BEAZER HOMES USA INC
Form 10-Q
August 08, 2008

Table of Contents

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2008

or

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 1200, 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 þ NO o

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):

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO þ

Class	Outstanding at July 31, 2008
Common Stock, $0.001 par value	39,240,011 shares

Table of Contents

References to we, us, our, Beazer , Beazer Homes and the Company in this quarterly report on Form 10-Q ref
Beazer Homes USA, Inc.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent our expectations or beliefs concerning future events, and it is possible that the results described in this quarterly report will not be achieved. These forward-looking statements can generally be identified by the use of statements that include words such as estimate, project, believe, expect, anticipate, intend, plan, foresee, likely, will, goal, target or other simil forward-looking statements are based upon information available to us on the date of this quarterly report.

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this quarterly report in the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations. Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Such factors may include:

- the timing and final outcome of the United States Attorney investigation, the Securities and Exchange Commission s (SEC) investigation and other state and federal agency investigations, the putative class action lawsuits, the derivative claims, multi-party suits and similar proceedings as well as the results of any other litigation or government proceedings;
- material weaknesses in our internal control over financial reporting;
- additional asset impairment charges or writedowns;
- economic changes nationally or in local markets, including changes in consumer confidence, volatility of mortgage interest rates and inflation;
- continued or increased downturn in the homebuilding industry;
- estimates related to 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;
- our cost of and ability to access capital and otherwise meet our ongoing liquidity needs including the impact of any further downgrades of our credit ratings;
- potential inability to comply with covenants in our debt agreements;
- continued negative publicity;
- increased competition or delays in reacting to changing consumer preference in home design;
- shortages of or increased prices for labor, land or raw materials used in housing production;
- factors affecting margins such as decreased land values underlying land option agreements, increased land development costs on projects under development or delays or difficulties in implementing initiatives to reduce production and overhead cost structure;

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

the impact of construction defect and home warranty claims and the cost and availability of insurance, including the availability of insurance for the presence of moisture intrusion;

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

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

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

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

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

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

BEAZER HOMES USA, INC.
FORM 10-Q
INDEX

PART I. FINANCIAL INFORMATION	4
Item 1. Financial Statements	4
Unaudited Condensed Consolidated Balance Sheets, June 30, 2008 and September 30, 2007	4
Unaudited Condensed Consolidated Statements of Operations, Three Months Ended June 30, 2008 and 2007	5
Unaudited Condensed Consolidated Statements of Cash Flows, Nine Months Ended June 30, 2008 and 2007	6
Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3. Quantitative and Qualitative Disclosures about Market Risk	52
Item 4. Controls and Procedures	52
PART II. OTHER INFORMATION	56
Item 1. Legal Proceedings	56
Item 5. Other Information	59
Item 6. Exhibits	59
SIGNATURES	60
EX-10.1 THIRD AMENDMENT TO THE CREDIT AGREEMENT	
EX-10.2 AMENDED AND RESTATED STOCK INCENTIVE PLAN	
EX-31.1 SECTION 302, CERTIFICATION	
EX-31.2 SECTION 302, CERTIFICATION	
EX-32.1 SECTION 906, CERTIFICATION	
EX-32.2 SECTION 906, CERTIFICATION	

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2008	September 30, 2007
ASSETS		
Cash and cash equivalents	**$ 314,202**	$ 454,337
Restricted cash	**903**	5,171
Accounts receivable	**53,092**	45,501
Income tax receivable	**144,544**	63,981
Inventory		
Owned inventory	**1,908,227**	2,537,791
Consolidated inventory not owned	**120,316**	237,382
Total inventory	**2,028,543**	2,775,173
Residential mortgage loans available-for-sale	**93**	781
Investments in unconsolidated joint ventures	**37,727**	109,143
Deferred tax assets	**416,354**	232,949
Property, plant and equipment, net	**51,581**	71,682
Goodwill	**16,143**	68,613
Other assets	**83,189**	102,690
Total assets	**$ 3,146,371**	$ 3,930,021
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	**$ 90,111**	$ 118,030
Other liabilities	**366,882**	453,089
Obligations related to consolidated inventory not owned	**83,005**	177,931
Senior Notes (net of discounts of $2,682 and $3,033, respectively)	**1,522,318**	1,521,967
Junior subordinated notes	**103,093**	103,093
Other secured notes payable	**50,388**	118,073
Model home financing obligations	**86,388**	114,116
Total liabilities	**2,302,185**	2,606,299
Stockholders equity:		
Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued)		
Common stock (par value $0.001 per share, 80,000,000 shares authorized, 42,578,665 and 42,597,229 issued and 39,240,011 and 39,261,721 outstanding, respectively)	**43**	43
Paid-in capital	**552,279**	543,705
Retained earnings	**475,786**	963,869

Treasury stock, at cost (3,338,654 and 3,335,508 shares, respectively)	**(183,922)**	(183,895)
Total stockholders equity	**844,186**	1,323,722
Total liabilities and stockholders equity	**$ 3,146,371**	$ 3,930,021

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Total revenue	**$ 455,578**	$ 753,456	**$ 1,361,649**	$ 2,373,048
Home construction and land sales expenses	**407,512**	647,489	**1,223,252**	2,022,687
Inventory impairments and option contract abandonments	**95,482**	154,244	**451,854**	399,856
Gross loss	**(47,416)**	(48,277)	**(313,457)**	(49,495)
Selling, general and administrative expenses	**83,517**	96,327	**245,696**	302,323
Depreciation and amortization	**6,046**	7,773	**18,250**	22,838
Goodwill impairment	**4,365**	29,752	**52,470**	29,752
Operating loss	**(141,344)**	(182,129)	**(629,873)**	(404,408)
Equity in loss of unconsolidated joint ventures	**(18,568)**	(939)	**(75,069)**	(7,012)
Other (expense) income, net	**(13,489)**	2,664	**(20,907)**	7,870
Loss from continuing operations before income taxes	**(173,401)**	(180,404)	**(725,849)**	(403,550)
Benefit from income taxes	**(63,707)**	(61,474)	**(249,771)**	(145,161)
Loss from continuing operations	**(109,694)**	(118,930)	**(476,078)**	(258,389)
(Loss) income from discontinued operations, net of tax	**(148)**	183	**(1,893)**	2,548
Net loss	**$ (109,842)**	$ (118,747)	**$ (477,971)**	$ (255,841)
Weighted average number of shares:				
Basic	**38,551**	38,459	**38,546**	38,388
Diluted	**38,551**	38,459	**38,546**	38,388
Earnings (loss) per share:				
Basic loss per share from continuing operations	**$ (2.85)**	$ (3.09)	**$ (12.35)**	$ (6.73)
Basic (loss) earnings per share from discontinued operations	**$**	$	**$ (0.05)**	$ 0.07
Basic loss per share	**$ (2.85)**	$ (3.09)	**$ (12.40)**	$ (6.66)
Diluted loss per share from continuing operations	**$ (2.85)**	$ (3.09)	**$ (12.35)**	$ (6.73)
Diluted (loss) earnings per share from discontinued operations	**$**	$	**$ (0.05)**	$ 0.07
Diluted loss per share	**$ (2.85)**	$ (3.09)	**$ (12.40)**	$ (6.66)
Cash dividends per share	**$**	$ 0.10	**$**	$ 0.30

