BEAZER HOMES USA INC
Form 10-Q
February 09, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2016
or

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

Commission File Number 001-12822

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

DELAWARE	58-2086934
(State or other jurisdiction of 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)

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

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

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

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

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

Class	Outstanding at February 3, 2017
Common Stock, $0.001 par value	33,544,628

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

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this Form 10-Q in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A— Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, as well as Item 1A of this Form 10-Q. These factors are not intended to be an all-inclusive list of risks and uncertainties that may affect the operations, performance, development and results of our business, but instead are the risks that we currently perceive as potentially being material. Such factors may include:

- economic changes nationally or in local markets, changes in consumer confidence, declines in employment levels, inflation or increases in the quantity and decreases in the price of new homes and resale homes on the market;
- the cyclical nature of the homebuilding industry and a potential deterioration in homebuilding industry conditions;
- factors affecting margins, such as decreased land values underlying land option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce our production and overhead cost structure;
- the availability and cost of land and the risks associated with the future value of our inventory, such as additional asset impairment charges or writedowns;
- estimates related to homes to be delivered in the future (backlog) are imprecise, as they are subject to various cancellation risks that cannot be fully controlled;
- shortages of or increased prices for labor, land or raw materials used in housing production and the level of quality and craftsmanship provided by our subcontractors;
- our cost of and ability to access capital, due to factors such as limitations in the capital markets or adverse credit market conditions, and otherwise meet our ongoing liquidity needs, including the impact of any downgrades of our credit ratings or reductions in our tangible net worth or liquidity levels;
- our ability to reduce our outstanding indebtedness and to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;
- a substantial increase in mortgage interest rates, increased disruption in the availability of mortgage financing, a change in tax laws regarding the deductibility of mortgage interest for tax purposes or an increased number of foreclosures;
- increased competition or delays in reacting to changing consumer preferences in home design;
- continuing severe weather conditions or other related events that could result in delays in land development or home construction, increase our costs or decrease demand in the impacted areas;
- estimates related to the potential recoverability of our deferred tax assets and a potential reduction in corporate tax rates that could reduce the usefulness of our existing deferred tax assets;
- potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations or governmental policies, and possible penalties for failure to comply with such laws, regulations or governmental policies, including those related to the environment;
- the results of litigation or government proceedings and fulfillment of any related obligations;
- the impact of construction defect and home warranty claims, including water intrusion issues in Florida;
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- the cost and availability of insurance and surety bonds, as well as the sufficiency of these instruments to cover potential losses incurred;
- the performance of our unconsolidated entities and our unconsolidated entity partners;
- the impact of information technology failures or data security breaches;
- terrorist acts, natural disasters, acts of war or other factors over which the Company has little or no control; or
- the impact on homebuilding in key markets of governmental regulations limiting the availability of water.

Any forward-looking statement speaks only as of the date on which such statement is made and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made

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or to reflect the occurrence of unanticipated events. New factors emerge from time-to-time and it is not possible for management to predict all such factors.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2016	September 30, 2016
ASSETS		
Cash and cash equivalents	$ 158,623	$ 228,871
Restricted cash	15,963	14,405
Accounts receivable (net of allowance of $350 and $354, respectively)	51,797	53,226
Income tax receivable	288	292
Owned inventory	1,618,544	1,569,279
Investments in unconsolidated entities	5,065	10,470
Deferred tax assets, net	312,666	309,955
Property and equipment, net	19,335	19,138
Other assets	5,862	7,522
Total assets	$ 2,188,143	$ 2,213,158
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$ 86,730	$ 104,174
Other liabilities	121,711	134,253
Total debt (net of premium of $1,535 and $1,482, respectively, and debt issuance costs of $14,509 and $15,514, respectively)	1,336,483	1,331,878
Total liabilities	1,544,924	1,570,305
Stockholders' equity:		
Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued)	—	—
Common stock (par value $0.001 per share, 63,000,000 shares authorized, 33,545,721 issued and outstanding and 33,071,331 issued and outstanding, respectively)	34	33
Paid-in capital	867,084	865,290
Accumulated deficit	(223,899)	(222,470)
Total stockholders' equity	643,219	642,853
Total liabilities and stockholders' equity	$ 2,188,143	$ 2,213,158

