherwise increase our cost of borrowing.

Our Senior Notes, revolving credit and letter of credit facilities, and certain other debt impose significant restrictions and obligations on us. Restrictions on our ability to borrow could adversely affect our liquidity. In addition, our substantial indebtedness could adversely affect our financial condition, limit our growth and make it more difficult for us to satisfy our debt obligations.

Certain of our secured and unsecured indebtedness and revolving credit and letter of credit facilities impose certain restrictions and obligations on us. Under certain of these instruments, we must comply with defined covenants which limit the Company s ability to, among other things, incur additional indebtedness, engage in certain asset sales, make certain types of restricted payments, engage in transactions with affiliates and create liens on assets of the Company. Failure to comply with certain of these covenants could result in an event of default under the applicable instrument. Any such event of default could negatively impact other covenants or lead to cross defaults under certain of our other debt. There can be no assurance that we will be able to obtain any waivers or amendments that may become necessary in the event of a future default situation without significant additional cost or at all.

As of September 30, 2011, we had total outstanding indebtedness of approximately $1.5 billion, net of unamortized discount of approximately $23.2 million. This total indebtedness includes $247.4 million related to our cash secured term loan. Our substantial indebtedness could have important consequences to us and the holders of our securities, including, among other things:

causing us to be unable to satisfy our obligations under our debt agreements;

making us more vulnerable to adverse general economic and industry conditions;

making it difficult to fund future working capital, land purchases, acquisitions, share repurchases, general corporate purposes or other purposes; and

causing us to be limited in our flexibility in planning for, or reacting to, changes in our business.

In addition, subject to restrictions in our existing debt instruments, we may incur additional indebtedness. If new debt is added to our current debt levels, the related risks that we now face could intensify. Our growth plans and our ability to make payments of principal or interest on, or to refinance, our indebtedness, will depend on our future operating performance and our ability to enter into additional debt and/or equity financings. If we are unable to generate sufficient cash flows in the future to service our debt, we may be required to refinance all or a portion of our existing debt, to sell assets or to obtain additional financing. We may not be able to do any of the foregoing on terms acceptable to us, if at all.

A substantial increase in mortgage interest rates or unavailability of mortgage financing may reduce consumer demand for our homes.

Substantially all purchasers of our homes finance their acquisition with mortgage financing. The U.S. residential mortgage market has been impacted by the deterioration in the credit quality of loans originated to non-prime and subprime borrowers and an increase in mortgage foreclosure rates. These difficulties are not expected to improve until residential real estate inventories return to a more normal level and the mortgage credit market stabilizes. While the ultimate outcome of recent events cannot be predicted, they have had and may continue to have an impact on the availability and cost of mortgage financing to our customers. The decrease in the willingness and ability of lenders to make home mortgage loans, the tightening of lending standards and the limitation of financing product options, have made it more difficult for homebuyers to obtain acceptable financing. Any substantial increase in mortgage interest rates or unavailability of mortgage financing would adversely affect the ability of prospective first-time and move-up homebuyers to obtain financing for our homes, as well as adversely affect the ability of prospective move-up homebuyers to sell their current homes. This disruption in the credit markets and the curtailed availability of mortgage financing has adversely affected, and is expected to continue to adversely affect, our business, financial condition, results of operations and cash flows as compared to prior periods.

If we are unsuccessful in competing against our homebuilding competitors, our market share could decline or our growth could be impaired and, as a result, our financial results could suffer.

Competition in the homebuilding industry is intense, and there are relatively low barriers to entry into our business. Increased competition could hurt our business, as it could prevent us from acquiring attractive parcels of land on which to build homes or make such acquisitions more expensive, hinder our market share expansion, and lead to pricing pressures on our homes that may adversely impact our margins and revenues. If we are unable to successfully compete, our financial results could suffer and the value of, or our ability to service, our debt could be adversely affected. Our competitors may independently develop land and construct housing units that are superior or substantially similar to our products. Furthermore, some of our competitors have substantially greater financial resources and lower costs of funds than we do. Many of these competitors also have longstanding relationships with subcontractors and suppliers in the markets in which we operate. We currently build in several of the top markets in the nation and, therefore, we expect to continue to face additional competition from new entrants into our markets.

Our financial condition, results of operations and stockholders equity may be adversely affected by any decrease in the value of our inventory, as well as by the associated carrying costs.

We regularly acquire land for replacement and expansion of land inventory within our existing and new markets. The risks inherent in purchasing and developing land increase as consumer demand for housing decreases. The market value of land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions and the measures we employ to manage inventory risk may not be adequate to insulate our operations from a severe drop in inventory values. When market conditions are such that land values are not appreciating, previously entered into option agreements may become less desirable, at which time we may elect to forego deposits and preacquisition costs and terminate the agreements. In fiscal 2011, we recorded $5.4 million of lot option abandonment charges. During fiscal 2011, as a result of the further deterioration of certain markets, we determined that the carrying amount of certain of our inventory assets exceeded their estimated fair value. As a result of our analysis, during fiscal 2011, we incurred $30.0 million of non-cash pre-tax charges related to inventory impairments. If these adverse market conditions continue or worsen, we may have to incur additional inventory impairment charges which would adversely affect our financial condition, results of operations and stockholders equity and our ability to comply with certain covenants in our debt instruments linked to tangible net worth.

We conduct certain of our operations through unconsolidated joint ventures with independent third parties in which we do not have a controlling interest and we can be adversely impacted by joint venture partners failure to fulfill their obligations.

We participate in land development joint ventures (JVs) in which we have less than a controlling interest. We have entered into JVs in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our JVs are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. As a result of the deterioration of the housing market, we have written down our investment in certain of our JVs reflecting impairments of inventory held within those JVs. If these adverse market conditions continue or worsen, we may have to take further writedowns of our investments in our JVs.

Our joint venture investments are generally very illiquid both because we lack a controlling interest in the JVs and because most of our JVs are structured to require super-majority or unanimous approval of the members to sell a substantial portion of the JV s assets or for a member to receive a return of its invested capital. Our lack of a controlling interest also results in the risk that the JV will take actions that we disagree with, or fail to take actions that we desire, including actions regarding the sale of the underlying property.

Our JVs typically obtain secured acquisition, development and construction financing. Generally, we and our joint venture partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated JVs. At September 30, 2011, these guarantees included, for certain joint ventures, construction completion guarantees, repayment guarantees and environmental indemnities. As of September 30, 2011, we have accrued $16.4 million related to the guarantees we determined were probable and reasonably estimable, but we have not recorded a liability for the contingent aspects of any guarantees that we determined were reasonably possible but not probable.

We could experience a reduction in home sales and revenues or reduced cash flows due to our inability to acquire land for our housing developments if we are unable to obtain reasonably priced financing to support our homebuilding activities.

The homebuilding industry is capital intensive, and homebuilding requires significant up-front expenditures to acquire land and to begin development. Accordingly, we incur substantial indebtedness to finance our homebuilding activities. If internally generated funds are not sufficient, we would seek additional capital in the form of equity or debt financing from a variety of potential sources, including additional bank financing and/or securities offerings. The amount and types of indebtedness which we may incur are limited by the terms of our existing debt. In addition, the availability of borrowed funds, especially for land acquisition and construction financing, may be greatly reduced nationally, and the lending community may require increased amounts of equity to be invested in a project by borrowers in connection with both new loans and the extension of existing loans. The credit and capital markets have recently experienced significant volatility. If we are required to seek additional financing to fund our operations, continued volatility in these markets may restrict our flexibility to access such financing. If we are not successful in obtaining sufficient capital to fund our planned capital and other expenditures, we may be unable to acquire land for our housing developments. Additionally, if we cannot obtain additional financing to fund the purchase of land under our option contracts, we may incur contractual penalties and fees.

Our stock price is volatile and could further decline.

The securities markets in general and our common stock in particular have experienced significant price and volume volatility over the past few years. The market price and volume of our common stock may continue to experience significant fluctuations due not only to general stock market conditions but also to a change in sentiment in the market regarding our industry, operations or business prospects. In addition to the other risk factors discussed in this section, the price and volume volatility of our common stock may be affected by:

- operating results that vary from the expectations of securities analysts and investors;
- factors influencing home purchases, such as availability of home mortgage loans and interest rates, credit criteria applicable to prospective borrowers, ability to sell existing residences, and homebuyer sentiment in general;
- the operating and securities price performance of companies that investors consider comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and
- changes in global financial markets and global economies and general market conditions, such as interest rates, commodity and equity prices and the value of financial assets.

To the extent that the price of our common stock remains low or declines, our ability to raise funds through the issuance of equity or otherwise use our common stock as consideration will be reduced. This, in turn, may adversely impact our ability to reduce our financial leverage, as measured by the ratio of total debt to total capital. As of September 30, 2011, our total debt to total capital was 88.2% and our net debt to net capital was 81.5%. Continued high levels of leverage or significant increases may adversely affect our credit ratings and make it more difficult for us to access additional capital. These factors may limit our ability to implement our operating and growth plans.

The tax benefits of our pre-ownership change net operating loss carryforwards and any future recognized built-in losses in our assets will be substantially limited since we experienced an ownership change as defined in Section 382 of the Internal Revenue Code.

Based on recent impairments and our current financial performance, we generated net operating losses for fiscal 2011 and could possibly generate additional net operating losses in future years. In addition, we believe we have significant built-in losses in our assets (i.e. an excess tax basis over current fair market value) that may result in tax losses as such assets are sold. Net operating losses generally may be carried forward for a 20-year period to offset future earnings and reduce our federal income tax liability. Built-in losses, if and when recognized, generally will result in tax losses that may then be deducted or carried forward. However, because we experienced an ownership change under Section 382 of the Internal Revenue Code as of January 12, 2010, our ability to realize these tax benefits may be significantly limited.

Section 382 contains rules that limit the ability of a company that undergoes an ownership change, which is generally defined as any change in ownership of more than 50% of its common stock over a three-year period, to utilize its net operating loss carryforwards and certain built-in losses or deductions, as of the ownership change date, that are recognized during the five-year period after the ownership change. These rules generally operate by focusing on changes in the ownership among shareholders owning, directly or indirectly, 5% or more of the company s common stock (including changes involving a shareholder becoming a 5% shareholder) or any change in ownership arising from a new issuance of stock or share repurchases by the company.

As a result of our recent ownership change for purposes of Section 382, our ability to use certain of our pre-ownership change net operating loss carryforwards and recognize certain built-in losses or deductions is limited by Section 382 to an estimated maximum amount of approximately $11.4 million ($4 million tax-effected) annually. Based on the resulting limitation, a significant portion of our pre-ownership change net operating loss carryforwards and any future recognized built-in losses or deductions could expire before we would be able to use them. Our inability to utilize our limited pre-ownership change net operating loss carryforwards and any future recognized built-in losses or deductions or the occurrence of a future ownership change and resulting additional limitations could have a material adverse effect on our financial condition, results of operations and cash flows.

We are subject to extensive government regulation which could cause us to incur significant liabilities or restrict our business activities.

Regulatory requirements could cause us to incur significant liabilities and operating expenses and could restrict our business activities. We are subject to local, state and federal statutes and rules regulating, among other things, certain developmental matters, building and site design, and matters concerning the protection of health and the environment. Our operating expenses may be increased by governmental regulations such as building permit allocation ordinances and impact and other fees and taxes, which may be imposed to defray the cost of providing certain governmental services and improvements. Other governmental regulations, such as building moratoriums and no growth or slow growth initiatives, which may be adopted in communities which have developed rapidly, may cause delays in new home communities or otherwise restrict our business activities resulting in reductions in our revenues. Any delay or refusal from government agencies to grant us necessary licenses, permits and approvals could have an adverse effect on our operations.

We may incur additional operating expenses due to compliance programs or fines, penalties and remediation costs pertaining to environmental regulations within our markets.

We are subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. The particular environmental laws which apply to any given community vary greatly according to the community site, the site s environmental conditions and the present and former use of the site. Environmental laws may result in delays, may cause us to implement time consuming and expensive compliance programs and may prohibit or severely restrict development in certain environmentally sensitive regions or areas. From time to time, the United States Environmental Protection Agency (EPA) and similar federal or state agencies review homebuilders compliance with environmental laws and may levy fines and penalties for failure to strictly comply with applicable environmental laws or impose additional requirements for future compliance as a result of past failures. Any such actions taken with respect to us may increase our costs. Further, we expect that increasingly stringent requirements will be imposed on homebuilders in the future. Environmental regulations can also have an adverse impact on the availability and price of certain raw materials such as lumber. Our communities in California are especially susceptible to restrictive government regulations and environmental laws.

We may be subject to significant potential liabilities as a result of construction defect, product liability and warranty claims made against us.

As a homebuilder, we have been, and continue to be, subject to construction defect, product liability and home warranty claims, including moisture intrusion and related claims, arising in the ordinary course of business. These claims are common to the homebuilding industry and can be costly.

We and certain of our subsidiaries have been, and continue to be, named as defendants in various construction defect claims, product liability claims, complaints and other legal actions that include claims related to Chinese drywall and moisture intrusion. As of September 30, 2011, our warranty reserves include an estimate for the repair of less than 60 homes in Florida where certain of our subcontractors installed defective Chinese drywall in homes that were delivered during our 2006 and 2007 fiscal years. As of September 30, we have completed repairs on approximately 92% of these homes. We are inspecting additional homes in order to determine whether they also contain defective Chinese drywall. The outcome of these inspections and other potential future inspections or an unexpected increase in repair costs may require us to increase our warranty reserve in the future. However, the amount of additional liability, if any, is not reasonably estimable. Furthermore, plaintiffs may in certain of these legal proceedings seek class action status with potential class sizes that vary from case to case. Class action lawsuits can be costly to defend, and if we were to lose any certified class action suit, it could result in substantial liability for us.

With respect to certain general liability exposures, including construction defect claims, product liability claims and defective Chinese drywall and related claims, interpretation of underlying current and future trends, assessment of claims and the related liability and reserve estimation process is highly judgmental due to the complex nature of these exposures, with each exposure exhibiting unique circumstances. Furthermore, once claims are asserted for construction defects, it can be difficult to determine the extent to which the assertion of these claims will expand geographically. Although we have obtained insurance for construction defect claims subject to applicable self-insurance retentions, such policies may not be available or adequate to cover liability for damages, the cost of repairs, and/or the expense of litigation surrounding current claims, and future claims may arise out of events or circumstances not covered by insurance and not subject to effective indemnification agreements with our subcontractors.

Our operating expenses could increase if we are required to pay higher insurance premiums or litigation costs for various claims, which could cause our net income to decline.

The costs of insuring against construction defect, product liability and director and officer claims are substantial. Increasingly in recent years, lawsuits (including class action lawsuits) have been filed against builders, asserting claims of personal injury and property damage. Our insurance may not cover all of the claims, including personal injury claims, or such coverage may become prohibitively expensive. If we are not able to obtain adequate insurance against these claims, we may experience losses that could reduce our net income and restrict our cash flow available to service debt.

Historically, builders have recovered from subcontractors and their insurance carriers a significant portion of the construction defect liabilities and costs of defense that the builders have incurred. Insurance coverage available to subcontractors for construction defects is becoming increasingly expensive, and the scope of coverage is restricted. If we cannot effectively recover from our subcontractors or their carriers, we may suffer greater losses which could decrease our net income.

A builder s ability to recover against any available insurance policy depends upon the continued solvency and financial strength of the insurance carrier that issued the policy. Many of the states in which we build homes have lengthy statutes of limitations applicable to claims for construction defects. To the extent that any carrier providing insurance coverage to us or our subcontractors becomes insolvent or experiences financial difficulty in the future, we may be unable to recover on those policies, and our net income may decline.

We are dependent on the continued availability and satisfactory performance of our subcontractors, which, if unavailable, could have a material adverse effect on our business.

We conduct our construction operations only as a general contractor. Virtually all construction work is performed by unaffiliated third-party subcontractors. As a consequence, we depend on the continued availability of and satisfactory performance by these subcontractors for the construction of our homes. There may not be sufficient availability of and satisfactory performance by these unaffiliated third-party subcontractors in the markets in which we operate. In addition, inadequate subcontractor resources could have a material adverse effect on our business.

We experience fluctuations and variability in our operating results on a quarterly basis and, as a result, our historical performance may not be a meaningful indicator of future results.

We historically have experienced, and expect to continue to experience, variability in home sales and net earnings on a quarterly basis. As a result of such variability, our historical performance may not be a meaningful indicator of future results. Our quarterly results of operations may continue to fluctuate in the future as a result of a variety of both national and local factors, including, among others:

- the timing of home closings and land sales;
- our ability to continue to acquire additional land or secure option contracts to acquire land on acceptable terms;

conditions of the real estate market in areas where we operate and of the general economy;

raw material and labor shortages;

seasonal home buying patterns; and

other changes in operating expenses, including the cost of labor and raw materials, personnel and general economic conditions.

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The occurrence of natural disasters could increase our operating expenses and reduce our revenues and cash flows.

The climates and geology of many of the states in which we operate, including California, Florida, Georgia, North Carolina, South Carolina, Tennessee and Texas, present increased risks of natural disasters. To the extent that hurricanes, severe storms, earthquakes, droughts, floods, wildfires or other natural disasters or similar events occur, our homes under construction or our building lots in such states could be damaged or destroyed, which may result in losses exceeding our insurance coverage. Any of these events could increase our operating expenses, impair our cash flows and reduce our revenues, which could, in turn, negatively affect the market price of our securities.

Future terrorist attacks against the United States or increased domestic or international instability could have an adverse effect on our operations.