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Nine Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	**$ (477,971)**	$ (255,841)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**18,415**	23,169
Stock-based compensation expense	**8,694**	7,406
Inventory impairments and option contract abandonments	**451,854**	399,856
Goodwill impairment charge	**52,470**	29,752
Deferred income tax benefit	**(118,817)**	(108,092)
Excess tax benefit (deficiency) from equity-based compensation	**454**	(3,212)
Equity in loss of unconsolidated joint ventures	**75,069**	7,012
Cash distributions of income from unconsolidated joint ventures	**2,096**	3,625
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	**(5,647)**	265,092
Increase in income tax receivable	**(80,563)**	(42,209)
Decrease (increase) in inventory	**261,324**	(116,057)
Decrease in residential mortgage loans available-for-sale	**688**	67,803
Decrease (increase) in other assets	**40,636**	(12,083)
Decrease in trade accounts payable	**(28,176)**	(47,947)
Decrease in other liabilities	**(169,673)**	(97,175)
Other changes	**(6,354)**	950
Net cash provided by operating activities	**24,499**	122,049
Cash flows from investing activities:		
Capital expenditures	**(7,949)**	(23,948)
Investments in unconsolidated joint ventures	**(11,137)**	(18,666)
Changes in restricted cash	**4,268**	(619)
Distributions from unconsolidated joint ventures		1,732
Net cash used in investing activities	**(14,818)**	(41,501)
Cash flows from financing activities:		
Borrowings under credit facilities and warehouse line		130,031
Repayment of credit facilities and warehouse line		(204,138)
Repayment of other secured notes payable	**(100,472)**	(14,431)
Repurchase of senior notes		(30,413)
Borrowings under model home financing obligations		5,061
Repayment of model home financing obligations	**(27,728)**	(5,618)
Debt issuance costs	**(21,135)**	(324)
Proceeds from stock option exercises		4,423
Common stock redeemed	**(27)**	(304)
Excess (tax benefit) deficiency from equity-based compensation	**(454)**	3,212

Dividends paid		(11,708)
Net cash used in financing activities	**(149,816)**	(124,209)
Decrease in cash and cash equivalents	**(140,135)**	(43,661)
Cash and cash equivalents at beginning of period	**454,337**	167,570
Cash and cash equivalents at end of period	**$ 314,202**	$ 123,909

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

(1) Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Beazer Homes USA, Inc. (Beazer Homes or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all adjustments (consisting solely of normal recurring accruals) necessary for a fair presentation have been included in the accompanying financial statements. For further information and a discussion of our significant accounting policies other than as discussed below, refer to our audited consolidated financial statements appearing in the Beazer Homes Annual Report on Form 10-K for the fiscal year ended September 30, 2007 (the 2007 Annual Report).

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

Nonvested stock granted to employees is valued based on the market price of the common stock on the date of the grant. Performance based, nonvested stock granted to employees is valued using the Monte Carlo valuation method. No performance-based nonvested stock was granted during the nine months ended June 30, 2008 or 2007.

Compensation cost arising from nonvested stock granted to employees and from non-employee stock awards is recognized as an expense using the straight-line method over the vesting period. Unearned compensation is included in paid-in capital in accordance with SFAS 123R. As of June 30, 2008, there was $15.3 million of total unrecognized compensation cost related to nonvested stock. That cost is expected to be recognized over a weighted average period of 3.3 years. For the three and nine months ended June 30, 2008, our total stock-based compensation expense, included in selling, general and administrative expenses (SG&A), was approximately $3.5 million ($2.4 million net of tax) and $8.7 million ($6.1 million net of tax), respectively. Stock-based compensation expense for the three and nine months ended June 30, 2007 was approximately $3.5 million ($2.4 million net of tax) and $7.4 million ($5.0 million net of tax), respectively.

Activity relating to nonvested stock awards for the three and nine months ended June 30, 2008 is as follows:

	Three Months Ended June 30, 2008		Nine Months Ended June 30, 2008	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of period	849,396	$ 47.71	905,898	$ 48.42
Granted		0.00	26,411	8.49
Vested	(5,706)	51.91	(34,237)	48.44
Forfeited	(841)	44.57	(55,223)	45.05

End of period	842,849	$ 47.39	842,849	$ 47.39

In addition, during the nine months ended June 30, 2008, employees surrendered 3,146 shares, to us in payment of minimum tax obligations upon the vesting of nonvested stock under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of approximately $27,000, or approximately $8.53 per share, respectively.

Table of Contents

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

The following table summarizes stock options and SSARs outstanding as of June 30, 2008, as well as activity during the three and nine months then ended:

	Three Months Ended June 30, 2008		Nine Months Ended June 30, 2008	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	1,924,315	$ 45.25	2,052,379	$ 45.01
Granted				
Exercised				
Forfeited	(13,215)	45.81	(141,279)	41.88
Outstanding at end of period	1,911,100	$ 45.24	1,911,100	$ 45.24
Exercisable at end of period	744,646	$ 28.73	744,646	$ 28.73
Vested or expected to vest in the future	1,554,911	$ 42.02	1,554,911	$ 42.02

At June 30, 2008, the weighted-average remaining contractual life for all options/SSARs outstanding, currently exercisable, and vested or expected to vest in the future was 4.41 years, 3.46 years and 4.31 years, respectively.

At June 30, 2008, 1,554,911 SSARs/options were vested or expected to vest in the future with a weighted average exercise price of $42.02 and a weighted average expected life of 2.57 years. At June 30, 2008, there was no aggregate intrinsic value of SSARs/options outstanding, vested and expected to vest in the future and SSARs/options exercisable based on the Company s stock price of $5.57 as of June 30, 2008. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the stock option. There were no option/SSAR exercises during the three or nine months ended June 30, 2008.

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

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

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

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, SFAS 157 provides guidance for using fair value to measure assets and liabilities. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS 157 includes provisions that require expanded

Table of Contents

disclosure of the effect on earnings for items measured using unobservable data. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*, delaying the effective date of certain non-financial assets and liabilities to fiscal periods beginning after November 15, 2008. We are currently evaluating the impact of adopting SFAS 157 on our consolidated financial condition and results of operations; however, it is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

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

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

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

Inventory Valuation Held for Development. Our homebuilding inventories that are accounted for as held for development include land and home construction assets grouped together as communities. Land held for future development is stated at cost. 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 in accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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. The impact of the 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.

We conduct a review of the recoverability of our homebuilding inventory held for development at the community level as factors indicate that an impairment may exist. Events and circumstances that might indicate impairment include, but are not limited to, adverse trends in new orders, higher than anticipated cancellations, declining margins which might result from (1) the need to offer incentives to new homebuyers to drive sales or (2) price reductions or other actions taken by our competitors, and economic factors specific to the markets in which we operate, including fluctuations in employment levels, population growth, or levels of new and resale homes for sale in the marketplace. As a result, we evaluate, among other things, the following information for each community:

- Actual Net Contribution Margin (defined as homebuilding revenues less homebuilding costs and direct selling expenses) for homes closed in the current fiscal quarter, fiscal year to date and prior two fiscal quarters. Homebuilding costs include land and land development costs (based upon an allocation of such costs,

including costs to complete the development, or specific lot costs), home construction costs (including an estimate of costs, if any, to complete home construction), previously capitalized indirect costs (principally for construction supervision), capitalized interest and estimated warranty costs;

Projected Net Contribution Margin for homes in backlog;

Table of Contents

Actual and trending new orders and cancellation rates;

Actual and trending base home sales prices and sales incentives for home sales that occurred in the prior two fiscal quarters that remain in backlog at the end of the fiscal quarter and expected future homes sales prices and sales incentives and absorption over the expected remaining life of the community;

A comparison of our community to our competition to include, among other things, an analysis of various product offerings, including the size and style of the homes currently offered for sale, community amenity levels, availability of lots in our community and our competition s, desirability and uniqueness of our community and other market factors; and

Other events that may indicate that the carrying value may not be recoverable.

In determining the recoverability of the carrying value of the assets of a community that we have evaluated as requiring a test for impairment, significant quantitative and qualitative assumptions are made relative to the future home sales prices, sales incentives, direct and indirect costs of home construction and land development and the pace of new home orders. In addition, these assumptions are dependent upon the specific market conditions and competitive factors for each specific community and may differ greatly between communities within the same market and communities in different markets. Our estimates are made using information available at the date of the recoverability test, however, as facts and circumstances may change in future reporting periods, our estimates of recoverability are subject to change.