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31,	
	2016	2015
Total revenue	$339,241	$344,449
Home construction and land sales expenses	285,578	285,511
Inventory impairments and abandonments	—	1,356
Gross profit	53,663	57,582
Commissions	13,323	13,774
General and administrative expenses	36,388	31,669
Depreciation and amortization	2,677	2,991
Operating income	1,275	9,148
Equity in income of unconsolidated entities	22	60
Loss on extinguishment of debt	—	(828)
Other expense, net	(5,196)	(6,565)
Income (loss) from continuing operations before income taxes	(3,899)	1,815
Expense (benefit) from income taxes	(2,540)	616
Income (loss) from continuing operations	(1,359)	1,199
Loss from discontinued operations, net of tax	(70)	(200)
Net income (loss) and comprehensive income (loss)	$(1,429)	$999
Weighted average number of shares:		
Basic	31,893	31,757
Diluted	31,893	31,844
Basic income (loss) per share:		
Continuing operations	$(0.04)	$0.04
Discontinued operations	$—	$(0.01)
Total	$(0.04)	$0.03
Diluted income (loss) per share:		
Continuing operations	$(0.04)	$0.04
Discontinued operations	$—	$(0.01)
Total	$(0.04)	$0.03

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	$(1,429)	$999
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,677	2,991
Stock-based compensation expense	2,176	1,756
Inventory impairments and abandonments	—	1,356
Deferred and other income tax expense (benefit)	(2,707)	318
Write-off of deposit on legacy land investment	2,700	—
Gain on sale of fixed assets	(46)	(771)
Change in allowance for doubtful accounts	(4)	(131)
Equity in income of unconsolidated entities	(22)	(60)
Cash distributions of income from unconsolidated entities	6	—
Changes in operating assets and liabilities:		
Decrease in accounts receivable	1,433	1,955
Decrease in income tax receivable	4	150
Increase in inventory	(39,543)	(28,168)
Decrease in other assets	1,906	1,660
Decrease in trade accounts payable	(17,444)	(32,144)
Decrease in other liabilities	(12,541)	(27,760)
Net cash used in operating activities	(62,834)	(77,849)
Cash flows from investing activities:		
Capital expenditures	(2,874)	(2,663)
Proceeds from sale of fixed assets	46	2,437
Investments in unconsolidated entities	(1,397)	(1,779)
Return of capital from unconsolidated entities	1,621	1,142
Increases in restricted cash	(3,646)	(1,119)
Decreases in restricted cash	2,088	669
Net cash used in investing activities	(4,162)	(1,313)
Cash flows from financing activities:		
Repayment of debt	(2,525)	(26,926)
Debt issuance costs	(340)	(413)
Other financing activities	(387)	(201)
Net cash used in financing activities	(3,252)	(27,540)
Decrease in cash and cash equivalents	(70,248)	(106,702)
Cash and cash equivalents at beginning of period	228,871	251,583
Cash and cash equivalents at end of period	$158,623	$144,881

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(1) Description of Business

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

For an additional description of our business, refer to Item 1 within our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (2016 Annual Report).

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

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such unaudited financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments (consisting primarily of normal recurring adjustments) necessary for a fair presentation have been included in the accompanying unaudited financial statements. The results of our consolidated operations presented herein for the three months ended December 31, 2016 are not necessarily indicative of the results to be expected for the full year due to seasonal variations in our operations and other factors. For further information and a discussion of our significant accounting policies other than those discussed below, refer to Note 2 to the audited consolidated financial statements within our 2016 Annual Report.

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

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

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

Our fiscal 2017 began on October 1, 2016 and ends on September 30, 2017. Our fiscal 2016 began on October 1, 2015 and ended on September 30, 2016.

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

Inventory Valuation. We assess our inventory assets no less than quarterly for recoverability in accordance with the policies described in Notes 2 and 5 to the audited consolidated financial statements within our 2016 Annual Report. Our homebuilding inventories that are accounted for as held for development (development projects in progress) include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. For those communities that have been idled (land held for future development), all applicable interest and real estate taxes are expensed as incurred, and the inventory is stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We record assets held for sale at the lower of the carrying value or fair value less costs to sell.

Recent Accounting Pronouncements.

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU

2014-09 requires entities to recognize revenue at an amount that the entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under the existing revenue recognition guidance. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for one year, which makes the guidance effective for the Company's first fiscal year beginning after December 15, 2017. Additionally, the FASB is permitting entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We continue to evaluate the impact of ASU 2014-09 on our consolidated financial statements and have been involved in industry-specific discussions with the FASB on the treatment of certain items. However, due to the nature of our operations and simplicity of our revenue recognition model, we do not anticipate the adoption of ASU 2014-09 to result in a significant impact to our financial statements. Nonetheless, we are still evaluating the impact of specific parts of this ASU, and expect our revenue-related disclosures to change.