Adverse developments in the war on terrorism, future terrorist attacks against the United States, or any outbreak or escalation of hostilities between the United States and any foreign power, may cause disruption to the economy, our Company, our employees and our customers, which could adversely affect our revenues, operating expenses, and financial condition.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

As of September 30, 2011, we lease approximately 80,114 square feet of office space in Atlanta, Georgia to house our corporate headquarters. We also lease an aggregate of approximately 295,185 square feet of office space for our subsidiaries operations at various locations. We have subleased approximately 97,299 square feet of our leased office space to unrelated third-parties. We own approximately 49,000 square feet of office space in Indianapolis, Indiana which we are actively marketing for sale.

Item 3. ***Legal Proceedings***

South Edge Litigation

During fiscal 2008, the administrative agent for the lenders of one of our unconsolidated joint ventures, South Edge, LLC, filed individual lawsuits against some of the joint venture members and certain of those members parent companies (including the Company), seeking to recover damages under completion guarantees, among other claims. As discussed in Note 3 to the Consolidated Financial Statements, South Edge was the subject of an involuntary bankruptcy petition filed in December 2010. During fiscal 2011, the Company and one of its subsidiaries became parties to a settlement among the administrative agent for the lenders to South Edge (the Administrative Agent), certain of the lenders to South Edge, and certain of the other South Edge members and their respective parent companies (together with the Company and its subsidiary, the Participating Members). On October 26, 2011, the bankruptcy court approved the South Edge plan of reorganization including the settlement agreement.

Pursuant to the agreement, the Company would pay to the lenders an amount between approximately \$15.7 million and \$17.2 million, depending on certain contingencies including the extent to which infrastructure development funds already pledged to the Administrative Agent can be applied to the Participating Members obligations as set forth under the proposed Plan. In addition to these amounts, the Company will be responsible for its pro rata share of various fees, expenses and charges of the administrative agent for the lenders, the lenders and the Chapter 11 trustee, and to pay its share of certain allowed general unsecured claims in the South Edge bankruptcy case.

Under the agreement, the Company anticipates that one of its subsidiaries would acquire its share of the land previously owned by South Edge as a result of a bankruptcy court-approved disposition of the land to a newly created entity in which such subsidiary would expect to be a member and which would satisfy the obligations secured by the liens of the Administrative Agent and the lenders on the land. Matters related to this litigation are more fully discussed in Note 3 to the Consolidated Financial Statements.

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Other Litigation

Homeowners Class Action Lawsuits and Multi-plaintiff Lawsuits

A putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation (BMC). The Complaint alleges that Beazer violated the Real Estate Settlement Practices Act (RESPA) and North Carolina Gen. Stat. § 75-1.1 by (1) improperly requiring homebuyers to use Beazer-owned mortgage and settlement services as part of a down payment assistance program, and (2) illegally increasing the cost of homes and settlement services sold by Beazer Homes Corp. On September 2, 2011, the court entered a final judgment and order approving a class settlement in which the Company and all other defendants did not admit any liability. The settling class consists of all persons who purchased a home from Beazer in North Carolina, closed on the home purchase between August 1, 2002 and August 30, 2011, and received settler-funded down payment assistance as part of that transaction. Under terms of the settlement, the Company has made a payment that is not material to the Company s financial position or results of operations and which will be partially funded by insurance proceeds.

On June 3, 2009, Beazer Homes Corp. was named as a defendant in a purported class action lawsuit in the Circuit Court for Lee County, State of Florida, filed by Bryson and Kimberly Royal, the owners of one of our homes in our Magnolia Lakes community in Ft. Myers, Florida. The complaint names the Company and certain distributors and suppliers of drywall and was filed on behalf of the named plaintiffs and other similarly situated owners of homes in Magnolia Lakes or alternatively in the State of Florida. The plaintiffs allege that the Company built their homes with defective drywall, manufactured in China, that contains sulfur compounds that allegedly corrode certain metals and that are allegedly capable of harming the health of individuals. Plaintiffs allege physical and economic damages and seek legal and equitable relief, medical monitoring and attorney s fees. This case has been transferred to the Eastern District of Louisiana pursuant to an order from the United States Judicial Panel on Multidistrict Litigation. In addition, the Company has been named in other multi-plaintiff complaints filed in the multidistrict litigation. We believe that the claims asserted in these actions are governed by home warranties or are without merit. Accordingly, the Company intends to vigorously defend against this litigation. Furthermore, the Company has offered to repair all Beazer homes affected by defective Chinese drywall pursuant to repair protocol that has been adopted by the multidistrict litigation court, including those homes involved in litigation. To date, nearly all affected Beazer homeowners have accepted the Company s offer to repair. The Company also continues to pursue recovery against responsible subcontractors, drywall suppliers and drywall manufacturers for its repair costs.

On March 14, 2011, the Company and several subsidiaries were named as defendants in a lawsuit filed by Flagstar Bank, FSB in the Circuit Court for the County of Oakland, State of Michigan. The complaint demands approximately $5 million to recover purported losses in connection with 57 residential mortgage loan transactions under theories of breach of contract, fraud/intentional misrepresentation and other similar theories of recovery. We believe we have strong defenses to the claims on these individual loans and intend to vigorously defend the action. In addition, BMC has received notices from other investors demanding that BMC indemnify them for losses suffered with respect to certain other mortgage loan transactions, largely alleging misrepresentations during the loan origination process. We are currently investigating these claims and are in communication with investors. To date, including the mortgage loans that are the subject of the lawsuit, we have received requests to repurchase fewer than 100 mortgages from various investors. As previously disclosed, we operated BMC from 1998 through February 2008 to offer mortgage financing to the buyers of our homes. BMC entered into various agreements with mortgage investors, pursuant to which BMC originated certain mortgage loans and ultimately sold these loans to investors. Underwriting decisions were not made by BMC but by the investors themselves or third-party service providers. We have not been required to repurchase any of these loans.

On March 15, 2011, a shareholder derivative suit was filed by certain funds affiliated with Teamsters Local 237 in the Superior Court of Fulton County, State of Georgia against certain officers and directors of the Company and the Company s compensation consultants. The complaint alleged breach of fiduciary duties involving decisions regarding executive compensation; specifically that compensation awarded to certain Company executives for the 2010 fiscal year were improper in light of the negative subsequent advisory say on pay vote by shareholders at the Company s 2011 stockholders meeting. On September 16, 2011, the court entered an order and granted the defendants motion to dismiss all counts of the complaint. The plaintiffs have filed a notice of appeal.

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

Other Matters

As disclosed in our 2009 Form 10K, on July 1, 2009, the Company announced that it has resolved the criminal and civil investigations by the United States Attorney s Office in the Western District of North Carolina (the U.S. Attorney) and other state and federal agencies concerning matters that were the subject of the independent investigation, initiated in April 2007 by the Audit Committee of the Board of Directors (the Investigation) and concluded in May 2008. Under the terms of a deferred prosecution agreement (DPA), the Company s liability for fiscal 2011 and each of the fiscal years after 2010 through a portion of fiscal 2014 (unless extended as previously described in our 2009 Form 10-K) will also be equal to 4% of the Company s adjusted EBITDA (as defined in the DPA). The total amount of such obligations will be dependent on several factors; however, the maximum liability under the DPA and other settlement agreements discussed above will not exceed $55.0 million of which $16 million has been paid as of September 30, 2011.

In 2006, we received two Administrative Orders issued by the New Jersey Department of Environmental Protection. The Orders allege certain violations of wetlands disturbance permits. The two Orders assess proposed fines of $630,000 and $678,000, respectively. We have met with the Department to discuss their concerns on the two affected communities and have requested hearings on both matters. We believe that we have significant defenses to the alleged violations and intend to contest the agency s findings and the proposed fines. We are currently pursuing settlement discussions with the Department.

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

The Company lists its common shares on the New York Stock Exchange (NYSE) under the symbol BZH. On November 9, 2011, the last reported sales price of the Company s common stock on the NYSE was $2.20. On November 9, 2011, Beazer Homes USA, Inc. had approximately 223 stockholders of record and 75,548,949 shares of common stock outstanding. The following table sets forth, for the quarters indicated, the range of high and low trading for the Company s common stock during fiscal 2011 and 2010.

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Fiscal Year 2011:				
High	**$ 5.67**	$ 6.23	$ 4.79	$ 3.68
Low	**$ 3.88**	$ 4.13	$ 2.99	$ 1.48
Fiscal Year 2010:				
High	$ 6.06	$ 5.44	$ 7.08	$ 4.69
Low	$ 3.90	$ 3.83	$ 3.61	$ 3.10

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Dividends

The indentures under which our senior notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At September 30, 2011, under the most restrictive covenants of each indenture, none of our retained earnings was available for cash dividends or share repurchases. The Board of Directors will periodically reconsider the declaration of dividends, assuming payment of dividends is not limited under the aforementioned indentures. The reinstatement of quarterly dividends, the amount of such dividends, and the form in which the dividends are paid (cash or stock) will depend upon the results of operations, the financial condition of the Company and other factors which the Board of Directors deems relevant.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of September 30, 2011 with respect to our shares of common stock that may be issued under our existing equity compensation plans, all of which have been approved by our stockholders:

Plan Category	Number of Common Shares to be Issued Upon Exercise of Outstanding (a)	Weighted Average Exercise Price of Outstanding (b)	Number of Common Shares Remaining Available for Future Issuance Under Equity Compensation (c)
Equity compensation plans approved by stockholders	1,876,238	$ 9.77	3,984,721

Issuer Purchases of Equity Securities

During the quarter ended September 30, 2011, 6,871 shares, at an average price of $1.80 per share, were surrendered to us by employees in payment of minimum tax obligations upon the vesting of restricted stock units under our stock incentive plans.

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Performance Graph

The following graph illustrates the cumulative total stockholder return on Beazer Homes common stock for the last five fiscal years through September 30, 2011, compared to the S&P 500 Index and the S&P 500 Homebuilding Index. The comparison assumes an investment in Beazer Homes common stock and in each of the foregoing indices of $100 at September 30, 2006, and assumes that all dividends were reinvested. Stockholder returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns.

Comparison of Five Year Cumulative Total Return
Assumes Initial Investment of $100
September 2011

	Fiscal Year Ended September 30,				
	2007	**2008**	**2009**	**2010**	**2011**
Beazer Homes USA, Inc.	$ 21.59	$ 15.65	$ 14.63	$ 10.81	$ 3.95
S&P 500	116.43	90.86	84.58	93.19	94.26
S&P Homebuilding	50.85	43.11	36.13	33.52	23.83

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Item 6. *Selected Financial Data*

	Year Ended September 30,				
	2011	2010	2009	2008	2007
	($ in millions, except per share amounts)				
Statement of Operations Data:(i)					
Total revenue	$ 742	$ 991	$ 962	$ 1,726	$ 2,934
Gross profit (loss)	48	84	16	(249)	(91)
Gross margin(i),(ii)	6.5%	8.4%	1.7%	(14.4)%	(3.1)%
Operating loss	$ (132)	$ (113)	$ (239)	$ (617)	$ (511)
Loss from continuing operations	(200)	(30)	(173)	(779)	(346)
EPS from continuing operations -basic and diluted	(2.71)	(0.49)	(4.48)	(20.28)	(9.01)
Dividends paid per common share					0.40
Balance Sheet Data (end of year)(iii):					
Cash and cash equivalents and restricted cash	$ 647	$ 576	$ 557	$ 585	$ 460
Inventory	1,204	1,204	1,318	1,652	2,775
Total assets	1,977	1,903	2,029	2,642	3,930
Total debt	1,489	1,212	1,509	1,747	1,857
Stockholders equity	198	397	197	375	1,324
Supplemental Financial Data(iii):					
Cash provided by (used in):					
Operating activities	$ (179)	$ 70	$ 94	$ 316	$ 509
Investing activities	(260)	(6)	(80)	(18)	(52)
Financing activities	273	(34)	(91)	(167)	(171)
Financial Statistics(iii):					
Total debt as a percentage of total debt and stockholders equity	88.2%	75.3%	88.5%	82.3%	58.4%
Net debt as a percentage of net debt and stockholders equity(ii)	81.5%	62.9%	83.6%	75.6%	51.4%
Adjusted EBITDA from total operations(iv)	$ (27.8)	$ 60.2	$ 108.1	$ (27.5)	$ 235.6
Operating Statistics from continuing operations:					
New orders, net	3,927	4,045	4,016	5,123	7,919
Closings	3,249	4,421	4,152	6,331	9,738
Units in backlog	1,450	772	1,148	1,284	2,492
Average selling price (in thousands)	$ 219.4	$ 222.1	$ 230.9	$ 254.3	$ 289.5

(i) Statement of operations data is from continuing operations. Gross profit (loss) includes inventory impairments and lot options abandonments of $32.5 million, $50.0 million, $93.6 million, $403.4 million and $531.2 million for the fiscal years ended September 30, 2011, 2010, 2009, 2008 and 2007, respectively. Operating loss also includes goodwill impairments of $16.1 million, $48.1 million, and $49.7 million for the fiscal years ended September 30, 2009, 2008 and 2007, respectively. The aforementioned charges were primarily related to the deterioration of the homebuilding environment over the applicable years. Loss from continuing operations for fiscal 2011, 2010, and 2009 also include a (loss) gain on extinguishment of debt of $(2.9) million, $43.9 million, and $144.5 million respectively.

(ii) Net Debt = Debt less unrestricted cash and cash equivalents and restricted cash related to the cash secured loan; Gross margin = Gross profit divided by total revenue.

(iii) Discontinued operations were not segregated in the consolidated balance sheets or statements of cash flows.

(iv) EBIT (earnings before interest and taxes) equals net loss before (a) previously capitalized interest amortized to home construction and land sales expenses, capitalized interest impaired and interest expense not qualified for capitalization and (b) income taxes. Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and impairments) is calculated by adding non-cash charges, including depreciation, amortization, inventory impairment and abandonment charges, goodwill impairments and joint venture impairment charges for the period to EBIT. EBIT and Adjusted EBITDA are not Generally Accepted Accounting Principles (GAAP) financial measures. EBIT and Adjusted EBITDA should not be considered alternatives to net income determined in accordance with GAAP as an indicator of operating performance. Because some analysts and companies may not calculate EBIT and Adjusted EBITDA in the same manner as Beazer Homes, the EBIT and Adjusted EBITDA information presented above may not be comparable to similar presentations by others.

The magnitude and volatility of non-cash inventory impairment and abandonment charges, goodwill impairments and joint venture impairment charges for the Company, and for other home builders, have been significant in recent periods and, as such, have made financial analysis of our industry more difficult. Adjusted EBITDA, and other similar presentations by analysts and other companies, is frequently used to assist investors in understanding and comparing the operating characteristics of home building activities by eliminating many of the differences in companies respective capitalization, tax position and level of impairments. Management believes this non-GAAP measure is an indication of the Company s baseline performance in that the measure provides a consistent means of comparing performance between periods and competitors. The Company also believes that Adjusted EBITDA aids investors overall understanding of the Company s results by providing transparency for items such as inventory impairment and abandonment charges, interest amortized to home construction and land sales expenses, and joint venture impairment charges. Management uses this non-GAAP measure to assist in the evaluation of the performance of our business segments and to make operating decisions. As a result, the Company has reconciled EBIT and Adjusted EBITDA to net loss, the most directly comparable GAAP measure as follows *(in thousands):*

	Year Ended September 30,				
	2011	**2010**	**2009**	**2008**	**2007**
Net loss	**$ (204,859)**	$ (34,049)	$ (189,383)	$ (951,912)	$ (411,073)
(Benefit) provision for income taxes	**3,429**	(133,188)	(9,076)	84,763	(222,207)
Interest amortized to home construction and land sales expenses and capitalized interest impaired	**48,289**	54,556	58,090	126,057	139,880
Interest expense not qualified for capitalization	**73,440**	74,214	83,030	55,185	
EBIT	**(79,701)**	(38,467)	(57,339)	(685,907)	(493,400)
Depreciation and amortization and stock compensation amortization	**17,878**	24,774	30,723	40,273	44,743
Inventory impairments and option contract abandonments	**33,458**	49,526	103,751	496,833	599,514
Goodwill impairment			16,143	52,470	52,755
Joint venture impairment and abandonment charges	**594**	24,328	14,793	68,791	31,939
Adjusted EBITDA	**$ (27,771)**	$ 60,161	$ 108,071	$ (27,540)	$ 235,551

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Executive Overview and Outlook

The national economic environment continues to be a challenge and is characterized by high unemployment levels, an unstable job market and moderate spending in limited categories. Compounding that is consumer and business uncertainty regarding the health of the U.S. and global economies. Against this backdrop, prospective home buyers have been further challenged by evidence of falling home prices, a significant current and anticipated future inventory of distressed homes for sale, and limited availability of mortgage credit. Although home prices and home ownership costs are very low compared to historical levels, and despite the fact that for many consumers it is less expensive to be a home owner than an apartment renter, demand for new homes has been exceptionally weak for several years.

Throughout the homebuilding recession we have remained disciplined in our approach to the business. Among other actions we have:

- Exited numerous markets that we determined were not core to our long-term profitability objectives, including Northwest Florida this quarter;
- Reduced overhead expenses by eliminating headcount and centralizing or regionalizing various functional activities;
- Value-engineered our homes to reduce direct construction costs;
- Limited our construction of unsold homes to align our inventory with anticipated near-term demand; and
- Controlled our land and land development spending consistent with our view of market conditions.

Each of these efforts has been undertaken to allow the company to generate or conserve liquidity while maintaining or growing a substantial homebuilding presence in large markets to participate in the eventual housing recovery. We expect to continue this disciplined approach to managing our business during these uncertain times as we strive toward returning to profitability.

During the quarter ending March 31, 2011, the Company launched a Pre-Owned Homes Division which we charged with acquiring, improving and renting out recently built, previously owned homes within select communities in markets in which the Company currently operates. By augmenting the sale of newly constructed homes with rental options of previously owned homes, we expect to appeal to a broader range of consumers. The primary source of Pre-Owned Homes inventory will be distressed sales, typically foreclosures or short sales, which we anticipate acquiring at a discount to their replacement cost. This Division leverages our strengths as a homebuilder and knowledge of our markets, and offers an attractive investment proposition for a portion of the Company s cash reserve. Since the formation of this division, we have determined the business opportunity is substantial and that the Company is well positioned to significantly increase the scale of operations with rental homes. As such, we are in the process of identifying additional external sources of equity and debt capital to augment the Company s resources. We expect to limit the Company s investment in this division to no more than $20 million. Pre-Owned Homes is presented as a reportable segment in the management discussions and analysis that follow.