For assets in communities for which the undiscounted future cash flows are less than the carrying value, the carrying value of that community is written down to its then estimated fair value based on discounted cash flows. The carrying value for assets in communities that were previously impaired and continue to be classified as held for development is not written up for future estimates of increases in fair value in future reporting periods. 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.

The fair value of the assets held for development is estimated using the present value of the estimated future cash flows using discount rates commensurate with the risk associated with the underlying community assets. The discount rate used may be different for each community. The factors considered when determining an appropriate discount rate for a community include, among others: (1) community specific factors such as the number of lots in the community, the status of land development in the community, the competitive factors influencing the sales performance of the community and (2) overall market factors such as employment levels, consumer confidence and the existing supply of new and used homes for sale. As of June 30, 2008, we used discount rates of 18% to 21% in our estimated discounted cash flow impairment calculations. We recorded impairments on land held for development and homes under construction during the three and nine months ended June 30, 2008 of $46.8 million and $273.9 million, respectively. We recorded impairments on inventory held for development of $109.4 million and $306.8 million during the three and nine months ended June 30, 2007, respectively.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rate, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in our historical analyses. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. We calculated the estimated fair values of inventory held for development that were evaluated for impairment based on current market conditions and assumptions made by management relative to future results. Because the projected cash flows are significantly impacted by changes in market conditions, it is reasonably possible that actual results could differ materially from our estimates and result in additional impairments.

Inventory Valuation Land Held for Sale. We record assets held for sale at the lower of the carrying value or fair value less costs to sell in accordance with SFAS 144. The following criteria are used to determine if land is held for sale:

management has the authority and commits to a plan to sell the land;

the land is available for immediate sale in its present condition;

there is an active program to locate a buyer and the plan to sell the land has been initiated;

the sale of the land is probable within one year;

the land is being actively marketed at a reasonable sale price relative to its current fair value; and

it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

Table of Contents

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

In determining the fair value of the assets less cost to sell, we considered factors including current sales prices for comparable assets in the area, recent market analysis studies, appraisals, any recent legitimate offers, and listing prices of similar properties. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell. During the three and nine months ended June 30, 2008, we recorded inventory impairments on land held for sale of approximately $21.0 million and $110.1 million, respectively. During the nine months ended June 30, 2007, we recorded inventory impairments on land held for sale of approximately $4.0 million. No held for sale inventory impairments were recorded for the three months ended June 30, 2007.

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

Goodwill. Goodwill represents the excess of the purchase price over the fair value of assets acquired. We test goodwill for impairment annually as of April 30 or more frequently if an event occurs or circumstances indicate that the asset might be impaired. For purposes of goodwill impairment testing, we compare the fair value of each reporting unit with its carrying amount, including goodwill. Each of our operating divisions is considered a reporting unit. The fair value of each reporting unit is determined based on expected discounted future cash flows. If the carrying amount of a reporting unit exceeds its fair value, the goodwill within the reporting unit may be potentially impaired. An impairment loss is recognized if the carrying amount of the goodwill exceeds implied fair value of that goodwill. As a result of significantly less than expected new orders in our prime selling season, which is our second fiscal quarter, significant pricing pressures and additional incentives provided to homebuyers, our reforecasting of expected future results of operations and increasing inventory impairment charges, we tested all remaining goodwill balances for impairment as of March 31, 2008. We recorded estimated goodwill impairment charges totaling $48.1 million relating to our reporting units in Arizona, Southern California, New Jersey and Virginia during the quarter ended March 31, 2008. In connection with our annual goodwill impairment test as of April 30, 2008, we finalized our impairment calculations, validating the impairments recorded for the three months ended March 31, 2008. Also, in connection with our annual goodwill impairment test and our decision in the third quarter to exit our Colorado market, we recorded an additional impairment charge of $4.4 million related to our Colorado reporting unit.

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

(in thousands)	September 30, 2007	Goodwill Impairment	**June 30, 2008**
West	$ 29,034	$ (29,034)	**$**
Mid-Atlantic	23,286	(19,072)	**4,214**
Southeast	5,044		**5,044**
Other Homebuilding	11,249	(4,364)	**6,885**
Total	$ 68,613	$ (52,470)	**$ 16,143**

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

Table of Contents

(2) Supplemental Cash Flow Information

During the nine months ended June 30, we paid interest of $122.9 million in 2008 and $126.9 million in 2007. In addition, we paid income taxes of $0.8 million in 2008 and $15.7 million in 2007 and received tax refunds of $56.6 million in fiscal 2008 related to the carryback of tax losses. We also had the following non-cash activity (in thousands):

	Nine Months Ended June 30,	
	2008	2007
Supplemental disclosure of non-cash activity:		
Decrease in consolidated inventory not owned	**$(94,926)**	$(67,653)
Land acquired through issuance of notes payable	**32,786**	46,539
Issuance of stock under deferred bonus stock plans	**94**	426

(3) Inventory

(in thousands)	**June 30, 2008**	September 30, 2007
Homes under construction	**$ 626,890**	$ 787,102
Development projects in progress	**600,175**	1,233,140
Land held for future development	**364,163**	324,350
Land held for sale	**215,679**	49,473
Model homes	**101,320**	143,726
Total owned inventory	**$ 1,908,227**	$ 2,537,791

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 300 ($60.2 million) and 862 ($179.4 million) completed homes that were not subject to a sales contract at June 30, 2008 and September 30, 2007, respectively. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a deposit or sales contract. Land held for sale as of June 30, 2008 principally included land held for sale in the markets we have decided to exit including Denver, Colorado, Columbus and Cincinnati, Ohio, Lexington, Kentucky and Charlotte, North Carolina.

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

	June 30, 2008				September 30, 2007			
	Projects in Progress	Held for Future Development	Land Held for Sale	Total Owned Inventory	Projects in Progress	Held for Future Development	Land Held for Sale	Total Owned Inventory
West Segment	$ 339,665	$293,179	$ 35,529	$ 668,373	$ 581,763	$286,912	$35,578	$ 904,253
Mid-Atlantic Segment	295,504	41,072	86,873	423,449	430,677	9,035		439,712
Florida Segment	89,747	13,912	13,172	116,831	196,080	7,337		203,417
Southeast Segment	211,020	10,502	58,437	279,959	362,609	10,502	1,407	374,518
Other	246,083	5,498	21,668	273,249	396,630	10,564	12,488	419,682

Unallocated	146,366			146,366	196,209			196,209
Total	$1,328,385	$364,163	$215,679	$1,908,227	$2,163,968	$324,350	$49,473	$2,537,791

Table of Contents

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Development projects and homes in process (Held for Development)				
West	**$ 20,371**	$ 57,623	**$ 145,792**	$ 140,532
Mid-Atlantic	**2,402**	6,516	**52,280**	41,495
Florida	**9,032**	16,931	**21,171**	54,904
Southeast	**9,817**	7,204	**27,427**	12,075
Other	**2,085**	14,960	**7,409**	39,450
Unallocated	**3,053**	6,194	**19,790**	18,389
Subtotal	**$ 46,760**	$ 109,428	**$ 273,869**	$ 306,845
Land Held for Sale				
West	**$ 6,910**	$	**$ 7,714**	$ 3,105
Mid-Atlantic	**5,631**		**14,802**	
Florida	**804**		**23,839**	
Southeast	**3,793**		**19,246**	500
Other	**3,828**		**44,458**	350
Subtotal	**$ 20,966**	$	**$ 110,059**	$ 3,955
Lot Option Abandonments				
West	**$ 14,134**	$ 19,858	**$ 14,962**	$ 31,616
Mid-Atlantic	**21**	14,477	**6,679**	19,174
Florida	**606**	7,209	**4,354**	21,481
Southeast	**684**	2,685	**28,074**	5,934
Other	**12,311**	587	**13,857**	10,851
Subtotal	**$ 27,756**	$ 44,816	**$ 67,926**	$ 89,056
Total	**$ 95,482**	$ 154,244	**$ 451,854**	$ 399,856