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

Statement of Cash Flows. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flow - Restricted Cash (ASU 2016-18). ASU 2016-18 requires that an entity's statement of cash flows explain the change during the period in that entity's total cash and cash equivalents, including amounts generally described as restricted cash or restricted cash equivalents. Therefore, changes in restricted cash and restricted cash equivalents will no longer be shown in the statement of cash flows. Additionally, an entity is to reconcile its cash and cash equivalents as per its balance sheet to the cash and cash equivalent balances presented in its statement of cash flows. The guidance within ASU 2016-18 will be effective for the Company's first fiscal year beginning after December 15, 2017, with early adoption permitted. While we continue to evaluate the impact of ASU 2016-18 on our financial statements, we expect the impact to be as follows: (1) changes in our restricted cash balances will no longer be shown in our statements of cash flows (within investing activities), as these balances will be included in the beginning and ending cash balances in our statements of cash flows and (2) we will include in our disclosures a reconciliation between our cash balances presented on our balance sheets with the amounts presented in our statements of cash flows.

(3) Supplemental Cash Flow Information

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

(In thousands)	Three Months Ended December 31, 2016	2015
Supplemental disclosure of non-cash activity:		
Non-cash land acquisitions [a]	$5,197	$3,769
Land acquisitions for debt	5,555	—
Supplemental disclosure of cash activity:		
Interest payments	11,824	39,740
Income tax payments	178	146
Tax refunds received	4	150

[a] For the three months ended December 31, 2016 and December 31, 2015, non-cash land acquisitions were comprised of lot takedowns from one of our unconsolidated land development joint ventures.

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(4) Investments in Unconsolidated Entities

As of December 31, 2016, we participated in certain joint ventures and other unconsolidated entities in which Beazer had less than a controlling interest. The following table presents our investment in these unconsolidated entities, as well as the total equity and outstanding borrowings of these unconsolidated entities as of December 31, 2016 and September 30, 2016:

(In thousands)	December 31, 2016	September 30, 2016
Beazer’s investment in unconsolidated entities	$ 5,065	$ 10,470
Total equity of unconsolidated entities	14,585	31,615
Total outstanding borrowings of unconsolidated entities	17,725	14,702

For the three months ended December 31, 2016 and 2015, there were no impairments related to our investments in these unconsolidated entities.

Our equity in income from unconsolidated entity activities for the three months ended December 31, 2016 and 2015 was $22 thousand and $60 thousand, respectively.

Guarantees. Our joint ventures typically obtain secured acquisition, development and construction financing. Historically, Beazer and our joint venture partners have provided varying levels of guarantees of debt and other debt-related obligations for these unconsolidated entities. However, as of December 31, 2016 and September 30, 2016, we had no outstanding guarantees or other debt-related obligations related to our investments in unconsolidated entities.

We and our joint venture partners generally provide unsecured environmental indemnities to land development joint venture project lenders. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the three months ended December 31, 2016 and 2015, we were not required to make any payments related to environmental indemnities.

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

(5) Inventory

The components of our owned inventory are as follows as of December 31, 2016 and September 30, 2016:

(In thousands)	December 31, 2016	September 30, 2016
Homes under construction	$ 422,493	$ 377,191
Development projects in progress	778,078	742,417
Land held for future development	172,824	213,006
Land held for sale	28,021	29,696
Capitalized interest	144,299	138,108
Model homes	72,829	68,861
Total owned inventory	$ 1,618,544	$ 1,569,279

Homes under construction include homes substantially finished and ready for delivery and homes in various stages of construction. We had 162 (with a cost of $47.1 million) and 178 (with a cost of $56.1 million) substantially completed homes that were not subject to a sales contract (spec homes) as of December 31, 2016 and September 30, 2016, respectively. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a customer deposit or sales contract. Land held for future development consists of communities for which construction and development activities are expected to occur in the future or have been idled, and are stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. All applicable interest and real estate taxes on land held for future development are expensed as incurred. Land held for sale is recorded at the lower of the carrying value or fair value less costs to sell. The amount of interest we are able to capitalize is dependent upon our qualified inventory balance, which considers

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

Total owned inventory, by reportable segment, is presented by category in the table below as of December 31, 2016 and September 30, 2016:

(In thousands)	Projects in Progress [a]	Land Held for Future Development	Land Held for Sale	Total Owned Inventory
December 31, 2016				
West Segment	$619,044	$ 147,861	$ 7,699	$774,604
East Segment	305,593	14,004	18,010	337,607
Southeast Segment	297,336	10,959	1,212	309,507
Corporate and unallocated [b]	195,726	—	1,100	196,826
Total	$1,417,699	$ 172,824	$ 28,021	$