Despite our confidence in the eventual growth prospects for our business, we expect to maintain a significant liquidity position. This may limit the speed and scale of our investments, which could in turn result in a slower return to profitability. Additionally, from time to time we may take steps to refine our capitalization, which could increase or decrease liquidity. These steps could include the retirement or purchase of our outstanding debt, through cash purchases or exchange offers for other debt or equity instruments, in open market, publically registered or privately negotiated transactions or otherwise. There can be no assurances that we will be able to complete any of these transactions in the future on favorable terms or at all.

While our visibility into the economic conditions for fiscal 2012 is limited, we believe that we will benefit from projected population growth and increases in housing starts in the coming years. In the meantime, we are taking the steps necessary to drive improvement in homebuilding revenues, while maintaining an efficient cost structure, looking for new opportunities to generate profits and investing for future growth, all with the intention to accelerate our return to profitability.

Critical Accounting Policies

Some of our critical accounting policies require the use of judgment in their application 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. Listed below are those policies that we believe are critical and require the use of complex judgment in their application.

Inventory Valuation Held for Development

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

When conducting our community level review for the recoverability of our homebuilding inventories held for development, we establish a quarterly watch list of communities with more than 10 homes remaining that carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability. In our experience, this threshold represents a level of profitability that may be an indicator of conditions which would require an asset impairment but does not guarantee that such impairment will definitively be appropriate. As such, assets on the quarterly watch list are subject to substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to profit margins below our watch list threshold. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information.

Our qualitative competitive market analyses include site visits to competitor new home communities and written community level competitive assessments. A competitive assessment consists of a comparison of our specific community with its competitor communities, considering square footage of homes offered, amenities offered within the homes and the communities, location, transportation availability and school districts, among many factors. In addition, we review the pace of monthly home sales of our competitor communities in relation to our specific community. We also review other factors such as the target buyer and the macro-economic characteristics that impact the performance of our assets, such as unemployment and the availability of mortgage financing, among other things. Based on this qualitative competitive market analysis, adjustments to our sales prices may be required in order to make our communities competitive. We incorporate these adjusted prices in our quantitative analysis for the specific community.

The quantitative analysis compares the projected future undiscounted cash flows for each such community with its current carrying value. This undiscounted cash flow analysis requires important assumptions regarding the location and mix of house plans to be sold, current and future home sale prices and incentives for each plan, current and future construction costs for each plan, and the pace of monthly sales to occur today and into the future.

There is uncertainty associated with preparing the undiscounted cash flow analysis because future market conditions will almost certainly be different, either better or worse, than current conditions. The single most important input to the cash flow analysis is current and future home sales prices for a specific community. The risk of over or under-stating any of the important cash flow variables, including home prices, is greater with longer-lived communities and within markets that have historically experienced greater home price volatility. In an effort to address these risks, we consider some home price and construction cost appreciation in future years for certain communities that are expected to be selling for more than three years and/or if the market has typically exhibited high levels of price volatility. Absent these assumptions on cost and sales price appreciations, we believe the long-term cash flow analysis would be unrealistic and would serve to artificially improve future profitability. Finally, we also ensure that the monthly sales absorptions, including historical seasonal differences of our communities and those of our competitors, used in our undiscounted cash flow analyses are realistic, consider our development schedules and relate to those achieved by our competitors for the specific communities.

If the aggregate undiscounted cash flows from our quantitative analysis are in excess of the carrying value, the asset is considered to be recoverable and is not impaired. If the aggregate undiscounted cash flows are less than the carrying or book value, we perform a discounted cash flow analysis to determine the fair value of the community. The fair value of the community is estimated using the present value of the estimated future cash flows using discount rates commensurate with the risk associated with the underlying community assets. The discount rate used may be different for each community. The factors considered when determining an appropriate discount rate for a community include, among others: (1) community specific factors such as the number of lots in the community, the status of land development in the community, the competitive factors influencing the sales performance of the community and (2) overall market factors such as employment levels, consumer confidence and the existing supply of new and used homes for sale. If the determined fair value is less than the carrying value of the specific asset, the asset is considered not recoverable and is written down to its fair value plus the asset s share of capitalized unallocated interest and other costs. The carrying value of assets in communities that were previously impaired and continue to be classified as held for development is not increased for future estimates of increases in fair value in future reporting periods.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in our impairment analyses. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including decreased sales prices, a change in sales prices or changes in absorption estimates based on current market conditions and management s assumptions relative to future results could lead to additional impairments in certain communities during any given period. Market deterioration that exceeds our estimates may lead us to incur additional impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if the market continues to deteriorate.

Asset Valuation Land Held for Future Development

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

Asset Valuation Land Held for Sale

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

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

Additionally, in certain circumstances, management will re-evaluate the best use of an asset that is currently being accounted for as held for development. In such instances, management will review, among other things, the current and projected competitive circumstances of the community, including the level of supply of new and used inventory, the level of sales absorptions by us and our competition, the level of sales incentives required and the number of owned lots remaining in the community. If, based on this review and the foregoing criteria have been met at the end of the applicable reporting period, we believe that the best use of the asset is the sale of all or a portion of the asset in its current condition, then all or portions of the community are accounted for as held for sale.

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

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

Homebuilding Revenues and Costs

Revenue from the sale of a home is generally recognized when the closing has occurred and the risk of ownership is transferred to the buyer. As appropriate, revenue for condominiums under construction is recognized based on the percentage-of-completion method, when certain criteria are met. All associated homebuilding costs are charged to cost of sales in the period when the revenues from home closings are recognized. Homebuilding costs include land and land development costs (based upon an allocation of such costs, including costs to complete the development, or specific lot costs), home construction costs (including an estimate of costs, if any, to complete home construction), previously capitalized indirect costs (principally for construction supervision), capitalized interest and estimated warranty costs. Sales commissions are recognized as expense when the closing has occurred. All other costs are expensed as incurred.

Warranty Reserves

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

Since we subcontract our homebuilding work to subcontractors whose contracts generally include an indemnity obligation and a requirement that certain minimum insurance requirements be met, including providing us with a certificate of insurance prior to receiving payments for their work, claims relating to workmanship and materials are generally the primary responsibility of our subcontractors.

Warranty reserves are included in other liabilities in the consolidated balance sheets. We record reserves covering our anticipated warranty expense for each home closed. Management reviews the adequacy of warranty reserves each reporting period, based on historical experience and management s estimate of the costs to remediate the claims, and adjusts these provisions accordingly. Our review includes a quarterly analysis of the historical data and trends in warranty expense by operating segment. An analysis by operating segment 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 contemplated in our historical data and trends. As a result of our analyses, we adjust our estimated warranty liabilities. Based on historical results, we believe that our existing estimation process is accurate and do not anticipate the process to materially change in the future. Our estimation process for such accruals is discussed in Note 13 to the Consolidated Financial Statements. While we believe that our current warranty reserves are adequate, there can be no assurances that historical data and trends will accurately predict our actual warranty costs or that future developments might not lead to a significant change in the reserve.

Investments in Unconsolidated Joint Ventures

We periodically enter into joint ventures with unrelated developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. We have determined that our interest in these joint ventures should be accounted for under the equity method. We recognize our share of profits and losses from the sale of lots to other buyers. Our share of profits from lots purchased by Beazer Homes from the joint ventures are deferred and treated as a reduction of the cost of the land purchased from the joint venture. Such profits are subsequently recognized at the time the home closes and title passes to the homebuyer.

We evaluate our investments in unconsolidated entities for impairment during each reporting period. A series of operating losses of an investee or other factors may indicate that a decrease in the value of our investment in the unconsolidated entity has occurred which is other-than-temporary. The amount of impairment recognized is the excess of the investment s carrying value over its estimated fair value.

Our assumption of the joint venture s estimated fair value is dependent on market conditions. Inventory in the joint venture is also reviewed for potential impairment by the unconsolidated entities. If a valuation adjustment is recorded by an unconsolidated entity, our proportionate share of it is reflected in our equity in income (loss) from unconsolidated joint ventures with a corresponding decrease to our investment in unconsolidated entities. The operating results of the unconsolidated joint ventures are dependent on the status of the homebuilding industry, which has historically been cyclical and sensitive to changes in economic conditions such as interest rates, credit availability, unemployment levels and consumer sentiment. Changes in these economic conditions could materially affect the projected operational results of the unconsolidated entities. Because of these changes in economic conditions, actual results could differ materially from management s assumptions and may require material valuation adjustments to our investments in unconsolidated entities to be recorded in the future.

Income Taxes Valuation Allowance

Judgment is required in estimating valuation allowances for deferred tax assets. A valuation allowance is established against a deferred tax asset if, based on the available evidence, it is not more likely than not that such assets will be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under tax law. We periodically assess the need for valuation allowances for deferred tax assets based on more-likely-than-not realization threshold criteria. In our assessment, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards not expiring unused, the Section 382 limitation on our ability to carryforward pre-ownership change net operating losses and recognized built-in losses or deductions, and tax planning alternatives.

Our assessment of the need for the valuation of deferred tax assets includes assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. Changes in existing tax laws or rates could affect actual tax results and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. Our accounting for deferred tax consequences represents our best estimate of future events. Although it is possible there will be changes that are not anticipated in our current estimates, we believe it is unlikely such changes would have a material period-to-period impact on our financial position or results of operations.

During fiscal 2008, we determined that it was not more likely than not that substantially all of our deferred tax assets would be realized and, therefore, we established a valuation allowance for substantially all of our deferred tax assets. We have not changed our assessment regarding the recoverability of our deferred tax assets as of September 30, 2011 and consequently, we determined that a valuation allowance was still warranted. Management reassesses the realizability of the deferred tax assets each reporting period. To the extent that our results of operations improve and deferred tax assets become realizable, the valuation allowance will be reduced and result in a non-cash tax benefit.

We experienced an ownership change as defined in Section 382 of the Internal Revenue Code as of January 12, 2010. Section 382 contains rules that limit the ability of a company that undergoes an ownership change to utilize its net operating loss carryforward and certain built-in losses or deductions recognized during the five-year period after the ownership change. Therefore, our ability to utilize our pre-ownership change net operating loss (NOL) carryforwards and certain recognized built-in losses or deductions is limited by Section 382.

There can be no assurance that another ownership change, as defined in the tax law, will not occur. If another ownership change occurs, a new annual limitation on the utilization of net operating losses would be determined as of that date.

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Seasonal and Quarterly Variability: Our homebuilding operating cycle generally reflects escalating new order activity in the second and third fiscal quarters and increased closings in the third and fourth fiscal quarters. However, beginning in the second half of fiscal 2006 and continuing through fiscal 2011, we experienced challenging conditions in many of our markets which often contributed to decreased revenues and closings as compared to prior periods including prior quarters, thereby reducing typical seasonal variations. In addition, the expiration of the $8,000 First time Homebuyer Tax Credit on June 30, 2010, appears to have incentivized certain homebuyers to purchase homes during the first half of fiscal 2010 and close those homes prior to June 30, 2010. This resulted in a change to our typical seasonal variations as we experienced increased closings in our third quarter of fiscal 2010 as opposed to our fourth quarter of fiscal 2010 and third quarter of fiscal 2011 . The following chart presents certain quarterly operating data for our continuing operations for our last twelve fiscal quarters.

	New Orders (Net of Cancellations)				
	1st Qtr	**2nd Qtr**	**3rd Qtr**	**4th Qtr**	**Total**
2011	**534**	**1,172**	**1,215**	**1,006**	**3,927**
2010	704	1,602	982	757	4,045
2009	514	1,081	1,454	967	4,016

	Closings				
	1st Qtr	**2nd Qtr**	**3rd Qtr**	**4th Qtr**	**Total**
2011	**519**	**563**	**791**	**1,376**	**3,249**
2010	921	823	1,558	1,119	4,421
2009	856	781	893	1,622	4,152

RESULTS OF CONTINUING OPERATIONS:

	Fiscal Year Ended September 30,		
	2011	**2010**	**2009**
	($ in thousands)		
Revenues:			
Homebuilding	**$ 712,722**	$ 981,842	$ 958,496
Land sales & other	**29,683**	9,310	3,389
Total	**$ 742,405**	$ 991,152	$ 961,885
Gross profit			
Homebuilding	**$ 43,996**	$ 79,549	$ 15,776
Land sales & other	**4,099**	4,080	620
Total	**$ 48,095**	$ 83,629	$ 16,396
Gross Margin homebuilding	**6.2%**	8.1%	1.6%
Gross Margin land sales & other	**13.8%**	43.8%	18.3%
Gross Margin Total	**6.5%**	8.4%	1.7%

Commissions	**$ 32,711**	$ 43,279	$ 39,514
General and administrative (G&A) expenses	**$ 137,376**	$ 141,115	$ 181,841
G&A as a % of total revenue	**18.5%**	14.2%	18.9%
Depreciation and amortization	**$ 10,253**	$ 12,669	$ 18,289
Goodwill impairment	**$**	$	$ 16,143
Equity in income (loss) of unconsolidated joint ventures from:			
Joint venture activities	**$ 652**	$ 10	$ 518
Impairments	**$ (92)**	$ (8,817)	$ (12,630)
Equity in loss of unconsolidated joint ventures	**$ 560**	$ (8,807)	$ (12,112)
(Loss) gain on extinguishment of debt	**$ (2,909)**	$ 43,901	$ 144,503
Other expense, net	**$ (62,224)**	$ (69,585)	$ (74,781)

Items impacting comparability between periods

The following items impact the comparability of our results of operations between fiscal 2011, 2010 and 2009: inventory impairments and abandonments, certain general and administrative costs, goodwill impairment charges, joint venture impairment charges, and gain on extinguishment of debt. In addition, during fiscal 2011, we discontinued operations in our Northwest Florida markets and have reclassified the operating results of this operation for all periods presented to discontinued operations.

Inventory Impairments and Abandonments. Our gross margins over the past three fiscal years were impacted by non-cash pre-tax inventory impairments and option contract abandonments of $32.5 million in fiscal 2011, $50.0 million in fiscal 2010 and $93.6 million in fiscal 2009. The projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including decreased sales prices, the change in sales prices and changes in absorption estimates. The impairments recorded on our held for development inventory for the fiscal year ended September 30, 2009 primarily resulted from the continued decline in the homebuilding environment across our submarkets. During fiscal 2010 and 2011, although certain markets showed improvement from the prior years, for certain communities we determined it was prudent to reduce sales prices or further increase sales incentives in response to factors including competitive market conditions. In future periods, we may again determine that it is prudent to reduce sales prices, further increase sales incentives or reduce absorption rates which may lead to additional impairments, which could be material.

Our impairments on land held for sale listed below are as a result of challenging market conditions and our review of recent comparable transactions since land held for sale is recorded at net realizable value, less estimated costs to sell. The negative impairments in fiscal 2011 are due to adjustments to accruals for estimated selling costs related to either our strategic decision to develop a previously held-for-sale position or revised estimates based on pending sales transactions.

Over the past few years, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as pre-acquisition costs. The abandonment charges below relate to our decision to abandon certain option contracts that no longer fit in our long-term strategic plan and related to our prior year decision to exit certain markets.

The following tables set forth, by reportable homebuilding segment, the inventory impairments and lot option abandonment charges recorded for the fiscal years ended September 30, 2011, 2010 and 2009 *(in thousands)*:

	Fiscal Year Ended September 30,		
	2011	**2010**	**2009**
Development projects and homes in process (Held for Development)			
West	**$ 20,150**	$ 18,056	$ 42,704
East	**1,611**	18,703	6,383
Southeast	**5,182**	7,510	22,925
Unallocated	**2,362**	3,404	5,116
Subtotal	**$ 29,305**	$ 47,673	$ 77,128
Land Held for Sale			
West	**$ (51)**	$ 1,061	$ 9,357

East	**193**		1,071
Southeast	**169**		2,094
Subtotal	**$ 311**	$ 1,061	$ 12,522
Lot Option Abandonments			
West	**$ 405**	$ 783	$ 99
East	**2,048**	35	2,884
Southeast	**390**	14	972
Subtotal	**$ 2,843**	$ 832	$ 3,955
Continuing Operations	**$ 32,459**	$ 49,566	$ 93,605

The estimated fair value of impaired inventory on a quarterly basis during fiscal 2011, 2010, and 2009 the number of lots and number of communities impaired in each period are set forth in the table below as follows ($ *in thousands*):

	Estimated Fair Value of Impaired Inventory at Period End			Lots Impaired			Communities Impaired		
Quarter Ended	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
September 30	**$ 16,809**	$ 29,313	$ 35,876	**277**	962	1,318	**9**	8	10
June 30	**$ 11,672**	$ 5,427	$ 6,173	**370**	131	112	**6**	3	4
March 31	**$ 29,244**	$ 24,528	$ 35,304	**730**	497	1,523	**7**	12	13
December 31	**$**	$ 13,997	$ 23,265		379	339		7	6

Commissions. Commission expense includes amounts due to internal sales associates and to external real estate agents, if applicable, related to homes closed during their period. The decrease in commissions from prior year is primarily due to the decrease in homebuilding revenues.

General and Administrative Expense Items. The decrease in G&A expense is primarily related to the impact of prior cost reductions realized, offset partially by $8.0 million of severance expense, $2.5 million of lease abandonment charges and $5.6 million of charges related to joint venture guarantees and future land purchase rights (see Note 3 to the consolidated financial statements for additional information). We expect to realize approximately $20 million of annual savings related to cost reductions implemented in the second half of fiscal 2011. Fiscal 2011, 2010, and 2009, G&A expense included $8.0 million, $0.2 million and $4.5 million in severance costs related to employees who had been severed as of September 30 of the respective year.