The inventory impaired during the three and nine months ended June 30, 2008 represented 2,430 and 8,850 lots in 44 and 191 communities with an estimated fair value of $164.2 million and $556.2 million, respectively. The impairments recorded on our held for development inventory, for all segments, primarily resulted from the continued significant decline in the homebuilding environment that negatively impacted the sales prices of homes and increased the sales incentives offered to potential homebuyers in our efforts to increase home sales absorptions. Fiscal year to date, our West and Mid-Atlantic segments experienced the most significant amount of inventory impairments as compared to our other homebuilding segments due to the fact that the number of owned land and lots in the West and Mid-Atlantic segments comprise approximately 29.5% and 12.7%, respectively, of our total land and lots owned as of June 30, 2008 and approximately 37.4% and 19.9%, respectively, of the dollar value of our held for development

inventory as of June 30, 2008. In addition, our homebuilding markets that comprise our West segment consist of markets that once experienced the most significant home price appreciation in the nation during the 2004 through 2006 periods which was partially driven by speculative purchases and the availability of mortgage credit during those time periods. The decline in the availability of mortgage loan products and the exit of speculators from the market, among other factors, contributed to the significant increase in the supply of new and used homes on the market for sale.

The impairments recorded in our other segments are primarily as a result of continued price competition brought on by the continued high levels of new and resale home inventory for sale during the three and nine months ended June 30, 2008 that has resulted in increased sales incentives and home sales price declines as we attempt to increase new orders and generate cash to the Company.

During the three and nine months ended June 30, 2008, as a result of the Company s decision to re-allocate capital employed through strategic sales of select properties and through the exiting of certain markets no longer viewed as strategic and based on current estimated fair values, less costs to sell, as compared to book values, we recorded impairments on land held for sale. During the three months ended June 30, 2008, we decided to exit the Denver, Colorado and Fresno, California markets.

We also have access to land inventory through lot option contracts, which generally enables 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

Table of Contents

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, both with and without specific performance provisions, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our obligation with respect to options with specific performance provisions is included in our consolidated balance sheets in other liabilities. Under option contracts without specific performance obligations, our liability is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which aggregated approximately $76.7 million at June 30, 2008. This amount includes non-refundable letters of credit of approximately $12.8 million. The total remaining purchase price, net of cash deposits, committed under all options was $861.6 million as of June 30, 2008. Only $34.8 million of the total remaining purchase price contains specific performance clauses which may require us to purchase the land or lots upon the land seller meeting certain obligations.

In addition, we have also completed a strategic review of all of the markets within our homebuilding segments and the communities within each of those markets with an initial focus on the communities for which land has been secured with option purchase contracts. As a result of this review, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as preacquisition costs. 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 three and nine months ended June 30, 2008 of $27.8 million and $67.9 million, respectively. We recorded lot option abandonment charges of $44.8 million and $89.1 million during the three and nine months ended June 30, 2007, respectively. Southeast and Other Homebuilding segments represented 41.3% and 20.4% of the nine-month fiscal 2008 abandonments, respectively, as we made the decision to abandon certain option contracts that no longer fit in our long-term strategic plan and related to our decision to exit our Colorado and Kentucky markets.

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

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

We have determined that we are the primary beneficiary of certain of these option contracts. Our risk is generally limited to the option deposits that we pay, and creditors of the sellers generally have no recourse to the general credit of the Company. Although we do not have legal title to the optioned land, for those option contracts for which we are the primary beneficiary, we are required to consolidate the land under option at fair value. We believe that the exercise prices of our option contracts approximate their fair value. Our consolidated balance sheets at June 30, 2008 and September 30, 2007 reflect consolidated inventory not owned of $120.3 million and $237.4 million, respectively. We consolidated $37.1 million and $92.3 million of lot option agreements as consolidated inventory not owned pursuant to FIN 46R as of June 30, 2008 and September 30, 2007, respectively. In addition, as of June 30, 2008 and September 30, 2007, we recorded $83.3 million and $145.1 million, respectively, of land under the caption consolidated inventory not owned related to lot option agreements in accordance with SFAS 49, *Product Financing Arrangements*. Obligations related to consolidated inventory not owned totaled $83.0 million at June 30, 2008 and $177.9 million at September 30, 2007. The difference between the balances of consolidated inventory not owned and

obligations related to consolidated inventory not owned represents cash deposits paid under the option agreements.

(4) Investments in Unconsolidated Joint Ventures

As of June 30, 2008 we participated in 19 land development joint ventures in which Beazer Homes had less than a controlling interest. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. Equity in loss of unconsolidated joint ventures was $(18.6) million and $(0.9) million for the three months ended June 30, 2008 and 2007 and $(75.1) million and $(7.0) million for the nine months ended June 30, 2008 and 2007, respectively. Equity in loss of unconsolidated joint ventures for three and nine months ended June 30, 2008 included the writedown of our investment in certain of our joint ventures, reflecting $18.5 million and $63.0 million, respectively, of

Table of Contents

impairments of inventory held within those ventures in accordance with APB 18, *The Equity Method of Accounting for Investments in Common Stock*. Joint venture impairments totaled $3.1 million for the nine months ended June 30, 2007. Our joint ventures typically obtain secured acquisition and development financing. The following table presents our investment in and guarantees under our unconsolidated joint ventures, as well as total equity and outstanding borrowings of these joint ventures as of June 30, 2008 and September 30, 2007:

(in thousands)	**June 30, 2008**	September 30, 2007
Beazer s investment in joint ventures	**$ 37,727**	$109,143
Total equity of joint ventures	**367,353**	523,597
Total outstanding borrowings of joint ventures	**640,191**	785,437
Beazer s portion of loan to maintenance guarantees	**5,970**	7,717
Beazer s portion of repayment guarantees	**39,080**	42,307

The decrease in our investment in these joint ventures from September 30, 2007 to June 30, 2008 relates primarily to $63.0 million of impairments of inventory held within the joint ventures. In connection with the exchange of our interest in two joint ventures with our joint venture partner during the second quarter of fiscal 2008, we also acquired that partner s interest in two separate joint ventures. In connection with the acquisition of one of these joint ventures, we assumed the joint venture s debt of approximately $22.7 million.

At June 30, 2008 and September 30, 2007, total borrowings outstanding above, include $374.4 million and $450.6 million related to one joint venture in which we are a 2.58% partner. During the three months ended March 31, 2008, the lender to this joint venture notified the joint venture partners that it believes the joint venture is in default of certain joint venture loan agreements as a result of certain of the Company s joint venture partners not complying with all aspects of the joint ventures loan agreements. The lender has not taken any action against the joint venture or the Company at this time. The joint venture partners are currently in discussions with the lender. The Company s share of the debt is approximately $9.7 million at June 30, 2008 with a total repayment guarantee of $15.1 million. Our equity interest at June 30, 2008 was $8.4 million in this joint venture.

As of June 30, 2008, the debt related to two of our unconsolidated joint ventures has matured. Total borrowings outstanding related to these two joint ventures, in each of which we are a 50% partner, was $33.2 million. In one instance, the joint venture has received notice from the lender demanding payment in full. The Company and its joint venture partner are currently in discussions with the lender.

In some instances, Beazer Homes and our joint venture partners have provided varying levels of guarantees of debt of our unconsolidated joint ventures. At June 30, 2008, these guarantees included, for certain joint ventures, construction completion guarantees, loan to value maintenance agreements, repayment guarantees and environmental indemnities. See Note 9 for further discussion of these guarantees.

We also participated in one land development joint venture in which Beazer Homes obtained a controlling interest during the quarter ended March 31, 2008. This joint venture has been consolidated in our consolidated financial statements and, as such, is excluded from the information provided above.