Fiscal 2009 included approximately $16 million of expense for obligations related to the government investigations (see Note 13 to the Consolidated Financial Statements). The decrease in G&A expense for fiscal 2010 as compared to fiscal 2009 is primarily due to continued cost reductions realized as a result of our comprehensive review of G&A costs and the absence of the previously mentioned $16 million fiscal 2009 expense.

As a percentage of total revenue, G&A expenses were 18.5% in fiscal 2011, 14.2% in fiscal 2010 and 18.9% in fiscal 2009. The change in G&A costs as a percentage of total revenue is primarily related to the change in aforementioned investigative and severance costs and the impact of fixed overhead expenses on reduced/increased revenues, as applicable.

Goodwill Impairment Charges. The Company experienced a significant decline in its market capitalization during the first quarter of fiscal 2009. As of December 31, 2008, we considered current and expected future market conditions and recorded a pre-tax, non-cash goodwill impairment charge of $16.1 million in the first quarter of fiscal 2009. As a result of this impairment charge, we have no goodwill remaining as of September 30, 2009, 2010, or 2011.

Joint Venture Impairment Charges. As a result of the further deterioration of economic conditions in certain of our markets and the settlement of debt obligations of certain of our unconsolidated joint ventures, we recorded impairments in certain of our unconsolidated joint ventures totaling $0.1 million, $8.8 million, and $12.6 million in fiscal 2011, 2010, and 2009, respectively (see Note 3 to the Consolidated Financial Statements where further discussed). The fiscal 2011 impairments above do not include approximately $5.6 million of charges related to joint venture guarantees recognized in G&A expense. If these adverse market conditions continue or worsen, we may have to take further impairments of our investments in these joint ventures that may have a material adverse effect on our financial position and results of operations.

Gain (Loss) on Extinguishment of Debt. During fiscal 2011, we completed a number of financial transactions including the repurchase of an aggregate of $209.5 million of our outstanding Senior Notes for an aggregate purchase price of $210.0 million, plus accrued and unpaid interest as of the purchase date. These transactions resulted in a loss on extinguishment of debt of $2.9 million, net of unamortized discounts and debt issuance costs related to these notes.

During fiscal 2010, we completed a number of financial transactions including the repurchase of an aggregate of $585.4 million of our outstanding Senior Notes for an aggregate purchase price of $586.3 million, plus accrued and unpaid interest as of the purchase date. We also completed an exchange of $75 million of our outstanding junior unsecured notes. These transactions resulted in a gain on extinguishment of debt of $43.9 million, net of unamortized discounts and debt issuance costs related to these notes.

During the second half of fiscal 2009, we voluntarily repurchased in open-market transactions $384.8 million principal amount of our Senior Notes. The aggregate purchase price was $247.7 million, plus accrued and unpaid interest as of the purchase date, which resulted in a $130.2 million pre-tax gain on extinguishment of debt, net of unamortized discounts and debt issuance costs related to these notes. During fiscal 2009, we also negotiated a reduced payoff for one of our other secured notes payable totaling $22.7 million and recorded a gain on debt extinguishment of $14.3 million related to the repayment of this note.

Other expense, net. For fiscal 2011, other expense, net includes $73.4 million of interest expense not qualified for capitalization and is net of the $8.3 million benefit recognized related to settlements reached by Mr. McCarthy (our former Chief Executive Officer) and Mr. O Leary (our former Chief Financial Officer) with the SEC (see Note 17 to the Consolidated Financial Statements). For fiscal 2010 and 2009, other expense, net includes $74.2 million and $83.0 million of interest expense not qualified for capitalization, respectively.

Benefit from 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. Due to the effect of our valuation allowance adjustments, a comparison of our annual effective tax rates must consider the changes in our valuation allowance.

Our overall effective tax rates were -1.7%, 80.0%, and 4.6% for fiscal years 2011, 2010, and 2009, respectively. The effective tax rate for fiscal 2011 was primarily attributable to the impact of our valuation allowance and limited ability to carry back any federal income taxes. The effective tax rate for fiscal 2010 was primarily attributable to the five-year carryback of federal tax losses due to the expanded NOL carryback provisions contained in the Worker, Homeownership, and Business Assistance Act of 2009, enacted on November 9, 2009. These expanded NOL carryback provisions allowed us to carry back our fiscal 2009 tax losses to prior years. Absent the new legislation, the fiscal 2009 federal tax loss would have been carried forward to be available to offset future taxable income and the Company would have maintained a valuation allowance against the resulting deferred tax asset. The effective tax rate for fiscal 2009 was primarily attributable to the finalization of various state income tax examinations and the valuation allowance against the inability to carry back any federal tax loss as of September 30, 2009. Any losses that the Company has not carried back to earlier years are being carried forward and are offset by a valuation allowance.

Discontinued Operations. We have classified the results of operations of our mortgage origination services, title services and our exit markets as discontinued operations in the accompanying Consolidated Statements of Operations for all periods presented. All statement of operations information in the table above and the management discussion and analysis that follow exclude the results of discontinued operations. Discontinued operations were not segregated in the Consolidated Statements of Cash Flows or the Consolidated Balance Sheets. Additional operating data related to discontinued operations for the fiscal years ended September 30, 2011, 2010 and 2009 is as follows:

	Fiscal Year Ended September 30,		
	2011	**2010**	**2009**
	($ in thousands)		
Closings	**101**	224	236
New Orders	**94**	203	207
Homebuilding revenues	**$ 19,815**	$ 46,718	$ 56,428
Land and lot sale revenues	**$ 22,985**	$ 3,277	$ 3,076

Mortgage & title revenues	**$ 6**	$ 1,861	$ 1,813
Total revenue	**$ 42,806**	$ 51,856	$ 61,317

The increase in land and lot sales revenues in fiscal 2011 primarily related to the sale of one large parcel in Charlotte, North Carolina. See Note 15 to the Consolidated Financial Statements for additional information related to our discontinued operations.

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Segment Results Continuing Operations

Unit Data by Segment

	New Orders, Net					Cancellation Rates		
	2011	**2010**	**2009**	**11 v 10**	**10 v 09**	**2011**	**2010**	**2009**
West	**1,416**	1,615	1,793	**(12.3)%**	(9.9)%	**30.5%**	29.5%	35.3%
East	**1,588**	1,563	1,509	**1.6%**	3.6%	**29.0%**	25.3%	30.0%
Southeast	**923**	867	714	**6.5%**	21.4%	**16.5%**	16.2%	24.2%
Total	**3,927**	4,045	4,016	**(2.9)%**	0.7%	**27.0%**	25.3%	31.6%

Backlog reflects the number and value of homes for which the Company has entered into a sales contract with a customer but has not yet delivered the home.

	Backlog at September 30,				
	2011	**2010**	**2009**	**11 v 10**	**10 v 09**
Units:					
West	**570**	269	431	**111.9%**	(37.6)%
East	**638**	366	532	**74.3%**	(31.2)%
Southeast	**242**	137	185	**76.6%**	(25.9)%
Total	**1,450**	772	1,148	**87.8%**	(32.8)%
Aggregated $ value of homes in backlog:					
Total (*$ in millions*)	**$ 334.5**	$ 184.7	$ 270.1	**81.1%**	(31.6)%

Fiscal 2011 versus 2010

New orders, net of cancellations, for fiscal 2011 decreased slightly compared to fiscal 2010 in many of our markets driven by decreased demand in the first half of the year, homebuyer financing challenges and increased cancellation rates. The decrease in net new orders in our West segment was primarily due to continued challenging market conditions which were particularly pronounced in our Houston and California markets. In fiscal 2011, our Houston and Southern California markets in our West segment and Virginia in our East segment have also been impacted by the closeout of communities that were performing at higher than average absorption rates in the prior year and by the timing of new communities opening for sales.

In addition, federal and state housing tax credits appear to have incentivized more prospective buyers to purchase a new home in fiscal 2010 as compared to fiscal 2011. Despite historically low interest rates and increased affordability which usually entice more prospective buyers to purchase a new home, low consumer confidence, high unemployment rates and a high number of existing and projected foreclosures continue to have a damaging impact on the market. As a result, absent the homebuyer tax credits, potential buyers still appear to lack an urgency to buy and have lengthened their decision-making processes. In many of our markets, appraisals continue to be negatively impacted by foreclosure comparables which put additional pricing pressures on all home sales and limit financing availability. Our cancellation rates in fiscal 2011 were impacted by the challenges some of our potential homebuyers have encountered selling existing homes and obtaining financing.

The increase in total units in backlog and the aggregate dollar value of homes in backlog for our continuing operations at September 30, 2011 compared to the prior year, related partially to the increased sales in our fourth quarter of fiscal 2011 as compared to fiscal 2010 and the impact of several new mortgage underwriting audit processes implemented in September by the Company s largest mortgage provider which pushed over 100 home closings from the last week of September into October (the first quarter of fiscal 2012). If we are unable to sustain or increase this level of backlog, we will experience less revenue in the future which could also result in additional asset impairment charges and lower levels of liquidity. However, we currently expect new orders and backlog to increase as the availability of mortgage loans further stabilizes, the inventory of new and used homes decreases and consumer confidence in the economic recovery increases.

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Fiscal 2010 versus 2009

New orders, net of cancellations, for fiscal 2010 increased slightly compared to fiscal 2009 in many of our markets driven by increased demand due to federal and state housing credits which expired in June 2010 and decreased cancellation rates. The decrease in net new orders in our West segment was primarily due to continued challenging market conditions which were particularly pronounced in our California markets. The decrease in our cancellation rates reflected the market improvement and relative price stabilization as compared to the prior years, which may have also been impacted by the homebuyer s desire to close in order to take advantage of the available tax credits. It also reflects the impact of historically low interest rates and increased affordability and the impact of federal and state housing tax credits that enticed certain prospective buyers to purchase a new home during fiscal 2010.

The decrease in total units in backlog and the aggregate dollar value of homes in backlog for our continuing operations at September 30, 2010 compared to the prior year, related partially to the acceleration of closings into our third fiscal quarter driven by the federal and state housing credits which expired in June 2010.

Homebuilding Revenues and Average Selling Price. The table below summarizes homebuilding revenues, the average selling prices of our homes and closings by reportable segment (*$ in thousands*):

	Homebuilding Revenues					**Average Selling Price**				
	2011	**2010**	**2009**	**11 v 10**	**10 v 09**	**2011**	**2010**	**2009**	**11 v 10**	**10 v 09**
Vest	**$ 218,433**	$ 360,756	$ 407,639	**(39.5)%**	(11.5)%	**$ 195.9**	$ 203.0	$ 216.5	**(3.5)%**	(6.2)%
ast	**339,666**	446,862	373,498	**(24.0)%**	19.6%	**258.1**	258.5	260.8	**(0.2)%**	(0.9)%
outheast	**154,623**	174,224	177,359	**(11.3)%**	(1.8)%	**189.0**	190.4	211.9	**(0.7)%**	(10.1)%
otal	**$ 712,722**	$ 981,842	$ 958,496	**(27.4)%**	2.4%	**$ 219.4**	$ 222.1	$ 230.9	**(1.2)%**	(3.8)%

	Closings				
	2011	**2010**	**2009**	**11 v 10**	**10 v 09**
West	**1,115**	1,777	1,883	**(37.3)%**	(5.6)%
East	**1,316**	1,729	1,432	**(23.9)%**	20.7%
Southeast	**818**	915	837	**(10.6)%**	9.3%
Total	**3,249**	4,421	4,152	**(26.5)%**	6.5%

Fiscal 2011 versus 2010

Homebuilding revenues decreased for the fiscal year ended September 30, 2011 compared to the comparable period of the prior year which benefitted from federal and state housing tax credits that expired in June 2010. The housing tax credits appear to have incentivized homebuyers to purchase homes in fiscal 2010. Absent these tax credits, potential homebuyers appeared to lack a sense of urgency to commit to a home purchase, especially in the first half of fiscal 2011. However, we experienced double-digit improvements in new orders in all three segments in both our third and fourth quarters of fiscal 2011. This new order growth generated increased closings and revenues in the fourth quarter of fiscal 2011 as compared to the prior year and significantly increased our backlog as of September 30, 2011. The change in average selling prices (ASP) was primarily attributable to the change in mix of closings between products and among communities as compared to the prior year. The fiscal 2011 ASP was also impacted by our efforts to market our homes competitively with local competition and to reduce spec inventory with discounted sales prices and incentives in certain markets in the first half of the year.

Fiscal 2010 versus 2009

Homebuilding revenues increased slightly for the fiscal year ended September 30, 2010 compared to the comparable period of the prior year due to an increase in closings. This year-over year increase in closings was offset partially by a decrease in average selling prices (ASP). The reduction in ASP was primarily attributable to a substantial geographic shift in closings to those markets with the lowest ASP and a higher concentration of entry-level homebuyers. In addition, foreclosures continued to pose problems in many of our markets manifesting in lower appraisals which put additional pricing pressure on all homes for sale. As a result, we reduced sales prices in many of our markets during fiscal 2010 in order to respond to these market conditions. Historically low interest rates, increased affordability and federal and state housing tax credits incented more prospective buyers to purchase a new home and contributed to the significant increase in our closings for the fiscal year ended September 30, 2010.

Homebuilding revenues in our West segment decreased for the fiscal year ended September 30, 2010 compared to the same period of fiscal 2009 driven by a decrease in homes closed and a decrease in ASP. The decrease in ASP in our West segment for fiscal 2010 resulted primarily from a significant increase in the sale of entry level homes to first time homebuyers in all of our markets, a reduction in the amount of options and upgrades ordered along with select price declines in markets where conditions, such as a high levels of foreclosures and unemployment necessitated slightly lower home prices.

For the fiscal year ended September 30, 2010, the increase in our East segment homebuilding revenues was driven by increased closings across all of our markets in this segment.

Our Southeast segment continued to be challenged by excess capacity in both the new home and resale markets and the high number of foreclosures, driving decreases in ASP for the fiscal year ended September 30, 2010 as compared to the prior year. In addition, the homes closed during the fiscal year in many of our markets were more heavily weighted toward the entry-level buyer than in the prior year.

Homebuilding Gross Profit (Loss). Homebuilding gross profit is defined as homebuilding revenues less home cost of sales (which includes land and land development costs, home construction costs, capitalized interest, indirect costs of construction, estimated warranty costs, closing costs and inventory impairment and lot option abandonment charges). Corporate and unallocated costs include the amortization of capitalized interest and indirect construction costs. The following table sets forth our homebuilding gross profit and gross margin by reportable segment and total homebuilding gross profit and gross margin, and such amounts excluding inventory impairments and abandonments and interest amortized to cost of sales for the fiscal years ended September 30, 2011, 2010 and 2009. Total homebuilding gross profit and gross margin excluding inventory impairments and abandonments and interest amortized to cost of sales are not GAAP financial measures. These measures should not be considered alternatives to homebuilding gross profit determined in accordance with GAAP as an indicator of operating performance. The magnitude and volatility of non-cash inventory impairment and abandonment charges for the Company, and for other home builders, have been significant in recent periods and, as such, have made financial analysis of our industry more difficult. Homebuilding metrics excluding these charges, and other similar presentations by analysts and other companies, is frequently used to assist investors in understanding and comparing the operating characteristics of home building activities by eliminating many of the differences in companies respective level of impairments and levels of debt. Management believes these non-GAAP measures are an indication of our homebuilding operations baseline performance in that the measures provide a consistent means of comparing performance between periods and competitors. The Company also believes that these measures enable holders of our securities to better understand our homebuilding results by providing transparency for items such as inventory impairments and abandonments and interest amortized to home construction and land sales expense (COS). These measures are also useful internally, helping management compare operating results and as a measure of the level of cash which may be available for discretionary spending.

	Fiscal Year Ended September 30, 2011							
	HB Gross	HB Gross	Impairments & Abandonments	HB Gross Profit w/o	HB Gross Margin w/o	Interest Amortized	HB Gross Profit w/o I&A and	HB Gross Margin w/o I&A and

	Profit (Loss)	Margin	(I&A)	I&A	I&A	to COS	Interest	Interest
				($ in thousands)				
West	$ 13,667	6.3%	$ 20,504	$ 34,171	15.6%	$	$ 34,171	15.6%
East	50,630	14.9%	3,852	54,482	16.0%		54,482	16.0%
Southeast	21,065	13.6%	5,741	26,806	17.3%		26,806	17.3%
Corporate & unallocated	(41,366)		2,362	(39,004)		46,382	7,378	
Total homebuilding	$ 43,996	6.2%	$ 32,459	$ 76,455	10.7%	$ 46,382	$ 122,837	17.2%

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Fiscal Year Ended September 30, 2010

	HB Gross Profit (Loss)	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit w/o I&A	HB Gross Margin w/o I&A	Interest Amortized to COS	HB Gross Profit w/o I&A and Interest	HB Gross Margin w/o I&A and Interest
	($ in thousands)							
West	$ 52,621	14.6%	$ 19,900	$ 72,521	20.1%	$	$ 72,521	20.1%
East	54,176	12.1%	18,738	72,914	16.3%		72,914	16.3%
Southeast	18,540	10.6%	7,524	26,064	15.0%		26,064	15.0%
Corporate & unallocated	(45,788)		3,404	(42,384)		52,243	9,859	
Total homebuilding	$ 79,549	8.1%	$ 49,566	$ 129,115	13.2%	$ 52,243	$ 181,358	18.5%

Fiscal Year Ended September 30, 2009

	HB Gross Profit (Loss)	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit w/o I&A	HB Gross Margin w/o I&A	Interest Amortized to COS	HB Gross Profit w/o I&A and Interest	HB Gross Margin w/o I&A and Interest
	($ in thousands)							
West	$ 28,566	7.0%	$ 52,160	$ 80,726	19.8%	$	$ 80,726	19.8%
East	45,681	12.2%	10,338	56,019	15.0%		56,019	15.0%
Southeast	(1,170)	(0.7)%	25,991	24,821	14.0%		24,821	14.0%
Corporate & unallocated	(57,301)		5,116	(52,185)		54,714	2,529	
Total homebuilding	$ 15,776	1.6%	$ 93,605	$ 109,381	11.4%	$ 54,714	$ 164,095	17.1%

Fiscal 2011 versus 2010

For the fiscal year ended September 30, 2011 as compared to the prior year, the decrease in gross margins across all segments is primarily due to decreased revenues and the impact of those revenues on indirect construction costs which are relatively fixed in the short-term. The impact of our decreased revenues was partially offset by cost reductions and lower inventory impairments and lot option abandonment charges in the current fiscal year. In fiscal 2011, certain of our markets realized a nominal increase in gross margins excluding impairments as prices have begun to stabilize in certain of our markets and we benefitted from cost reductions. However, our Nevada and Southern California markets in our West segment have been impacted by the closeout of communities that were performing at higher than average gross margins as compared to the margins realized by the current product mix in those markets, including new communities opening for sales in fiscal 2011.

Fiscal 2010 versus 2009

For the fiscal year ended September 30, 2010 as compared to the prior year, the increase in gross margins across all segments is primarily due to increased revenues, cost reductions and lower inventory impairments and lot option abandonment charges. Our segments realized a nominal increase in gross margins excluding impairments as prices have begun to stabilize in certain of our markets and we benefitted from cost reductions. A few of our markets experienced a decrease in gross margins excluding inventory impairments for the fiscal year ended September 30, 2010 as compared to the prior year due to our decision to reduce prices in certain of our communities in order to compete with similar product for sale in the locale and to increase the frequency of new home orders.

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

The asset valuations which result from our impairment calculations are based on discounted cash flow analyses and are not derived by simply applying prospective gross margins to individual communities. As such, impaired communities may have gross margins that are somewhat higher or lower than the gross margin for unimpaired communities. The mix of home closings in any particular quarter varies to such an extent that comparisons between previously impaired and never impaired communities would not be a reliable way to ascertain profitability trends or to assess the accuracy of previous valuation estimates. In addition, since any amount of impairment turn is tied to individual lots in specific communities it will vary considerably from period to period. As a result of these factors, we review the impairment turn impact on gross margins on a trailing twelve-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 fiscal year ended September 30, 2011, the homebuilding gross margin from our continuing operations was 6.2% and excluding interest and inventory impairments, it was 17.2%. For the same period, homebuilding gross margins were as follows in those communities that have previously been impaired:

Homebuilding Gross Margin from previously impaired communities:	
Pre-impairment turn gross margin	(12.6)%
Impact of interest amortized to COS related to these communities	7.6%
Pre-impairment turn gross margin, excluding interest amortization	(5.0)%
Impact of impairment turns	20.9%
Gross margin (post impairment turns), excluding interest	15.9%

Land Sales and Other Revenues. Land sales and other revenues relate to land and lots sold that did not fit within our homebuilding programs and strategic plans in these markets, net fees we received for general contractor services we performed on behalf of a third party and broker fees and rental revenues earned by our Pre-Owned operations. The tables below summarize land sales and other revenues and gross profit by reportable segment (*$ in thousands*) n/m in the tables below indicate the percentage is not meaningful :

	Land Sales & Other Revenues				
	2011	2010	2009	**11 v 10**	10 v 09
West	**$ 14,700**	$ 3,774	$ 1,529	**289.5%**	146.8%
East	**4,160**	4,300	1,120	**(3.3)%**	283.9%
Southeast	**10,484**	1,236	740	**748.2%**	67.0%
Pre-owned	**339**			**n/m**	n/m
Total	**$ 29,683**	$ 9,310	$ 3,389	**218.8%**	174.7%

Land Sales and Other Gross Profit (Loss)

	2011	2010	2009	11 v 10	10 v 09
West	**$ 2,984**	$ 424	$ (1)	**603.8%**	n/m
East	**1,241**	2,421	562	**(48.7)%**	330.8%
Southeast	**(343)**	1,235	59	**(127.8)%**	n/m
Pre-owned	**217**			**n/m**	n/m
Total	**$ 4,099**	$ 4,080	$ 620	**0.5%**	558.1%

Fiscal 2011 versus 2010

The increase in land sales and other revenue and gross profit in fiscal 2011 from fiscal 2010 relates primarily to our ability to dispose of land and lots that did not fit into our strategic plans. Our fiscal 2011 loss on land sales in our Southeast segment is offset partially by net fees received for general contractor services we performed on behalf of a third party. As of September 30, 2011, our Pre-owned operations had purchased 120 homes, of which 58 were leased.

Fiscal 2010 versus 2009

The increase in land sales and other revenue and gross profit in fiscal 2010 from fiscal 2009 relates to our ability to dispose of land and lots that did not fit into our strategic plans. Our fiscal 2010 land sales and other revenue and gross profit in our Southeast segment also include net fees received for general contractor services we performed on behalf of a third party.

Derivative Instruments and Hedging Activities. We are exposed to fluctuations in interest rates. From time to time, we enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates. As of September 30, 2011, 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, cash from operations, proceeds from Senior Notes and other bank borrowings, the issuance of equity and equity-linked securities and other external sources of funds. Our short-term and long-term liquidity depend primarily upon our level of net income, working capital management (cash, accounts receivable, accounts payable and other liabilities) and available credit facilities.

As of September 30, 2011, our liquidity position consisted of $370.4 million in cash and cash equivalents plus $277.1 million of restricted cash, of which $247.4 million related to our cash secured term loan.. We expect to maintain a significant liquidity position during fiscal 2012, 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 quarterly basis.

During fiscal 2011, our net cash used in operating activities was $178.9 million compared to net cash provided by operating activities of $69.7 million during fiscal 2010 and $93.8 million during fiscal 2009. Our net cash provided by operating activities in fiscal 2010 and 2009 were due to the receipts of federal income tax refunds, net of income tax payments, totaling $135.1 million and $162.8 million, respectively, which offset cash used to purchase inventory and maintain our operations. Our net cash from operating activities in fiscal 2011 was also impacted by an increase in inventory (excluding inventory impairments and abandonment charges and decreases in consolidated inventory not owned) of $54.4 million compared to decreases of $82.5 million in fiscal 2010 and $208.4 million in fiscal 2009. This increase in inventory in fiscal 2011 related primarily to our strategic investments in land as we closed out older communities and positioned the Company to open new communities. Cash flow from operations was also impacted by decreases in other assets of $5.3 million, $3.8 million and $25.1 million in fiscal 2011, 2010 and 2009, respectively, primarily related to collection of amounts due from land sales and the cash release of utility deposits. Also impacting our cash (used in) provided by operations was a $19.3 million increase in trade accounts payables this fiscal year primarily related to the timing of development expenditures as of period end as compared to decrease in trade accounts payable of $16.9 million and $20.1 million in fiscal 2010 and 2009, respectively related to the timing of home development expenditures related to homes sold and spec homes completed in those years.

Net cash used in investing activities was $260.3 million for fiscal year ended September 30, 2011 which was primarily related to the $247.4 million funding of collateral (restricted cash) for the Company s new Cash Secured Loan. Net cash provided by financing activities was $272.5 million for the fiscal 2011 as compared to a use of cash of $33.7 million for fiscal 2010 and $91.1 million for fiscal 2009. During the fiscal year ended September 30, 2011 we completed a $250 million senior unsecured debt offering, redeemed our outstanding 2013 Senior Notes and repurchased a portion of our 2015 and 2016 Senior Notes. As a result of our 2013 Senior Note repayment, our next scheduled Senior Note principal repayment is not until July 2015. During the prior years, the proceeds received from the issuance of equity securities and new debt was offset by the repurchase of outstanding debt with nearer term maturities.

During our fiscal 2010, we received upgrades from S&P in our corporate credit rating to B- and Fitch raised its corporate credit rating of the Company to B-. However, during the fiscal 2011, Moody s lowered its corporate rating of the Company to Caa2 after it had increased this rating Caa1 in the prior year. 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, results of operations, financial condition 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.

We fulfill our short-term cash requirements with cash generated from our operations. As a result, there were no amounts outstanding under the Secured Revolving Credit Facility at September 30, 2011. In addition, we have entered into a number of stand-alone, cash secured letter of credit agreements with banks. These facilities will continue to provide for future working capital and letter of credit needs collateralized by either cash or assets of the Company at our option, based on certain conditions and covenant compliance. We currently have $28.9 million outstanding letters of credit under these facilities. As of September 30, 2011, we have secured our letters of credit under these facilities using cash collateral which is maintained in restricted accounts totaling $29.3 million. In addition, we have elected to pledge approximately $1.0 billion of inventory assets to our revolving credit facility. We believe that our $647.5 million of cash and cash equivalents and restricted cash at September 30, 2011, cash generated from our operations and the availability of new debt and equity financing, if any, will be adequate to meet our liquidity needs during fiscal 2012.

In addition to our continued focus on generation and preservation of cash, we are also focused on increasing our stockholders equity and reducing our leverage.

We may also determine in the future that we need to issue additional new common or preferred equity. Any new issuance may take the form of public or private offerings for cash, equity issued to consummate acquisitions of assets or equity issued in exchange for a portion of our outstanding debt. We may also from time to time seek to continue to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity or other debt securities, in open market purchases, privately negotiated transactions or otherwise. In addition, any material variance from our projected operating results or land investments, or investments in or acquisitions of businesses, or amounts paid to fulfill obligations with governmental entities, could require us to obtain additional equity or debt financing. Any such equity transactions or debt financing may be on terms less favorable or at higher costs than our current financing sources, depending on future market conditions and other factors including any possible downgrades in our credit ratings or adverse commentaries issued by rating agencies in the future. Also, 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.

Stock Repurchases and Dividends Paid The Company did not repurchase any shares in the open market during fiscal 2011, 2010 or 2009. Any future stock repurchases, if 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. At September 30, 2011, under the most restrictive covenants of each indenture, none of our retained earnings was available for cash dividends. Hence, there were no dividends paid in fiscal 2011, 2010 or 2009.

Off-Balance Sheet Arrangements and Aggregate Contractual Commitments. At September 30, 2011, we controlled 26,669 lots (a 8-year supply based on fiscal 2011 closings). We owned 83% or 22,112 lots, and 4,557 lots, 17%, were under option contracts 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, letters of credit and other non-refundable amounts incurred, which aggregated approximately $25.9 million at September 30, 2011. This amount includes non-refundable letters of credit of approximately $1.0 million. The total remaining purchase price, net of cash deposits, committed under all options was $225.2 million as of September 30, 2011. When market conditions improve, we may expand our use of option agreements to supplement our owned inventory supply.

We expect to exercise, subject to market conditions, 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 land options will be exercised.

We have historically funded the exercise of land options through a combination of 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 land options will have a material adverse effect on our liquidity.

We participate in a number of land development joint ventures in which we have less than a controlling interest. We enter into joint ventures in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. We account for our interest in these joint ventures under the equity method. Our consolidated balance sheets include investments in joint ventures totaling $9.5 million and $8.7 million at September 30, 2011 and 2010, respectively.

Our joint ventures typically obtain secured acquisition and development financing. At September 30, 2011, our unconsolidated joint ventures had borrowings outstanding totaling $394.4 million, of which $327.9 million related to one joint venture, South Edge. Generally, we and our joint venture partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated joint ventures. At September 30, 2011, we had repayment guarantees of $17.9 million related to joint venture borrowings. See Note 3 to the Consolidated Financial Statements for additional information.

The following summarizes our aggregate contractual commitments at September 30, 2011 (*in thousands*):

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Senior Notes, Senior Secured Notes & other notes payable(1)	$ 1,505,806	$ 5,922	$ 5,856	$ 345,887	$ 1,148,141
Interest commitments under Senior Notes, Senior Secured Notes & other notes payable(2)	837,848	113,817	226,564	207,334	290,133
Obligations related to lots under option	225,230	98,737	96,524	26,500	3,469
Operating leases	15,942	6,085	7,595	2,197	65
Uncertain tax positions(3)					
Total	$ 2,584,826	$ 224,561	$ 336,539	$ 581,918	$ 1,441,808

(1) Excludes $57.5 million of Mandatory Convertible Subordinated Notes which will automatically convert into the Company s common stock upon maturity.

(2) Interest on variable rate obligations is based on rates effective as of September 30, 2011.

(3) Due to the uncertainty of the timing of settlement with taxing authorities, the Company is unable to make reasonably reliable estimates of the period of cash settlement of unrecognized tax benefits related to uncertain tax positions. See Note 9 to Consolidated Financial Statements for additional information regarding the Company s unrecognized tax benefits as of September 30, 2011.

We had outstanding performance bonds of approximately $174.7 million, at September 30, 2011 related principally to our obligations to local governments to construct roads and other improvements in various developments.

Recently Adopted Accounting Pronouncements & Accounting Pronouncements Not Yet Adopted. See Note 1 to the Consolidated Financial Statements for a comprehensive list of recently adopted accounting pronouncements and accounting pronouncements not yet adopted by the Company.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to a number of market risks in the ordinary course of business. Our primary market risk exposure relates to fluctuations in interest rates. We do not believe that our exposure in this area is material to cash flows or earnings. As of September 30, 2011, our only variable rate debt outstanding was related to our cash secured loan. An increase in interest rates would equally increase both the interest paid on this debt and the interest received on the related secured cash. The estimated fair value of our fixed rate debt at September 30, 2011 was approximately $0.7 billion, compared to a carrying value of $1.2 billion. In addition, the effect of a hypothetical one-percentage point decrease in our estimated discount rates would increase the estimated fair value of the fixed rate debt instruments from $0.68 billion to $0.72 billion at September 30, 2011.

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Item 8. ***Financial Statements and Supplementary Data***

Beazer Homes USA, Inc.

Consolidated Statements of Operations

	Fiscal Year Ended September 30,		
	2011	**2010**	**2009**
	(In thousands, except share and per share amounts)		
Total revenue	**$ 742,405**	$ 991,152	$ 961,885
Home construction and land sales expenses	**661,851**	857,957	851,884
Inventory impairments and option contract abandonments	**32,459**	49,566	93,605
Gross profit	**48,095**	83,629	16,396
Commissions	**32,711**	43,279	39,514
General and administrative expenses	**137,376**	141,115	181,841
Depreciation and amortization	**10,253**	12,669	18,289
Goodwill impairment			16,143
Operating loss	**(132,245)**	(113,434)	(239,391)
Equity in income (loss) of unconsolidated joint ventures	**560**	(8,807)	(12,112)
Loss on extinguishment of debt	**(2,909)**	43,901	144,503
Other expense, net	**(62,224)**	(69,585)	(74,781)
Loss from continuing operations before income taxes	**(196,818)**	(147,925)	(181,781)
Provision (benefit) from income taxes	**3,366**	(118,355)	(8,350)
Loss from continuing operations	**(200,184)**	(29,570)	(173,431)
Loss from discontinued operations, net of tax	**(4,675)**	(4,479)	(15,952)
Net loss	**$ (204,859)**	$ (34,049)	$ (189,383)
Weighted average number of shares:			
Basic and diluted	**73,985**	59,801	38,688
Basic and diluted loss per share:			
Continuing operations	**$ (2.71)**	$ (0.49)	$ (4.48)
Discontinued operations	**$ (0.06)**	$ (0.08)	$ (0.42)
Total	**$ (2.77)**	$ (0.57)	$ (4.90)
Cash dividends per share	**$**	$	$

See Notes to Consolidated Financial Statements.

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Beazer Homes USA, Inc.

Consolidated Balance Sheets

	September 30, 2011	September 30, 2010
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	**$ 370,403**	$ 537,121
Restricted cash	**277,058**	39,200
Accounts receivable (net of allowance of $3,872 and $3,567, respectively)	**28,303**	32,647
Income tax receivable	**4,823**	7,684
Inventory		
Owned inventory	**1,192,380**	1,153,703
Consolidated inventory not owned	**11,753**	49,958
Total inventory	**1,204,133**	1,203,661
Investments in unconsolidated joint ventures	**9,467**	8,721
Deferred tax assets, net	**2,760**	7,779
Property, plant and equipment, net	**33,960**	23,995
Other assets	**46,570**	42,094
Total assets	**$ 1,977,477**	$ 1,902,902
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	**$ 72,695**	$ 53,418
Other liabilities	**212,187**	210,170
Obligations related to consolidated inventory not owned	**5,389**	30,666
Total debt (net of discounts of $23,243 and $23,617, respectively)	**1,488,826**	1,211,547
Total liabilities	**1,779,097**	1,505,801
Stockholders equity:		
Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued)		
Common stock (par value $0.001 per share, 180,000,000 shares authorized, 75,588,396 and 75,669,381 issued and outstanding, respectively)	**76**	76
Paid-in capital	**624,750**	618,612
Accumulated deficit	**(426,446)**	(221,587)
Total stockholders equity	**198,380**	397,101
Total liabilities and stockholders equity	**$ 1,977,477**	$ 1,902,902

See Notes to Consolidated Financial Statements.

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Beazer Homes USA, Inc.