(5) Interest

Our ability to capitalize all interest incurred during fiscal 2008 has been limited by the reduction in our inventory eligible for capitalization. The following table sets forth certain information regarding interest (in thousands):

Table of Contents

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Capitalized interest in inventory, beginning of period	**$ 78,665**	$ 93,239	**$ 87,560**	$ 78,996
Interest incurred	**34,234**	37,394	**105,214**	112,102
Capitalized interest impaired	**(1,875)**	(3,314)	**(12,468)**	(9,140)
Interest disallowed for capitalization and included as other expense	**(15,873)**		**(35,866)**	
Capitalized interest amortized to house construction and land sales expenses	**(26,693)**	(30,040)	**(75,982)**	(84,679)
Capitalized interest in inventory, end of period	**$ 68,458**	$ 97,279	**$ 68,458**	$ 97,279

(6) Earnings Per Share and Stockholders Equity

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Loss from continuing operations	**$ (109,694)**	$ (118,930)	**$ (476,078)**	$ (258,389)
(Loss) income from discontinued operations, net of tax	**(148)**	183	**(1,893)**	2,548
Net loss	**$ (109,842)**	$ (118,747)	**$ (477,971)**	$ (255,841)
Weighted average number of shares:				
Basic	**38,551**	38,459	**38,546**	38,388
Diluted	**38,551**	38,459	**38,546**	38,388
Earnings (loss) per share:				
Basic loss per share from continuing operations	**$ (2.85)**	$ (3.09)	**$ (12.35)**	$ (6.73)
Basic earnings (loss) per share from discontinued operations	**$**	$	**$ (0.05)**	$ 0.07
Basic loss per share	**$ (2.85)**	$ (3.09)	**$ (12.40)**	$ (6.66)
Diluted loss per share from continuing operations	**$ (2.85)**	$ (3.09)	**$ (12.35)**	$ (6.73)
Diluted earnings (loss) per share from discontinued operations	**$**	$	**$ (0.05)**	$ 0.07
Diluted loss per share	**$ (2.85)**	$ (3.09)	**$ (12.40)**	$ (6.66)

In computing diluted loss per share for the three and nine months ended June 30, 2008 and June 30, 2007, all common stock equivalents were excluded from the computation of diluted loss per share as a result of their anti-dilutive effect.

Table of Contents

(7) Borrowings

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

	Maturity Date	June 30, 2008	September 30, 2007
Revolving Credit Facility	July 2011	**$**	$
8 5/8% Senior Notes*	May 2011	**180,000**	180,000
8 3/8% Senior Notes*	April 2012	**340,000**	340,000
6 1/2% Senior Notes*	November 2013	**200,000**	200,000
6 7/8% Senior Notes*	July 2015	**350,000**	350,000
8 1/8% Senior Notes*	June 2016	**275,000**	275,000
4 5/8% Convertible Senior Notes*	June 2024	**180,000**	180,000
Junior subordinated notes	July 2036	**103,093**	103,093
Other secured notes payable	Various Dates	**50,388**	118,073
Model home financing obligations	Various Dates	**86,388**	114,116
Unamortized debt discounts		**(2,682)**	(3,033)
Total		**$ 1,762,187**	$ 1,857,249

* Collectively, the Senior Notes

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

Revolving Credit Facility In July 2007, we replaced our former credit facility with a new $500 million, four-year unsecured revolving credit facility (the Revolving Credit Facility) with a group of banks, which matures in 2011. As a result of a series of amendments, as more fully described below, the Revolving Credit Facility is now a $400 million secured revolving credit facility. The Revolving Credit Facility has a $350 million sublimit for the issuance of standby letters of credit. We have the option to elect two types of loans under the Revolving Credit Facility which incur interest as applicable based on either the Alternative Base Rate or the Applicable Eurodollar Margin (both defined in the Revolving Credit Facility). The Revolving Credit Facility contains various operating and financial covenants. Substantially all of our significant subsidiaries are guarantors of the obligations under the Revolving Credit Facility (see Note 12).

We fulfill our short-term cash requirements with cash generated from our operations and funds available from our Revolving Credit Facility. There were no amounts outstanding under the Revolving Credit Facility at June 30, 2008 or September 30, 2007; however, we had $71.5 million and $133.3 million of letters of credit outstanding under the Revolving Credit Facility at June 30, 2008 and September 30, 2007, respectively.

On October 10, 2007, we entered into a waiver and amendment of our Revolving Credit Facility, waiving events of default through May 15, 2008 under the facility arising from our failure to file or deliver reports or other information we would be required to file with the SEC and our decision to restate our financial statements. Under this and the

October 26, 2007 amendments, all obligations under the Revolving Credit Facility are secured by certain assets and our ability to borrow under this facility is subject to satisfaction of a secured borrowing base. We are permitted to grow the borrowing base by adding additional cash and/or real estate as collateral securing the Revolving Credit Facility. In addition, we obtained additional flexibility with respect to our financial covenants in the Revolving Credit Facility.

On May 13, 2008 and June 30, 2008, we obtained limited waivers which relaxed, through August 15, 2008, our minimum consolidated tangible net worth and maximum leverage ratio requirements under our Revolving Credit Facility. During the term of the limited waivers, the minimum consolidated tangible net worth could not be less than $700 million and the leverage ratio could not exceed 2.50 to 1.00.

Table of Contents

On August 7, 2008, we entered into an amendment to our Revolving Credit Facility which changed the size, covenants and pricing for the facility. The size of the Revolving Credit Facility was reduced from $500 million to $400 million and is subject to further reductions to $250 million and $100 million if our consolidated tangible net worth (defined in the agreement as stockholders equity less intangible assets) falls below $350 million and $250 million, respectively. The facility size is also subject to reduction to $250 million if our leverage ratio (defined in the agreement as the ratio of consolidated debt (net of average unrestricted cash in excess of $20 million) to consolidated tangible net worth) exceeds 5.0x (or 3.5x excluding the effect of any deferred tax valuation allowance). Further, the facility size is subject to reduction to $200 million if our interest coverage ratio for the quarter ending June 30, 2010 is less than 1.0x. Availability under the facility continues to be subject to satisfaction of a secured borrowing base. The amendment provides that the book value of the assets securing the facility must exceed 3.0x the outstanding loans and letters of credit. Such coverage level increases to 4.5x and 6.0x to the extent the facility size is reduced to $250 million or $100 million, respectively. At June 30, 2008, we had available borrowing capacity of $90.7 million under the Revolving Credit Facility. At August 7, 2008, after giving effect to the amendment, we had no additional borrowing capacity available under the facility.

The interest margins under the Revolving Credit Facility were increased and are now based on the facility size. The Eurodollar Margin under the facility is now 4.5%. To the extent the facility size is reduced to $250 million or $100 million, the Eurodollar Margin will increase to 5.0% and 5.5%, respectively.

The financial maintenance covenants pertaining to the leverage ratio, interest coverage ratio and land inventory were eliminated as part of the August amendment. The remaining financial maintenance covenants are a minimum tangible net worth covenant (which requires us to have at least $100 million of consolidated tangible net worth) and a minimum liquidity covenant. The minimum liquidity covenant, which is applicable for so long as our interest coverage ratio is less than 1.75x, requires us to maintain either (a) $120 million of unrestricted cash and borrowing base availability or (b) a ratio (the Adjusted Coverage Ratio) of adjusted cash flow from operations (defined in the agreement as cash flow from operations plus interest incurred) to interest incurred of at least 1.75x.

We believe that the elimination and relaxation of the financial maintenance covenants will permit us to comply with the amended covenants for the foreseeable future. However, further deteriorations in the housing market generally, or in our business particularly, could result in our having to seek additional amendments or waivers under the Revolving Credit Facility. To the extent that we default any of these covenants and we are unable to obtain waivers, the lenders under the Revolving Credit Facility could accelerate our obligations thereunder. Any such acceleration would result in an event of default under our Senior Notes described below and would permit the holders thereof to accelerate our obligations under the Senior Notes.

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

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At June 30, 2008, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. Each indenture provides that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes.