Consolidated Statement of Stockholders Equity

	Common Stock Shares	Common Stock Amount	Paid in Capital	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total
	($ and shares in thousands)						
Balance, September 30, 2008	39,270	$ 43	$ 556,910	$ 1,845	3,343	$ (183,947)	$ 374,851
Net loss and comprehensive loss				(189,383)			(189,383)
Amortization of nonvested stock awards			6,562				6,562
Amortization of stock option awards			5,277				5,277
Tax benefit from stock transactions			(2,273)				(2,273)
Shares issued under employee stock plans, net	537		1,543				1,543
Common stock redeemed	(14)				14	(22)	(22)
Balance, September 30, 2009	39,793	43	568,019	(187,538)	3,357	(183,969)	196,555
Net loss and comprehensive loss				(34,049)			(34,049)
Amortization of nonvested stock awards			5,552				5,552
Amortization of stock option awards			5,817				5,817
Tax benefit from stock transactions			(3,099)				(3,099)
Shares issued under employee stock plans, net	984	1	2,336				2,337
Issuance of prepaid stock purchase contracts			57,429				57,429
Common stock issued	34,925	35	166,683				166,718
Common stock redeemed	(33)		(25)		27	(134)	(159)
Treasury stock utilized		(3)	(184,100)		(3,384)	184,103	
Balance, September 30, 2010	75,669	76	618,612	(221,587)			397,101

Net loss and comprehensive loss				(204,859)		(204,859)
Amortization of nonvested stock awards			3,813			3,813
Amortization of stock option awards			3,357			3,357
Tax benefit from stock transactions			(523)			(523)
Shares issued under employee stock plans, net	82		101			101
Return and retirement of unvested & vested restricted stock	(111)		(440)			(440)
Common stock redeemed	(52)		(170)			(170)
Balance, September 30, 2011	75,588	$ 76	$ 624,750	$ (426,446)	$	$ 198,380

See Notes to Consolidated Financial Statements.

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Beazer Homes USA, Inc.

Consolidated Statements of Cash Flows

	Fiscal Year Ended September 30,		
	2011	**2010**	**2009**
		(In thousands)	
Cash flows from operating activities:			
Net loss	**$ (204,859)**	$ (34,049)	$ (189,383)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	**10,708**	13,405	18,884
Stock-based compensation expense	**7,170**	11,369	11,839
Inventory impairments and option contract abandonments	**35,365**	51,839	107,127
Impairment of future land purchase rights	**5,569**		
Goodwill impairment			16,143
Deferred income tax provision (benefit)	**5,019**	(259)	12,696
Provision for doubtful accounts	**305**	(3,978)	(1,370)
Excess tax benefit from equity-based compensation	**523**	3,099	2,273
Equity in (income) loss of unconsolidated joint ventures	**(42)**	24,350	14,275
Cash distributions of income from unconsolidated joint ventures	**450**	208	2,991
Loss (gain) on extinguishment of debt	**2,343**	(44,602)	(148,077)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	**4,039**	(264)	19,520
Decrease in income tax receivable	**2,861**	2,238	163,578
(Increase) decrease in inventory	**(54,395)**	82,504	208,371
Decrease in other assets	**5,291**	3,835	25,072
Increase (decrease) in trade accounts payable	**19,277**	(16,867)	(20,086)
Decrease in other liabilities	**(17,961)**	(22,530)	(150,260)
Other changes	**(599)**	(613)	232
Net cash (used in) provided by operating activities	**(178,936)**	69,685	93,825
Cash flows from investing activities:			
Capital expenditures	**(20,514)**	(10,849)	(7,034)
Investments in unconsolidated joint ventures	**(1,924)**	(5,602)	(25,537)
Increases in restricted cash	**(250,839)**	(37,439)	(72,168)
Decreases in restricted cash	**12,981**	47,700	23,004
Distributions from unconsolidated joint ventures			2,054
Net cash used in investing activities	**(260,296)**	(6,190)	(79,681)
Cash flows from financing activities:			
Repayment of debt	**(215,376)**	(619,806)	(305,399)
Proceeds from issuance of new debt	**246,387**	374,438	223,750
Proceeds from issuance of cash secured loan	**247,368**		

Debt issuance costs	**(5,172)**	(9,234)	(7,195)
Common stock issued		166,718	
Proceeds from issuance of TEU prepaid stock purchase contracts		57,429	
Common stock redeemed	**(170)**	(159)	(22)
Excess tax benefit from equity-based compensation	**(523)**	(3,099)	(2,273)
Net cash provided by (used in) financing activities	**272,514**	(33,713)	(91,139)
(Decrease) increase in cash and cash equivalents	**(166,718)**	29,782	(76,995)
Cash and cash equivalents at beginning of period	**537,121**	507,339	584,334
Cash and cash equivalents at end of period	**$ 370,403**	$ 537,121	$ 507,339

See Notes to Consolidated Financial Statements.

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Organization. Beazer Homes USA, Inc. is one of the ten largest homebuilders in the United States, based on number of homes closed. We are a geographically diversified homebuilder with active operations in 16 states: Arizona, California, Delaware, Florida, Georgia, Indiana, Maryland, Nevada, New Jersey, New York, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia. Through September 30, 2010, we offered title insurance services to our homebuyers in many of our markets. Effective September 30, 2010 we exited the title services business. Over the past few years, we have discontinued homebuilding operations in certain of our markets. Results from our title services business and exit markets are reported as discontinued operations in the accompanying Consolidated Statements of Operations for all periods presented (see Note 15 for further discussion of our Discontinued Operations). We evaluated events that occurred after the balance sheet date but before the financial statements were issued or are available to be issued for accounting treatment and disclosure.

Presentation. The accompanying consolidated financial statements include the accounts of Beazer Homes USA, Inc. and our subsidiaries. Intercompany balances have been eliminated in consolidation. Certain items in prior period financial statements have been reclassified to conform to the current presentation.

Cash and Cash Equivalents and Restricted Cash. We consider investments with maturities of three months or less when purchased to be cash equivalents. At September 30, 2011, the majority of our cash and cash equivalents were invested in high-quality money market mutual funds, highly marketable securities, or on deposit with major banks, which were valued at par with no withdrawal restrictions. The underlying investments of these funds were predominately U.S. Government and U.S. Government Agency obligations. Restricted cash includes cash restricted by state law or a contractual requirement and, as of September 30, 2011 relates primarily to cash collateral for our cash secured term loan and outstanding letters of credit.

Accounts Receivable. Accounts receivable primarily consist of escrow deposits to be received from title companies associated with closed homes. Generally, we receive cash from title companies within a few days of the home being closed.

Inventory. Owned inventory consists solely of residential real estate developments. Interest, real estate taxes and development costs are capitalized in inventory during the development and construction period. Construction and land costs are comprised of direct and allocated costs, including estimated future costs for warranties and amenities. Land, land improvements and other common costs are typically allocated to individual residential lots on a pro-rata basis, and the costs of residential lots are transferred to construction in progress when home construction begins. Consolidated inventory not owned represents the fair value of land under option agreements of a variable interest entity (VIE) where the Company is deemed to be the primary beneficiary of the VIE. VIEs are entities in which 1) equity investors do not have a controlling financial interest and/or 2) the entity is unable to finance its activities without additional subordinated financial support from other parties. In addition, when our deposits and pre-acquisition development costs exceed certain thresholds, we record the remaining purchase price of the lots as consolidated inventory not owned and obligations related to consolidated inventory not owned in the Consolidated Balance Sheets.

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

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Notes to Consolidated Financial Statements (Continued)

When conducting our community level review for the recoverability of our homebuilding inventories held for development, we establish a quarterly watch list of communities with more than 10 homes remaining that carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability. In our experience, this threshold represents a level of profitability that may be an indicator of conditions which would require an asset impairment but does not guarantee that such impairment will definitively be appropriate. As such, assets on the quarterly watch list are subject to substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to profit margins below our watch list threshold. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information.

Our qualitative competitive market analyses include site visits to competitor new home communities and written community level competitive assessments. A competitive assessment consists of a comparison of our specific community with its competitor communities, considering square footage of homes offered, amenities offered within the homes and the communities, location, transportation availability and school districts, among many factors. In addition, we review the pace of monthly home sales of our competitor communities in relation to our specific community. We also review other factors such as the target buyer and the macro-economic characteristics that impact the performance of our assets, such as unemployment and the availability of mortgage financing, among other things. Based on this qualitative competitive market analysis, adjustments to our sales prices may be required in order to make our communities competitive. We incorporate these adjusted prices in our quantitative analysis for the specific community.

The quantitative analysis compares the projected future undiscounted cash flows for each such community with its current carrying value. This undiscounted cash flow analysis requires important assumptions regarding the location and mix of house plans to be sold, current and future home sale prices and incentives for each plan, current and future construction costs for each plan, and the pace of monthly sales to occur today and into the future.

There is uncertainty associated with preparing the undiscounted cash flow analysis because future market conditions will almost certainly be different, either better or worse, than current conditions. The single most important input to the cash flow analysis is current and future home sales prices for a specific community. The risk of over or under-stating any of the important cash flow variables, including home prices, is greater with longer-lived communities and within markets that have historically experienced greater home price volatility. In an effort to address these risks, we consider some home price and construction cost appreciation in future years for certain communities that are expected to be selling for more than three years and/or if the market has typically exhibited high levels of price volatility. Absent these assumptions on cost and sales price appreciation, we believe the long-term cash flow analysis would be unrealistic and would serve to artificially improve future profitability. Finally, we also ensure that the monthly sales absorptions, including historical seasonal differences of our communities and those of our competitors, used in our undiscounted cash flow analyses are realistic, consider our development schedules and relate to those achieved by our competitors for the specific communities.

If the aggregate undiscounted cash flows from our quantitative analysis are in excess of the carrying value, the asset is considered to be recoverable and is not impaired. If the aggregate undiscounted cash flows are less than the carrying or book value, we perform a discounted cash flow analysis to determine the fair value of the community. The fair value of the community is estimated using the present value of the estimated future cash flows using discount rates commensurate with the risk associated with the underlying community assets. The discount rate used may be different for each community. The factors considered when determining an appropriate discount rate for a community include, among others: (1) community specific factors such as the number of lots in the community, the status of land development in the community, the competitive factors influencing the sales performance of the community and (2) overall market factors such as employment levels, consumer confidence and the existing supply of new and used homes for sale. If the determined fair value is less than the carrying value of the specific asset, the asset is considered not recoverable and is written down to its fair value plus the asset s share of capitalized

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements (Continued)

unallocated interest and other costs. The carrying value of assets in communities that were previously impaired and continue to be classified as held for development is not increased for future estimates of increases in fair value in future reporting periods. Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in our impairment analyses.

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

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

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

Additionally, in certain circumstances, management will re-evaluate the best use of an asset that is currently being accounted for as held for development. In such instances, management will review, among other things, the current and projected competitive circumstances of the community, including the level of supply of new and used inventory, the level of sales absorptions by us and our competition, the level of sales incentives required and the number of owned lots remaining in the community. If, based on this review and the foregoing criteria have been met at the end of the applicable reporting period, we believe that the best use of the asset is the sale of all or a portion of the asset in its current condition, then all or portions of the community are accounted for as held for sale.

In determining the fair value of the assets less cost to sell, we consider factors including current sales prices for comparable assets in the area, recent market analysis studies, appraisals, any recent legitimate offers, and listing prices of similar properties. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell. Due to uncertainties in the estimation process, it is reasonably possible that actual results could differ from the estimates used in our historical analyses.

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

In accordance with generally accepted accounting principles in the United States of America (GAAP), if the entity holding the land under option is a VIE, the Company s deposit represents a variable interest in that entity. To determine whether we are the primary beneficiary of the VIE, we are first required to evaluate whether we have the ability to control the activities of the VIE that most significantly impact its economic performance. Such activities

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements (Continued)

include, but are not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract with Beazer; and the ability to change or amend the existing option contract with the VIE. If we are not determined to control such activities, we are not considered the primary beneficiary of the VIE and thus do not consolidate the VIE. If we do have the ability to control such activities, we will continue our analysis by determining if we are expected to absorb a potentially significant amount of the VIE s losses or, if no party absorbs the majority of such losses, if we will benefit from potentially a significant amount of the VIE s expected gains.

If we are the primary beneficiary of the VIE, we will consolidate the VIE and reflect such assets and liabilities as land not owned under option agreements in our balance sheets, though creditors of the VIE have no recourse against the Company. For VIEs we are required to consolidate, we record the remaining contractual purchase price under the applicable lot option agreement to land not owned under option agreements with an offsetting increase to obligations related to land not owned under option agreements. In recent years, the Company has canceled a significant number of lot option agreements, which has resulted in significant write-offs of the related deposits and pre-acquisition costs but has not exposed the Company to the overall risks or losses of the applicable VIEs.

Investments in Unconsolidated Joint Ventures. We participate in a number of land development joint ventures in which we have less than a controlling interest. Our joint ventures are typically entered into with unrelated developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. We have determined that our interest in these joint ventures should be accounted for under the equity method. We recognize our share of profits from the sale of lots to other buyers. Our share of profits from lots we purchase from the joint ventures is deferred and treated as a reduction of the cost of the land purchased from the joint venture. Such profits are subsequently recognized at the time the home closes and title passes to the homebuyer. We evaluate our investments in unconsolidated entities for impairment during each reporting period in accordance with ASC 323, *Investments Equity Method and Joint Ventures*. A series of operating losses of an investee or other factors may indicate that a decrease in the value of our investment in the unconsolidated entity has occurred which is other-than-temporary. The amount of impairment recognized is the excess of the investment s carrying value over its estimated fair value. Our joint ventures typically obtain secured acquisition and development financing. See Note 3, *Investments in Unconsolidated Joint Ventures*.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost. Depreciation is computed on a straight-line basis at rates based on estimated useful lives as follows:

Buildings	15 30 years
Building improvements	Lesser of estimated useful life of the assets
Computer and office equipment	3 10 years
Information systems	Lesser of estimated useful life of the asset or 5 years
Furniture and fixtures	3 8 years
Model and sales office improvements	Lesser of estimated useful life of the asset or estimated useful life of the community
Leasehold improvements	Lesser of the lease term or the estimated useful life of the asset

Goodwill. Goodwill represents the excess of the purchase price over the fair value of assets acquired. From late fiscal 2006 through the first half of fiscal 2009, the deterioration of the housing industry resulted in an oversupply of inventory, reduced levels of demand, increased cancellation rates, aggressive price competition and increased incentives for homes sales. Based on our impairment tests and consideration of the current and expected future market conditions, over this time we determined that all of our goodwill was impaired. We recorded a non-cash, pre-tax goodwill impairment of $16.1 million in fiscal 2009. The Company has no goodwill remaining as of September 30, 2011.

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements (Continued)

Other Assets. Other assets principally include prepaid expenses, debt issuance costs and deferred compensation plan assets.

Income Taxes. The provision for income taxes is comprised of taxes that are currently payable and deferred taxes that relate to temporary differences between financial reporting carrying values and tax bases of assets and liabilities. Deferred tax assets and liabilities result from deductible or taxable amounts in future years when such assets and liabilities are recovered or settled and are measured using the enacted tax rates and laws that are expected to be in effect when the assets and liabilities are recovered or settled. We include any estimated interest and penalties on tax related matters in income taxes payable. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition of measurement are recorded in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense.

Other Liabilities. Other liabilities include the following:

	September 30, 2011	September 30, 2010
	(In thousands)	
Income tax liabilities	**$ 55,093**	$ 53,508
Accrued warranty expenses	**17,916**	25,821
Accrued interest	**39,478**	35,477
Accrued and deferred compensation	**27,427**	31,474
Customer deposits	**5,868**	3,678
Other	**66,405**	60,212
Total	**$ 212,187**	$ 210,170

Income Recognition and Classification of Costs. Revenue and related profit are generally recognized at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer. As appropriate, revenue for condominiums under construction is recognized based on the percentage-of-completion method, when certain criteria are met.

Sales discounts and incentives include items such as cash discounts, discounts on options included in the home, option upgrades (such as upgrades for cabinetry, countertops and flooring), and seller-paid financing or closing costs. In addition, from time to time, we may also provide homebuyers with retail gift certificates and/or other nominal retail merchandise. All sales incentives other than cash discounts are recognized as a cost of selling the home and are included in home construction and land sales expenses. Cash discounts are accounted for as a reduction in the sales price of the home.

Estimated future warranty costs are charged to cost of sales in the period when the revenues from home closings are recognized. Such estimated warranty costs generally range from 0.5% to 2.0% of total revenue. Additional warranty costs are charged to cost of sales as necessary based on management s estimate of the costs to remediate existing claims. See Note 13 for a more detailed discussion of warranty costs and related reserves.

Advertising costs related to our continuing operations of $11.4 million, $11.2 million and $11.7 million for fiscal years 2011, 2010, and 2009, respectively, were expensed as incurred and are included in general and administrative expenses.

Earnings Per Share (EPS). The computation of basic earnings per common share is determined by dividing net income applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS additionally gives effect (when dilutive) to stock options, other stock based awards and other potentially dilutive securities including the common shares issuable upon conversion of our Mandatory

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements (Continued)

Convertible Subordinated Notes and Tangible Equity Unit prepaid stock purchase contracts. In computing diluted loss per share for the fiscal years ended September 30, 2011, 2010, and 2009, all common stock equivalents were excluded from the computation of diluted loss per share as a result of their anti-dilutive effect, including options/SSARs to purchase 1.9 million shares of common stock and 12.5 million and 12.9 million shares issuable upon the conversion of our Mandatory Convertible Notes and our TEU prepaid stock purchase contracts (based on the maximum potential shares upon conversion), respectively. See notes 7, 11 and 12 for further discussion of these common stock equivalents.

Fair Value Measurements. 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 may not be recovered. We review our long-lived assets, including inventory for recoverability when factors that indicate an impairment may exist, but no less than quarterly. Fair value is based on estimated cash flows discounted for market risks associated with the long-lived assets. The fair value of certain of our financial instruments approximate their carrying amounts due to the short maturity of these assets and liabilities or the variable interest rates on such obligations. The fair value of our publicly held debt is generally estimated based on quoted bid prices for these instruments. Certain of our other financial instruments are estimated by discounting scheduled cash flows through maturity or using market rates currently being offered on loans with similar terms and credit quality. See Notes 4 and 8 for additional discussion of our fair value measurements.

Stock-Based Compensation. We use the Black-Scholes model to value stock-settled appreciation rights (SSARs) and stock option grants. We estimate forfeitures in calculating the expense related to stock-based compensation. In addition, we reflect the benefits of tax deductions in excess of recognized compensation cost as a financing cash inflow and an operating cash outflow. Nonvested stock granted to employees is valued based on the market price of the common stock on the date of the grant. Performance based, nonvested stock granted to employees is valued using the Monte Carlo valuation method. Cash-settled, stock-based awards if, and when, granted to employees are initially valued based on the market price of the underlying common stock on the date of the grant and are adjusted to fair value until vested. Stock options issued to non-employees are valued using the Black-Scholes option pricing model. Nonvested stock granted to non-employees is initially valued based on the market price of the common stock on the date of the grant and is adjusted to fair value until vested. Compensation cost arising from nonvested stock granted to employees, from cash-settled, stock-based employee awards and from non-employee stock awards is recognized as expense using the straight-line method over the vesting period. Although the Company may, from time to time grant cash-settled awards to employees, for the fiscal years ended and as of September 30, 2011, 2010 and 2009, there were no such awards either granted or outstanding.

Unearned compensation is included in paid in capital. As of September 30, 2011 and 2010, there was $4.0 million and $10.0 million, respectively, of total unrecognized compensation cost related to nonvested stock. The cost remaining at September 30, 2011 is expected to be recognized over a weighted average period of 1.8 years.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements. In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (ASC

825). SFAS 159 (ASC 825) permits companies to measure certain financial instruments and other items at fair value. We have not elected the fair value option applicable under SFAS 159 (ASC 825).

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (ASC 470). FSP APB 14-1 (ASC 470) applies to convertible debt instruments that have a net settlement feature permitting settlement partially or fully in cash upon conversion. FSP APB 14-1 (ASC 470) was effective for the Company beginning October 1, 2009. Due to the fact that the Company s convertible securities cannot be settled in cash upon conversion, the adoption of

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements (Continued)

FSP APB 14-1 (ASC 470) did not have a material impact on our consolidated financial condition and results of operations.

In June 2009, the FASB revised its guidance regarding the determination of a primary beneficiary of a VIE. We adopted the revised provisions of ASC 810 on October 1, 2010. The amendments to ASC 810 replace the prior quantitative computations for determining which entity, if any, is the primary beneficiary of the VIE. The revision also increased the disclosures required about a reporting entity s involvement with VIEs. Under these revised provisions, we determined that, for certain VIEs, we do not control the activities of the VIE that most significantly impact its economic performance and, therefore, we are not the primary beneficiary of the VIE. In addition, we reviewed our non-VIE lot option agreements pursuant to ASC 470-40, *Product Financing Arrangements*. As a result, as of October 1, 2010, we deconsolidated land under four lot option agreements which reduced Land Not Owned Under Option Agreements and Obligations Related to Land Not Owned Under Options Agreements by $12.9 million.

Recent Accounting Pronouncements Not Yet Adopted. In May 2011, the Financial Accounting Standard Board (FASB) issued ASU 2011-04, Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and International Financial Reporting Standards (IFRS), and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its operating results or financial position.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-05 to have a material effect on its operating results or financial position.

(2) Supplemental Cash Flow Information

We had the following cash and non-cash activity *(in thousands)*:

	2011	2010	2009
Supplemental disclosure of non-cash activity:			
Decrease (increase) in obligations related to consolidated inventory not owned	**$ (25,277)**	$ 4,310	$ (44,252)
Increase in repayment guarantee obligation	**15,670**	$	$
Non-cash land acquisitions	**770**	515	16,860
Issuance of stock under deferred bonus stock plans	**101**	2,337	1,543

Supplemental disclosure of cash activity:			
Interest payments	**116,049**	113,885	129,724
Income tax payments	**405**	655	9,692
Tax refunds received	**5,823**	135,803	172,465

(3) Investments in Unconsolidated Joint Ventures

As of September 30, 2011, we participated in certain land development joint ventures in which Beazer Homes had less than a controlling interest. The following table presents our investment in our unconsolidated joint

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements (Continued)

ventures, the total equity and outstanding borrowings of these joint ventures and our guarantees of these borrowings as of September 30, 2011 and September 30, 2010 *(in thousands)*:

	2011	2010
Beazer s investment in joint ventures	**$ 9,467**	$ 8,721
Total equity of joint ventures	**96,966**	94,392
Total outstanding borrowings of joint ventures	**394,414**	394,301
Beazer s estimate of its maximum exposure to our repayment guarantees	**17,916**	15,789

The increase in our investment in unconsolidated joint ventures from September 30, 2010 to September 30, 2011 relates primarily to additional investments of $1.9 million offset by distributions of earnings in cash and lots totaling $1.2 million. For the fiscal years ended September 30, 2011, 2010 and 2009, our loss from joint venture activities, the impairments of our investments in certain of our unconsolidated joint ventures, and the overall equity in loss of unconsolidated joint ventures is as follows:

	2011	2010	2009
		(In thousands)	
Continuing operations:			
Income from joint venture activity	**$ 652**	$ 10	$ 518
Impairment of joint venture investment	**(92)**	(8,817)	(12,630)
Equity in income (loss) of unconsolidated joint ventures	$ 560	$ (8,807)	$ (12,112)
Reported in loss from discontinued operations, net of tax			
Loss from joint venture activity	**$ (16)**	$ (32)	$
Impairment of joint venture investment	**(502)**	(15,511)	(2,163)
Equity in loss of unconsolidated joint ventures discontinued operations	$ (518)	$ (15,543)	$ (2,163)

The aggregate debt of the unconsolidated joint ventures was $394.4 million and $394.3 million at September 30, 2011 and 2010, respectively. At September 30, 2011, total borrowings outstanding include $327.9 million related to our interest in South Edge.

South Edge

During fiscal 2008, the administrative agent for the lenders to our South Edge joint venture notified the joint venture members that it believed the joint venture was in default of certain joint venture loan agreements, in particular, the failure of the joint venture members to acquire and pay for specified parcels of land, resulting in a payment default. In December 2008, the lenders filed lawsuits against some of the joint venture members and certain of those members parent companies (including the Company), seeking to recover damages under completion guarantees, among other claims. Based on the Company s revised estimates regarding the value of our investment, the Company impaired its equity interest of $8.8 million in this joint venture during the second quarter of fiscal 2010. In addition, one member of the joint venture filed an arbitration proceeding against the remaining members related to the plaintiff-member s allegations that the other members failed to perform under the applicable joint venture agreements. The arbitration panel issued its decision on July 6, 2010 and awarded the plaintiff-member a monetary award against the remaining members. At that time, the Company recorded an accrual for such matter.

On December 9, 2010, three lenders filed an involuntary bankruptcy petition against the South Edge joint venture. On February 3, 2011, the bankruptcy court granted this petition and the motion for appointment of a Chapter 11 trustee. Effective June 10, 2011, the Company and certain other joint venture members (the Participating Members) entered into a settlement agreement with the administrative agent and the three lenders. Under this agreement, the parties agreed to develop a plan of reorganization for the joint venture. At the same time, the

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members, the administrative agent and the three lenders entered into an agreement with the Chapter 11 Trustee, under which the Trustee agreed to support the plan of reorganization. Based on the terms of the agreement, the Company will pay the lenders an amount between approximately $15.7 million and $17.2 million in relation to the repayment guarantees. Payments pursuant to the plan of reorganization would give each payor lien rights to its share of the property currently owned by the joint venture. The Company also agreed to make other payments in connection with the bankruptcy proceeding. In addition, the Company and the other Participating Members reached a settlement, with the plaintiff- member, of the arbitration claims and other claims relating to the joint venture.

On October 26, 2011, the bankruptcy court approved a plan of reorganization for South Edge that included approval of the settlement agreement with the lenders and the settlement of the arbitration award referred to above. The plan of reorganization calls for the formation of a new joint venture called Inspirada, LLC (Inspirada), with the Participating Members constituting the members of the new venture. Inspirada will take title to the South Edge assets including its real property and lien rights, and the debt to the lenders will be extinguished upon payment by the Inspirada members of their obligations under the plan of reorganization. All pending litigation claims by the lenders and the plaintiff-member against the Participating Members will be dismissed as well. The Participating Members also acquired all claims of the lender and South Edge against the non-Participating Members. In addition to the payments to the lenders, we, as a member of the Inspirada joint venture, will have obligations for future infrastructure and other development costs. At this time, these costs cannot be quantified due to, among other things, uncertainty over the future development configuration of the project and the related costs, market conditions, uncertainty over the remaining infrastructure deposits and previously filed bankruptcies of other joint venture members.

As a result of these occurrences, during the fiscal 2011, we accrued $17.2 million related to our estimated obligation under the settlement agreement. In accordance with the final agreement, we paid $1.5 million into an escrow fund in June 2011, reducing our outstanding liability at September 30, 2011 to approximately $15.7 million. As previously discussed, the Company will ultimately obtain land in exchange for satisfaction of our obligations under the plan of reorganization. At the current time, there are uncertainties with respect to the location and density of the land we would receive, the products we would build on such land and the estimated selling prices of such homes. Considering the various potential scenarios and the current and expected market conditions in the Las Vegas area, we determined that the value of our future land purchase rights was approximately $11.7 million as of September 30, 2011 and recognized non-cash pre-tax impairments totaling $5.6 million on such future land purchase rights during the fiscal 2011. We have recorded $11.7 million to Other Assets as of September 30, 2011 representing our future land purchase rights from the ultimate payment of this repayment guarantee. Because there are uncertainties with respect to the value of the lien rights or title to our share of the underlying property, we may be required to record adjustments to the carrying value of these recognized Other Assets in future periods as better information becomes available.

Guarantees

Our joint ventures typically obtain secured acquisition, development and construction financing. Generally Beazer and our joint venture partners provide varying levels of guarantees of debt and other obligations for our unconsolidated joint ventures. At September 30, 2011, these guarantees included, for certain joint ventures, construction completion guarantees, repayment guarantees and environmental indemnities.

As of September 30, 2011, we have a completion guarantee related to one joint venture loan which also has a repayment guarantee associated with it. With respect to this guaranty, we and our joint venture partners may be obligated to the project lenders to complete land development improvements and the construction of planned homes if the joint venture does not perform the required development. In addition, we and our joint venture partners have repayment guarantees related to certain joint ventures borrowings. These repayment guarantees require the repayment of all or a portion of the debt of the unconsolidated joint venture only in the event the joint venture defaults on its obligations under the borrowing or in some cases only in the event the joint venture files for bankruptcy. Our estimate of Beazer s maximum exposure to our repayment guarantees related to the outstanding

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Notes to Consolidated Financial Statements (Continued)

debt of its unconsolidated joint ventures was $17.9 million and $15.8 million at September 30, 2011 and 2010, respectively. As of September 30, 2011, $16.4 million has been recorded in Other Liabilities related to our repayment guarantees, which is net of the $1.5 million we paid in fiscal 2011 related to our South Edge joint venture. We and our joint venture partners also generally provide unsecured environmental indemnities to joint venture project lenders. In each case, we have performed due diligence on potential environmental risks. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the fiscal years ended September 30, 2011 and 2010, 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 joint ventures. In addition, we monitor the fair value of the collateral of these unconsolidated joint ventures to ensure that the related borrowings do not exceed the specified percentage of the value of the property securing the borrowings. We have recorded a liability for guarantees we determined were probable and reasonably estimable, but we have not recorded a liability for the contingent aspects of any guarantees that we determined were reasonably possible but not probable.

(4) Inventory

	September 30, 2011	September 30, 2010
	(In thousands)	
Homes under construction	**$ 277,331**	$ 210,104
Development projects in progress	**424,055**	444,062
Land held for future development	**384,761**	382,889
Land held for sale	**12,837**	36,259
Capitalized interest	**45,973**	36,884
Model homes	**47,423**	43,505
Total owned inventory	**$ 1,192,380**	$ 1,153,703

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 334 ($59.3 million) and 423 ($71.5 million) substantially completed homes that were not subject to a sales contract (spec homes) at September 30, 2011 and 2010, respectively. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a deposit or sales contract. Land held 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 as of September 30, 2011 principally included land held for sale in the markets we have decided to exit including Denver, Colorado, Charlotte, North Carolina, and Jacksonville, Florida.

The value related to previously owned homes acquired by our Pre-Owned Homes Division is reported as property, plant and equipment, excluded from the inventory information provided, and depreciated over the asset s estimated remaining useful life. These homes are within select communities in markets in which the Company currently operates and will be repaired, rented to consumers and eventually resold.

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

	Projects in Progress	Held for Future Development	Land Held for Sale	Total Owned Inventory
September 30, 2011				
West Segment	$ 294,208	$ 318,732	$ 2,681	$ 615,621
East Segment	304,648	41,993	5,056	351,697
Southeast Segment	122,126	24,036	75	146,237
Unallocated	65,474			65,474
Discontinued Operations	8,326		5,025	13,351
Total	$ 794,782	$ 384,761	$ 12,837	$ 1,192,380
September 30, 2010				
West Segment	$ 281,912	$ 311,472	$ 5,273	$ 598,657
East Segment	269,210	47,381	1,376	317,967
Southeast Segment	115,716	24,036		139,752
Unallocated	53,157			53,157
Discontinued Operations	14,560		29,610	44,170
Total	$ 734,555	$ 382,889	$ 36,259	$ 1,153,703

Inventory located in California, the state with our largest concentration of inventory, was $367.8 million and $345.7 million at September 30, 2011 and 2010, respectively.

Inventory Impairments. In our fiscal 2011 analyses, we have assumed limited market improvements in some communities beginning in fiscal 2013 and continuing improvement in these communities in subsequent years. For any communities scheduled to close out in fiscal 2012, we did not assume any market improvements. The discount rate used may be different for each community and ranged from 12.6% to 18.2% for the communities analyzed in the fiscal year ended September 30, 2011 from 13.7% to 19.8% for the fiscal year ended September 30, 2010 and 17.0% to 22.4% for the fiscal year ended September 30, 2009. The following tables represent the results, by reportable segment of our community level review of the recoverability of our inventory assets held for development as of September 30, 2011 and 2010 (*$ in thousands*). We have elected to aggregate our disclosure at the reportable segment level because we believe this level of disclosure is most meaningful to the readers of our financial statements. As previously discussed, communities included on our watch list typically carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability. The aggregate

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undiscounted cash flow fair value as a percentage of book value for the communities represented below is consistent with our expectations given our watch list methodology.

Segment	# of Communities on Watch List	Undiscounted Cash Flow Analyses Prepared: # of Communities	Book Value (BV)	Aggregate Undiscounted Cash Flow as a % of BV
Year Ended September 30, 2011				
West	18	15	$ 58,848	88.4%
East	7	5	16,436	94.6%
Southeast	4	3	11,017	60.3%
Other	1			n/a
Unallocated			9,707	100.0%
Total	30	23	$ 96,008	87.4%
Year Ended September 30, 2010				
West	20	20	$ 80,270	90.8%
East	12	10	43,655	79.7%
Southeast	6	5	16,394	80.8%
Discontinued Operations	5	5	7,882	93.8%
Unallocated			13,728	100.0%
Total	43	40	$ 161,929	87.7%

The table below summarizes the results of our discounted cash flow analysis for the years ended September 30, 2011, 2010 and 2009. The impairment charges below include impairments taken as a result of these discounted cash flow analyses and also impairment charges recorded for individual homes sold and in backlog with net contribution margins below a minimum threshold of profitability in communities that were otherwise impaired through our discounted cash flow analyses. The estimated fair value of the impaired inventory is determined immediately after a community s impairment. If a community was impaired in more than one quarter in the same fiscal year, it is only counted once in the number of communities impaired. In addition, the information below only includes the last

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fiscal impairment information with respect to the number of lots impaired and the estimated fair value at period end for those communities impaired multiple times in the same fiscal year.

	Results of Discounted Cash Flow Analyses Prepared			
Segment	**# of Communities Impaired**	**# of Lots Impaired**	**Impairment Charge**	**Estimated Fair Value of Impaired Inventory at Period End**
			($ in thousands)	
Year Ended September 30, 2011				
West	12	859	$ 20,150	$ 33,066
East	4	86	1,611	10,671
Southeast	3	278	5,182	6,022
Unallocated			2,362	
Continuing Operations	19	1,223	29,305	49,759
Discontinued Operations			276	
Total	19	1,223	$ 29,581	$ 49,759
Year Ended September 30, 2010				
West	14	618	$ 18,056	$ 38,830
East	6	847	18,703	17,020
Southeast	5	362	7,510	10,984
Unallocated			3,404	
Continuing Operations	25	1,827	47,673	66,834
Discontinued Operations	4	68	1,244	5,972
Total	29	1,895	$ 48,917	$ 72,806
Year Ended September 30, 2009				
West	15	1,703	$ 42,704	$ 49,801
East	5	131	6,383	15,709
Southeast	12	1,444	22,925	32,479
Unallocated			5,116	
Continuing Operations	32	3,278	77,128	97,989
Discontinued Operations	3	204	3,088	8,100
Total	35	3,482	$ 80,216	$ 106,089

Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. During these periods, for certain communities we determined that it was prudent to reduce sales prices or further increase sales incentives in response to factors including competitive market conditions in those specific submarkets for the product and locations of these communities. Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including decreased sales prices, the change in sales prices and changes in absorption estimates based on current market conditions and management s assumptions relative to future results led to additional impairments in certain communities during the years ended September 30, 2011, 2010 and 2009. Market deterioration that exceeds our estimates may lead us to incur additional impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if the market continues to deteriorate.

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The impairments on land held for sale below represent further write downs of these properties to net realizable value, less estimated costs to sell and are as a result of challenging market conditions and our review of recent comparable transactions. The negative impairments for the fiscal year ended September 30, 2011 are due to adjustments to accruals for estimated selling costs related to either our strategic decision to develop a previously held-for-sale land position or revised estimates based on pending sales transactions.