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

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

On October 26, 2007, we obtained consents from holders of our Senior Notes to approve amendments of the indentures under which the Senior Notes were issued. These amendments restrict our ability to secure additional debt in excess of $700 million until certain

Table of Contents

conditions are met and enable us to invest up to $50 million in joint ventures. The consents also provided us with a waiver of any and all defaults under the Senior Notes that may have occurred on or prior to May 15, 2008 relating to filing or delivering annual and quarterly financial statements. Fees and expenses related to obtaining these consents totaled approximately $21 million. The recording of such fees and expenses has been deferred and will be amortized as an adjustment to interest expense in accordance with EITF 96-19 Debtor s Accounting for a Modification or Exchange of Debt Instruments.

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

On April 30, 2008, we received a default notice from The Bank of New York Trust Company, National Association, the trustee under the indenture governing these junior subordinated notes. The notice alleged that we were in default under the indenture because we had not yet furnished certain required information (including our annual audited and quarterly unaudited financial statements). The notice further alleged that this default would become an event of default under the indenture if not remedied within 30 days. The Company subsequently delivered the information that was subject to the default notice thereby curing any alleged default that may have occurred.

Other Secured Notes Payable We periodically acquire land through the issuance of notes payable. As of June 30, 2008 and September 30, 2007, we had outstanding notes payable of $50.4 million and $118.1 million, respectively, primarily related to land acquisitions. These notes payable expire at various times through 2012 and had fixed and variable rates ranging from 5.4% to 8.0% at June 30, 2008. These notes are secured by the real estate to which they relate. During the first nine months of fiscal 2008, we repaid $100.5 million of these secured notes payable. In connection with the exchange of our interest in two joint ventures to our joint venture partner, we also acquired that partner s interest in two separate joint ventures. In connection with the acquisition of one of these ventures, we assumed the joint venture s debt of approximately $22.7 million which is included in other secured notes payable as of June 30, 2008.

Model Home Financing Obligations - Due to a continuing interest in certain model home sale-leaseback transactions, we have recorded $86.4 million and $114.1 million of debt as of June 30, 2008 and September 30, 2007, respectively, related to these financing transactions in accordance with SFAS 98 (As amended), *Accounting for Leases.* These model home transactions incur interest at a variable rate of one-month LIBOR plus 450 basis points, 7.0% as of June 30, 2008, and expire at various times through 2015.

(8) Income Taxes

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

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

Table of Contents

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision, consistent with the Company s historical accounting policy. After the adoption of FIN 48, the total amount of gross accrued interest and penalties was $19.3 million. The Company recorded an additional $2.3 million and $4.1 million of gross interest and penalties during the three and nine months ended June 30, 2008, respectively, in accordance with FIN 48, resulting in a $23.4 million accrued balance at June 30, 2008. The Company s liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of other liabilities.

Primarily as a result of recording significant inventory impairment charges during fiscal 2007 and in the nine months ended June 30, 2008, the balance of our deferred tax assets increased substantially. The net deferred tax asset of $416.4 million as of June 30, 2008 assumes that the value of these assets will be realized. In assessing the recoverability of deferred tax assets, we analyze all evidence, both positive and negative. As of June 30, 2008, the positive evidence we considered included (1) the cyclical nature of the homebuilding industry; (2) our long history of profitability; (3) the determination that we are not in a cumulative loss position; (4) our experience that no NOLs have expired unutilized; (5) our ability to carryback NOLs; and (6) the steps we are taking to improve our future profitability. As of June 30, 2008, we considered the negative evidence including (1) our fiscal year-to-date 2008 loss and the expectation of losses in the remainder of fiscal 2008 and (2) the uncertainty as to the timing of when the homebuilding industry will rebound. After consideration of this evidence, we believe that as of June 30, 2008, it is more likely than not that our net deferred tax assets are recoverable. If market conditions within the homebuilding industry do not improve or continue to worsen and/or our assessment of the positive and negative evidence changes, it may affect our ability to fully realize the value of these assets, which may require a valuation adjustment and additional income tax expense in our consolidated statements of operations, and such expense could be material.

Our income tax receivable was $144.5 million and $64.0 million as of June 30, 2008 and September 30, 2007, respectively. This receivable relates primarily to the carryback of losses incurred in fiscal 2007 and the nine months ended June 30, 2008 to open tax years in which we previously paid significant income taxes. During the nine months ended June 30, 2008, we received $56.6 million of federal income tax refunds related to open tax years in which we previously paid taxes.

(9) Contingencies

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

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

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

Our warranty reserves at June 30, 2008 and 2007 include accruals for Trinity Homes LLC (Trinity) moisture intrusion issues discussed more fully below. Warranty reserves are included in other liabilities and the provision for warranty accruals is included in home construction and land sales expenses in the unaudited condensed consolidated financial statements. We record reserves covering anticipated warranty expense for each home closed. Management reviews the adequacy of warranty reserves each reporting period based on historical experience and management s estimate of the costs to remediate the claims and adjusts these provisions accordingly. 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. While we believe that our warranty reserves are adequate, historical data and trends may not accurately predict actual warranty costs, or

future developments could lead to a significant change in the reserve. Our warranty reserves, which include amounts related to the Trinity moisture intrusion issues discussed below, are as follows (in thousands):

Table of Contents

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Balance at beginning of period	**$47,103**	$ 87,467	**$ 57,053**	$ 99,030
Provisions (reductions) (1)	**631**	(4,163)	**6,863**	6,495
Payments	**(5,558)**	(10,124)	**(21,740)**	(32,345)
Balance at end of period	**$42,176**	$ 73,180	**$ 42,176**	$ 73,180

(1) Upon review of the adequacy of the warranty reserves, it was determined that the warranty reserve as of June 30, 2008 and 2007, respectively, contained reserves in excess of anticipated claims related to the Trinity moisture intrusion issues. As a result, the provision for warranty reserves for the three and nine months ended June 30, 2007 was reduced by $6.0 million and $12.0 million, respectively, and the provision for warranty reserves for the three and nine months ended June 30, 2008 was reduced by

$0.9 million and
$1.9 million,
respectively.

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

As of June 30, 2008, there were four pending lawsuits related to such complaints received by Trinity. All suits are by individual homeowners, and the cost to resolve these matters is not expected to be material, either individually or in the aggregate. Additionally, a class action suit was filed in the State of Indiana in August 2003 against Trinity Homes LLC. The parties in the class action reached a settlement agreement which was approved by the court on October 20, 2004.

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

Under the settlement, subject to Trinity s timely performance of the specified assessments and remediation activities for homeowners who file claims, each homeowner releases Trinity, Beazer Homes Investment, LLC and other affiliated companies, including Beazer Homes, from the claims asserted in the class action lawsuit, claims arising out of external moisture intrusion, claims of improper brick installation, including property damage claims, loss or diminution of property value claims, and most personal injury claims, among others. No appeals of the court s order approving the settlement were received by the court within the timeframe established by the court. The Company sent out the claims notices on December 17, 2004, and the class members had until February 15, 2005 to file claims. A total of 1,310 valid claims were filed (of the 2,161 total class members), of which 613 complaints had been received prior to our receipt of the claim notices. Class members who did not file a claim by February 15, 2005 are no longer able to file a class action claim under the settlement or pursue an individual claim against Trinity. As of June 30, 2008, we have completed remediation of 1,755 homes related to 1,853 total Trinity claims.

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

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

As of June 30, 2008 and September 30, 2007, we accrued for our estimated cost to remediate homes that we had assessed and assigned to one of the above categories, as well as our estimated cost to remediate those homes for which an assessment had not yet been performed. For purposes of our accrual, we have historically assigned homes not yet assessed to categories based on our expectations about the extent of damage and trends observed from the results of assessments performed to date. In addition, our cost estimation

Table of Contents

process considers the subdivision of the claimant along with the categorization discussed above. Once a home is categorized, detailed budgets are used as the basis to prepare our estimated costs to remediate such home.