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

Also, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as pre-acquisition costs. In determining whether to abandon a lot option contract, we evaluate the lot option primarily based upon the expected cash flows from the property that is the subject of the option. If we intend to abandon or walk-away from a lot option contract, we record a charge to earnings in the period such decision is made for the deposit amount and any related capitalized costs associated with the lot option contract. We recorded lot option abandonment charges during the year ended September 30, 2011, 2010 and 2009 as indicated in the table below. The abandonment charges relate to our decision to abandon certain option contracts that no longer fit in our long-term strategic plan.

The following tables set forth, by reportable homebuilding segment, the inventory impairments and lot option abandonment charges recorded for the fiscal 2011, 2010 and 2009 (*in thousands*) :

	Fiscal Year Ended September 30,		
	2011	**2010**	**2009**
Development projects and homes in process (Held for Development)			
West	**$ 20,150**	$ 18,056	$ 42,704
East	**1,611**	18,703	6,383
Southeast	**5,182**	7,510	22,925
Unallocated	**2,362**	3,404	5,116
Subtotal	**$ 29,305**	$ 47,673	$ 77,128
Land Held for Sale			
West	**$ (51)**	$ 1,061	$ 9,357
East	**193**		1,071
Southeast	**169**		2,094
Subtotal	**$ 311**	$ 1,061	$ 12,522
Lot Option Abandonments			
West	**$ 405**	$ 783	$ 99

East	**2,048**	35	2,884
Southeast	**390**	14	972
Subtotal	**$ 2,843**	$ 832	$ 3,955
Continuing Operations	**$ 32,459**	$ 49,566	$ 93,605
Discontinued Operations			
Held for Development	**$ 276**	$ 1,244	$ 3,088
Land Held for Sale	**78**	1,003	9,370
Lot Option Abandonments	**2,552**	26	1,064
Subtotal	**$ 2,906**	$ 2,273	$ 13,522
Total Company	**$ 35,365**	$ 51,839	$ 107,127

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Notes to Consolidated Financial Statements (Continued)

Lot Option Agreements and Variable Interest Entities. As previously discussed, we also have access to land inventory through lot option contracts, which generally enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our lot option. A majority of our lot option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land for the right to acquire lots during a specified period of time at a certain price. Under lot option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our liability under option contracts is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which aggregated approximately $25.9 million at September 30, 2011. This amount includes non-refundable letters of credit of approximately $1.0 million. The total remaining purchase price, net of cash deposits, committed under all options was $225.2 million as of September 30, 2011. We expect to exercise, subject to market conditions, 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.

For the VIEs in which we are the primary beneficiary of the VIE, we have consolidated the VIE and reflected such assets and liabilities as land not owned under option agreements in our balance sheets. For VIEs we were required to consolidate, we recorded the remaining contractual purchase price under the applicable lot option agreement to land not owned under option agreements with an offsetting increase to obligations related to land not owned under option agreements. Also, to reflect the purchase price of this inventory consolidated, we reclassified the related option deposits from land under development to land not owned under option agreement in the accompanying Consolidated Balance Sheets. Consolidation of these VIEs has no impact on the Company s results of operations or cash flows. The following provides a summary of our interests in lot option agreements as of September 30, 2011 (*in thousands*):

	Deposits & Non-refundable Preacquisition Costs Incurred	Remaining Obligation	Land Not Owned Under Option Agreements
Consolidated VIEs	$ 6,201	$ 1,214	$ 7,415
Other consolidated lot option agreements(a)	164	4,175	4,338
Unconsolidated lot option agreements	13,732	219,841	
Total lot option agreements	$ 20,097	$ 225,230	$ 11,753

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

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5) Interest

Our ability to capitalize all interest incurred during fiscal 2011, 2010 and 2009 has been limited by our inventory eligible for capitalization. The following table sets forth certain information regarding interest (*in thousands*):

	Fiscal Year Ended September 30,		
	2011	**2010**	**2009**
Capitalized interest in inventory, beginning of year	**$ 36,884**	$ 38,338	$ 45,977
Interest incurred	**130,818**	127,316	133,481
Capitalized interest impaired	**(1,907)**	(2,313)	(3,376)
Interest expense not qualified for capitalization and included as other expense	**(73,440)**	(74,214)	(83,030)
Capitalized interest amortized to house construction and land sales expenses	**(46,382)**	(52,243)	(54,714)
Capitalized interest in inventory, end of year	**$ 45,973**	$ 36,884	$ 38,338

(6) Property, Plant and Equipment

Property, plant and equipment consists of *(in thousands)*:

	September 30,	
	2011	**2010**
Building and improvments	**$ 13,744**	$ 2,378
Model and sales office improvements	**36,364**	43,147
Leasehold improvements	**4,609**	6,875
Computer and office equipment	**9,928**	13,306
Information systems	**19,970**	20,078
Furniture and fixtures	**5,477**	7,069
	90,092	92,853
Less: Accumulated depreciation	**(56,132)**	(68,858)
	$ 33,960	$ 23,995

Buildings and improvements as of September 30, 2011 above includes $11.4 million related to previously owned homes purchased by the Company for our pre-owned rental homes business (see Note 11).

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Notes to Consolidated Financial Statements (Continued)

(7) Borrowings

At September 30, 2011 and 2010, we had the following long-term debt *(in thousands)*:

	Maturity Date	2011	2010
61/2% Senior Notes	November 2013		164,473
67/8% Senior Notes	July 2015	**172,454**	209,454
81/8% Senior Notes	June 2016	**172,879**	180,879
12% Senior Secured Notes	October 2017	**250,000**	250,000
91/8% Senior Notes	June 2018	**300,000**	300,000
91/8% Senior Notes	May 2019	**250,000**	
TEU Senior Amortizing Notes	August 2013	**10,062**	14,594
Unamortized debt discounts		**(23,243)**	(23,617)
Total Senior Notes, net		**1,132,152**	1,095,783
Mandatory Convertible Subordinated Notes	January 2013	**57,500**	57,500
Junior subordinated notes	July 2036	**49,537**	47,470
Cash Secured Loan	November 2017	**247,368**	
Other secured notes payable	Various Dates	**2,269**	10,794
Total debt, net		**$ 1,488,826**	$ 1,211,547

As of September 30, 2011, future maturities of our borrowings, excluding our Mandatory Convertible Subordinated Notes which are convertible to common stock upon maturity, are as follows *(in thousands)*:

Year Ending September 30,	
2012	$ 5,922
2013	5,532
2014	324
2015	172,778
2016	173,109
Thereafter	1,148,141
Total	$ 1,505,806

Secured Revolving Credit Facility. On August 5, 2009, we entered into an amendment to our Secured Revolving Credit Facility that reduced the size of the facility to $22 million. The Secured Revolving Credit Facility is provided by one lender. The Secured Revolving Credit Facility provides for future working capital and letter of credit needs collateralized by either cash or assets of the Company at our option, based on certain conditions and covenant compliance. As of September 30, 2011, we have elected to cash collateralize all letters of credit; however, we have pledged approximately $1.0 billion of inventory assets to our Senior Secured Revolving Credit Facility to collateralize potential future borrowings or letters of credit. The Secured Revolving Credit Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. Subject to our option to cash collateralize our obligations under the Secured Revolving Credit Facility upon certain conditions, our obligations under the Secured Revolving Credit Facility are secured by liens on substantially all of our personal property and a significant portion of our owned real properties. There were no outstanding borrowings under the Secured Revolving Credit Facility as of September 30, 2011. In July 2011, we further amended our Secured Revolving Credit Facility to extend its maturity to August 2012.

We have entered into stand-alone, cash-secured letter of credit agreements with banks to maintain our pre-existing letters of credit and to provide for the issuance of new letters of credit. The letter of credit arrangements

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combined with our Senior Secured Revolving Credit Facility provide a total letter of credit capacity of approximately $92.1 million. As of September 30, 2011 and 2010, we have secured letters of credit using cash collateral in restricted accounts totaling $28.9 million and $38.8 million, respectively. The Company may enter into additional arrangements to provide additional letter of credit capacity.

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

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At September 30, 2011, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. The indentures provide that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes. Specifically, certain indentures require us to offer to purchase 10% of the original amount of the Senior Notes at par if our consolidated tangible net worth (defined as stockholders equity less intangible assets) is less than $85 million at the end of any two consecutive fiscal quarters. If triggered and fully subscribed, this could result in our having to purchase $62.5 million of notes, based on the original amounts of the applicable notes; however, this amount may be reduced by certain Senior Note repurchases (potentially at less than par) made after the triggering date. As of September 30, 2011, our consolidated tangible net worth was $153.1 million.

On January 8, 2010, we redeemed our 85/8% Senior Notes due 2011 at par totaling $127.3 million. This redemption resulted in a loss on debt extinguishment of $0.9 million due primarily to the acceleration of debt discount and issuance costs. In May 2010, we redeemed our 83/8% Senior Notes due 2012 at par for a total of $303.6 million. This redemption resulted in a loss on debt extinguishment of $2.9 million, which included the acceleration of debt issuance cost amortization. In addition, during the fiscal year ended September 30, 2010, we redeemed for cash all of the outstanding Convertible Senior Notes for a total of $155.5 million. The redemption resulted in a loss on debt extinguishment of $6.2 million, which included the acceleration of debt issuance cost amortization.

On September 11, 2009, we issued and sold $250 million aggregate principal amount of our 12% Senior Secured Notes due 2017 (Senior Secured Notes) through a private placement. The Senior Secured Notes were issued at a price of 89.5% of their face amount (before underwriting and other issuance costs). Interest on the Senior Secured Notes is payable semi-annually in cash in arrears. During the quarter ended March 31, 2010, we completed an offer to exchange substantially all of the $250 million Senior Secured Notes, which were registered under the Securities Act of 1933. The Senior Secured Notes were issued under an indenture, dated as of September 11, 2009. The indenture contains covenants which, subject to certain exceptions, limit the ability of the Company and its restricted subsidiaries to, among other things, incur additional indebtedness, engage in certain asset sales, make certain types of restricted payments, engage in transactions with affiliates and create liens on assets of the Company. Upon a change of control, as defined, the indenture requires us to make an offer to repurchase the Senior Secured Notes at 101% of their principal amount, plus accrued and unpaid interest. If we sell certain assets and do not reinvest the net proceeds in compliance with the indenture, then we must use the net proceeds to offer to repurchase the Senior Secured Notes at 100% of their principal amount, plus accrued and unpaid interest. After October 15, 2012, we may redeem some or all of the Senior Secured Notes at redemption prices set forth in the indenture. The Senior Secured Notes are secured on a second priority basis by, subject to exceptions specified in the related agreements, substantially all of the tangible and intangible assets of the Company as defined.

In May 2010, we issued $300 million aggregate principal amount of 91/8% Senior Notes due June 15, 2018. Interest on these notes is payable semi-annually in cash in arrears, commencing on June 15, 2010. These notes are unsecured and rank equally with our unsecured indebtedness. We may, at our option, redeem the 91/8% Senior Notes

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in whole or in part at any time at specified redemption prices which include a make whole provision through June 15, 2014.

Also in May 2010, we issued 3 million, publicly traded, 7.25% tangible equity units (TEUs) which were comprised of prepaid stock purchase contracts and senior amortizing notes. The two components of the TEUs are legally separate and detachable, there are no beneficial conversion features associated with these instruments, and we have accounted for the two components as separate items for financial reporting purposes and valued them based on their relative fair value at the date of issuance. The amortizing notes are unsecured senior obligations and rank equally with all of our other unsecured indebtedness and had an aggregate initial principal amount of $15.7 million as determined under the relative fair value method. The prepaid stock purchase contracts will convert to Beazer Homes stock on August 15, 2013 based on the applicable settlement factor, as defined in the offering agreement, which will be between 3.5126 share per unit and 4.3029 shares per unit, and were recorded as additional paid-in-capital at their relative fair value at the date of issuance ($57.4 million). The TEU notes pay quarterly installments of principal and interest aggregating approximately $1.4 million per quarter through August 15, 2013, and in the aggregate, these installments will be equivalent to a 7.25% cash payment per year with respect to each $25 stated amount of the TEUs. If we elect to settle the prepaid stock purchase contracts early, we may be required to repurchase certain amortizing notes, plus accrued and unpaid interest as provided for in the TEU agreement. The related prepaid stock purchase contracts will be settled in Beazer Homes common stock on August 15, 2013 and have been accounted for as equity in the accompanying Consolidated Balance Sheets.

In November 2010, we issued $250 million aggregate principal amount of 91/8% Senior Notes due May 15, 2019 in a private placement. Interest on these notes is payable semi-annually in cash in arrears, commencing on May 15, 2011. These notes are unsecured and rank equally with our unsecured indebtedness. We may, at our option, redeem the 91/8% Senior Notes in whole or in part at any time at specified redemption prices which include a make whole provision through May 15, 2014. During fiscal year 2011, we offered to exchange substantially all of the $250 million 91/8% Senior Notes due 2019 for notes that were publically traded and registered under the Securities Act of 1933. Approximately $250 million of the 91/8% Senior Notes were exchanged for the publically traded and registered 91/8% Senior Notes during the fourth quarter of fiscal 2011.

During fiscal 2011, we redeemed or repurchased in open market transactions $209.5 million principal amount of our Senior Notes ($164.5 million of 61/2% Senior Notes due 2013, $37.0 million of 67/8% Senior Notes due 2015 and $8.0 million of 81/8% Senior Notes due 2016). The aggregate purchase price was $210.0 million, plus accrued and unpaid interest as of the purchase date. The redemption/repurchase of the notes resulted in a $2.9 million pre-tax loss on extinguishment of debt, net of unamortized discounts and debt issuance costs related to these notes. All Senior Notes redeemed/repurchased by the Company were cancelled.

As of September 30, 2011, we were in compliance with all covenants under our Senior Notes.

Mandatory Convertible Subordinated Notes. On January 12, 2010, we issued $57.5 million aggregate principal amount of 71/2% Mandatory Convertible Subordinated Notes due 2013 (the Mandatory Convertible Subordinated Notes). Interest on the Mandatory Convertible Subordinated Notes is payable quarterly in cash in arrears. Holders of the Mandatory Convertible Subordinated Notes have the right to convert their notes, in whole or in part, at any time prior to maturity, into shares of our common stock at a fixed conversion rate of 5.4348 shares per $25 principal amount of notes. At maturity, the remaining notes will automatically convert into the Company s common stock at a defined conversion rate which will range from 4.4547 to 5.4348 (the initial conversion rate) shares per $25 principal amount of notes based on the then current price of the common stock. The securities are subordinated to nonconvertible debt, the conversion feature is non-detachable and there are no beneficial conversion features associated with this debt. If our consolidated tangible net worth is less than $85 million as of the last day of a fiscal quarter, the Company has the right to require holders to convert all of the notes then outstanding for shares of our common stock at the maximum conversion rate plus a conversion premium as described in the agreement.

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements (Continued)

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

On January 15, 2010, we completed an exchange of $75 million of our trust preferred securities issued by Beazer Capital Trust I for a new issue of $75 million of junior subordinated notes due July 30, 2036 issued by the Company (the New Junior Notes). The exchanged trust preferred securities and the related junior subordinated notes issued in 2006 were cancelled effective January 15, 2010. The material terms of the New Junior Notes are identical to the terms of the original trust securities except that when the New Junior Notes change from a fixed rate to a variable rate in August 2016, the variable rate is subject to a floor of 4.25% and a cap of 9.25%. In addition, the Company now has the option to redeem the New Junior Notes beginning on June 1, 2012 at 75% of par value and beginning on June 1, 2022, the redemption price of 75% of par value will increase by 1.785% per year.

The aforementioned exchange has been accounted for as an extinguishment of debt as there has been a significant modification of cash flows and, as such, the New Junior Notes were recorded at their estimated fair value at the exchange date. Over the remaining life of the New Junior Notes, we will increase their carrying value until this carrying value equals the face value of the notes. During fiscal 2010, we recorded a pre-tax gain on extinguishment of $53.6 million in connection with this exchange. As of September 30, 2011, the unamortized accretion was $51.2 million and will be amortized over the remaining life of the notes.

As of September 30, 2011, we were in compliance with all covenants under our Junior Notes.

Cash Secured Loans. In November 2010, we entered into two separate loan facilities for a combined total of $275 million. Borrowing under the cash secured loan facilities will replenish cash used to repay or repurchase the Company s debt and would be considered refinancing indebtedness under certain of the Company s existing indentures and debt covenants. However, because the loans are fully collateralized by cash equal to the loan amount, the loans do not provide liquidity to the Company.

The lenders of these facilities may put the outstanding loan balances to the Company at the two or four year anniversaries of the loan. The loan matures in seven years. Borrowings under the facilities are fully secured by cash held by the lender or its affiliates. This secured cash is reflected as restricted cash on our consolidated balance sheet as of September 30, 2011. We borrowed $32.6 million at inception of the loans. As previously indicated and in order to protect financing capacity available under our covenant refinancing basket related to previous or future debt repayments, we borrowed an additional $214.8 million under the cash secured loan facilities in the quarter ended June 30, 2011. The cash secured loan has an interest rate equivalent to LIBOR plus 0.4% per annum which is paid every three months following the effective date of each borrowing.

Other Secured Notes Payable. We periodically acquire land through the issuance of notes payable. As of September 30, 2011 and 2010, we had outstanding notes payable of $2.3 million and $10.8 million, respectively, primarily related to land acquisitions. These notes payable expire between 2012 and 2016 and have a weighted average fixed rate of 7.135% at September 30, 2011. The notes are secured by the real estate to which they relate.

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

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements (Continued)

(8) Fair Value Measurements

As of September 30, 2011, we had no assets or liabilities in our consolidated balance sheets that were required to be measured at fair value on a recurring basis. 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 may not be recovered. 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; Level 3 Unobservable inputs th