During fiscal 2004, we initiated a program under which we offered to repurchase a limited number of homes from specific homeowners. The program was concluded during the first quarter of fiscal 2005. We have repurchased a total of 54 homes under the program. During the nine months ended June 30, 2008, the Company sold six of the repurchased homes, bringing the total homes sold to date to 43. The remaining 11 homes are included in owned inventory at a net realizable value totaling $2.6 million.

The following accruals at June 30, 2008 represent our best estimates of the costs to resolve all asserted complaints associated with Trinity moisture intrusion issues. We regularly review our estimate of these costs. Since the commencement of the remediation program, our remediation cost per home has continued to decrease as homes requiring more extensive repairs were addressed first and our internal processes and procedures, including enhanced contractor bid negotiations and inspections, improved as experience gained in addressing these issues has yielded meaningful benefits on a per home basis. As a result, we adjust our estimate of warranty liabilities for each new claim and our estimate of the remaining expenditures to remediate the remaining homes in the class. Changes in the accrual for Trinity moisture intrusion issues during the period were as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Balance at beginning of period	**$ 5,909**	$ 36,975	**$ 12,116**	$ 47,704
Reductions	**(936)**	(6,000)	**(1,906)**	(12,000)
Payments	**(778)**	(3,309)	**(6,015)**	(8,038)
Balance at end of period	**$ 4,195**	$ 27,666	**$ 4,195**	$ 27,666

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

Guarantees

Construction Completion Guarantees

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

Loan to Value Maintenance Agreements

We and our joint venture partners generally provide credit enhancements to acquisition, development and construction borrowings in the form of loan to value maintenance agreements, which can limit the amount of additional funding provided by the lenders (although not generally requiring repayment of the borrowings) to the extent such borrowings plus construction completion costs exceed a specified percentage of the value of the property securing the borrowings. During the nine months ended June 30, 2008 and 2007, we were not required to make any payments on the loan to value maintenance guarantees. At June 30, 2008 and September 30, 2007 respectively, we had total loan to value maintenance guarantees of $6.0 million and $7.7 million related to our unconsolidated joint venture borrowings. This amount represents the Company s maximum exposure to loss from such loan to value maintenance guarantees without regard to the underlying value of the collateral and any defenses that may be available to us against any attempted enforcement of such guarantees.

Repayment Guarantees

We and our joint venture partners have repayment guarantees related to certain joint venture s borrowings. These repayment guarantees require the repayment of all or a portion of the debt of the unconsolidated joint venture in the event the joint venture defaults on its obligations under the borrowing or files for bankruptcy. During the nine months ended June 30, 2008, we were not required to make payments related to any portion of the repayment guarantees. At June 30, 2008 and September 30, 2007 respectively, we had

Table of Contents

repayment guarantees of $39.1 million and $42.3 million related to the borrowings on these applicable unconsolidated joint ventures, some of which are only triggered upon bankruptcy of the joint venture.

Environmental Indemnities

Additionally, we and our joint venture partners generally provide unsecured environmental indemnities to joint venture project lenders. In each case, we have performed due diligence on potential environmental risks. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the quarters ended June 30, 2008 and 2007, we were not required to make any payments related to environmental indemnities.

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

Other Matters

In November 2003, Beazer Homes received a request for information from the EPA pursuant to Section 308 of the Clean Water Act seeking information concerning the nature and extent of storm water discharge practices relating to certain of our projects completed or under construction. The EPA has since requested information on additional projects and has conducted site inspections at a number of locations. In certain instances, the EPA or the equivalent state agency has issued Administrative Orders identifying alleged instances of noncompliance and requiring corrective action to address the alleged deficiencies in storm water management practices. As of June 30, 2008, no monetary penalties had been imposed in connection with such Administrative Orders. The EPA has reserved the right to impose monetary penalties at a later date, the amount of which, if any, cannot currently be estimated. Beazer Homes has taken action to comply with the requirements of each of the Administrative Orders and is working to otherwise maintain compliance with the requirements of the Clean Water Act.

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

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

We have accrued $18.5 million and $17.6 million in other liabilities related to these matters as of June 30, 2008 and September 30, 2007, respectively.

We had performance bonds and outstanding letters of credit of approximately $447.7 million and $60.8 million, respectively, at June 30, 2008 related principally to our obligations to local governments to construct roads and other improvements in various developments in addition to the letters of credit of approximately $13.3 million relating to our land option contracts discussed in Note 3. We do not believe that any such letters of credit or bonds are likely to be drawn upon.

Investigations and Litigation

We and our subsidiary, Beazer Mortgage Corporation, are under criminal and civil investigations by the United States Attorney s office in the Western District of North Carolina, the SEC and other federal and state agencies. We and certain of our current and former employees, officers and directors have been named as defendants in securities class action lawsuits, lawsuits regarding ERISA claims, and derivative shareholder actions. In addition, certain of our subsidiaries have been named in class action and multi-party lawsuits regarding claims made by homebuyers. We cannot predict or determine the timing or final outcome of the governmental investigations

Table of Contents

or the lawsuits or the effect that any adverse findings in the investigations or adverse determinations in the lawsuits may have on us. While we are cooperating with the governmental investigations, developments, including the expansion of the scope of the investigations, could negatively impact us and could divert the efforts and attention of our management team from the operation of our business, and/or result in further departures of executives or other employees. An unfavorable determination resulting from any governmental investigation could result in the filing of criminal charges, the payment of substantial criminal or civil fines, the imposition of injunctions on our conduct or the imposition of other penalties or consequences, including the Company adjusting, curtailing or terminating the conduct of certain of our business operations. Any of these outcomes could have a material adverse effect on our business, financial condition, results of operations and prospects. An unfavorable determination in any of the lawsuits could result in the payment by us of substantial monetary damages which may not be fully covered by insurance. Further, the legal costs associated with the investigations and the lawsuits and the amount of time required to be spent by management and the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our business, financial condition and results of operations. See the discussion below for details related to these investigations and related litigation.

Investigations

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

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

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

Mortgage Origination Issues

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

We intend to attempt to negotiate a settlement with prosecutors and regulatory authorities that would allow us to quantify our exposure associated with reimbursement of losses and payment of regulatory and/or criminal fines, if they are imposed. See Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K for additional discussion of this matter. At this time, we believe that although it is probable that a liability exists related to this exposure, it is not reasonably estimable and would be inappropriate to record a liability as of June 30, 2008.

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

Litigation

Securities Class Action. Beazer Homes and certain of our current and former officers (the Individual Defendants), as well as our Independent Registered Accounting Firm, are named as defendants in putative class action securities litigation pending in the United

Table of Contents

States District Court for the Northern District of Georgia. Three separate complaints were initially filed between March 29 and May 21, 2007. The cases were subsequently consolidated by the court and the court appointed Glickenhaus & Co. and Carpenters Pension Trust Fund for Northern California as lead plaintiffs. On June 27, 2008, lead plaintiffs filed an Amended and Consolidated Class Action Complaint for Violation of the Federal Securities Laws (Consolidated Complaint), which purports to assert claims on behalf of a class of persons and entities that purchased or acquired the securities of Beazer Homes during the period January 27, 2005 through May 12, 2008. The Consolidated Complaint asserts a claim against the defendants under Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act) and Rule 10b-5 promulgated thereunder for allegedly making materially false and misleading statements regarding our business and prospects, including, among other things, alleged misrepresentations and omissions related to alleged improper lending practices in our mortgage origination business, alleged misrepresentations and omissions related to improper revenue recognition and other accounting improprieties and alleged misrepresentations and omissions concerning our land investments and inventory. The Consolidated Complaint also asserts claims against the Individual Defendants under Sections 20(a) and 20A of the Exchange Act. Lead plaintiffs seek a determination that the action is properly maintained as a class action, an unspecified amount of compensatory damages and costs and expenses, including attorneys fees. The Company intends to vigorously defend against these actions.

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

ERISA Class Actions. On April 30, 2007, a putative class action complaint was filed on behalf of a purported class consisting of present and former participants and beneficiaries of the Beazer Homes USA, Inc. 401(k) Plan. The complaint was filed in the United States District Court for the Northern District of Georgia. The complaint alleges breach of fiduciary duties, including those set forth in the Employee Retirement Income Security Act (ERISA), as a result of the investment of retirement monies held by the 401(k) Plan in common stock of Beazer Homes at a time when participants were allegedly not provided timely, accurate and complete information concerning Beazer Homes. Four additional lawsuits were filed subsequently on May 11, 2007, May 14, 2007, June 15, 2007 and July 27, 2007 in the United States District Court for the Northern District of Georgia making similar allegations. The court consolidated these five lawsuits, and on June 27, 2008, the plaintiffs filed a consolidated amended complaint. The consolidated amended complaint names as defendants Beazer Homes, our chief executive officer, certain current and former directors of the Company, including the members of the Compensation Committee of the Board of Directors, and certain employees of the Company who acted as members of the Company s 401(k) Committee. The Company intends to vigorously defend against these actions.

Homeowners Class Action Lawsuits and Multi-Plaintiff Lawsuit. Beazer Homes subsidiaries, Beazer Homes Corp. and Beazer Mortgage Corporation, were named as defendants in a putative class action lawsuit filed on March 23, 2007 in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division. The complaint was filed as a putative class action. The purported class is defined as North Carolina residents who purchased homes in

subdivisions in North Carolina containing homes constructed by the defendants where the foreclosure rate is allegedly significantly higher than the state-wide average. The complaint alleged that the defendants utilized unfair trade practices to allow low-income purchasers to qualify for loans they allegedly could not afford, resulting in foreclosures that allegedly diminished plaintiffs property values. Plaintiffs sought an unspecified amount of compensatory damages and also requested that any damage award be trebled. On April 25, 2008, the District Court granted the defendants motion to dismiss and dismissed all causes of action with prejudice. Plaintiffs appealed the dismissal to the United States Court of Appeals for the Fourth Circuit. On July 21, 2008, Plaintiffs filed a consent motion to dismiss the appeal with prejudice, and the Court of Appeals entered an order of dismissal and mandate the same day. This case is now concluded.

A second putative homeowner class action lawsuit was filed on April 23, 2007 in the United States District Court for the District of South Carolina, Columbia Division. The complaint alleged that Beazer Homes Corp. and Beazer Mortgage Corporation illegally

Table of Contents

facilitated the financing of the purchase of homes sold to low-income purchasers, who allegedly would not have otherwise qualified for the loans. Certain of the plaintiffs also alleged that the defendants practices resulted in foreclosures that allegedly diminished plaintiffs property values. The complaint demanded an unspecified amount of damages, including damages for alleged violations of federal RICO statutes and punitive damages. The Company filed a motion to dismiss and the District Court dismissed all causes of action with prejudice on September 10, 2007. The plaintiffs subsequently filed a motion for reconsideration which the District Court denied. The plaintiffs did not file a notice of appeal, and this case is now concluded.

An additional putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation. The Complaint alleges that Beazer violated the Real Estate Settlement Practices Act (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. The purported class consists of all residents of North Carolina who purchased a home from Beazer, using mortgage financing provided by and through Beazer that included seller-funded down payment assistance, between January 1, 2000 and October 11, 2007. The Complaint demands an unspecified amount of damages, equitable relief, treble damages, attorneys fees and litigation expenses. The defendants moved to dismiss the Complaint on June 4, 2008. On July 25, 2008, in lieu of a response to the motion to dismiss, plaintiff filed an amended complaint. The Company has not yet filed a responsive pleading or motion, but intends to vigorously defend this action.

Beazer Homes Corp. and Beazer Mortgage Corporation are also named defendants in a lawsuit filed on July 3, 2007, in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division, but remanded on April 23, 2008 to the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The complaint was filed on behalf of ten individual homeowners who purchased homes from Beazer in Mecklenburg County. The complaint alleges certain deceptive conduct by the defendants and brings various claims under North Carolina statutory and common law, including a claim for punitive damages. On June 27, 2008 a second amended complaint, which added two plaintiffs to the lawsuit, was filed. The case has been designated as exceptional pursuant to Rule 2.1 of the General Rules of Practice of the North Carolina Superior and District Courts and has been assigned to the docket of the North Carolina Business Court. The Company filed a motion to dismiss on July 30, 2008 and intends to vigorously defend against this action.

Beazer Homes subsidiaries Beazer Homes Holdings Corp. and Beazer Mortgage Corporation were named as defendants in a putative class action lawsuit originally filed on March 12, 2008, in the Superior Court of the State of California, County of Placer. The lawsuit was amended on June 2, 2008 and named as defendants Beazer Homes Holdings Corp., Beazer Homes USA, Inc., and Security Title Insurance Company. The purported class is defined as all persons who purchased a home from the defendants or their affiliates, with the assistance of a federally related mortgage loan, from March 25, 1999 to the present where Security Title Insurance Company received any money as a reinsurer of the transaction. The complaint alleges that the defendants violated RESPA and asserts claims under a number of state statutes alleging that defendants engaged in a uniform and systematic practice of giving and/or accepting fees and kickbacks to affiliated businesses including affiliated and/or recommended title insurance companies. The complaint also alleges a number of common law claims. Plaintiffs seek an unspecified amount of damages under RESPA, unspecified statutory, compensatory and punitive damages and injunctive and declaratory relief, as well as attorneys fees and costs. Defendants removed the action to federal court. The Company intends to vigorously defend against the action.

For each of the above actions, no accrual has been recorded as of June 30, 2008 or September 30, 2007, as losses, if any, related to these matters are not both probable and estimable.

Bond Indenture Trustee Litigation. On September 10, 2007, we filed an Amended Complaint For Declaratory Judgment and Injunctive Relief in an action pending in the United States District Court in Atlanta, Georgia against the trustees under the indentures governing our outstanding senior and convertible senior notes. We sought, among other

relief, a declaration from the court against the trustees that the delay in filing with the SEC our Form 10-Q for the quarterly period ended June 30, 2007 did not constitute a default under the applicable indentures and that the delay would not give rise to any right of acceleration on the part of the holders of the senior and convertible senior notes. On October 29, 2007, we notified the court and the trustees that we had successfully concluded a consent solicitation concerning the notes at issue. The consents provided us with a waiver of any and all defaults under the indentures at issue that may have occurred or may occur prior to May 15, 2008, due to our failure to file or deliver reports or other information we would be required to file with the SEC. On May 15, 2008, we completed the filing of all our previously past due periodic reports with the SEC. We thereafter delivered copies of all such reports to the trustees, pursuant to the applicable indentures. On June 25, 2008, the trustees and we filed a stipulation dismissing the litigation without prejudice. This case is now concluded.

Table of Contents

(10) Stock Repurchase Program

On November 18, 2005, as part of an acceleration of Beazer Homes comprehensive plan to enhance stockholder value, our Board of Directors authorized an increase in our stock repurchase plan to ten million shares of our common stock. Shares may be purchased for cash in the open market, on the NYSE or in privately negotiated transactions. We did not repurchase any shares in the open market during the three or nine months ended June 30, 2008 and 2007. At June 30, 2008, we are authorized to purchase approximately 5.4 million additional shares pursuant to the plan. We have currently suspended our repurchase program and any resumption of such program will be at the discretion of the Board of Directors and is unlikely in the foreseeable future.

(11) Segment Information

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

West: Arizona, California, Nevada and New Mexico

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

Florida

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

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

During fiscal 2008, we have decided to exit certain homebuilding markets that do not meet our investment strategies. These markets include Colorado, Kentucky, Ohio, Charlotte, North Carolina and Fresno, California.

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

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2008	2007	**2008**	2007
Revenue				
West	**$ 111,557**	$ 248,830	**$ 344,942**	$ 814,792
Mid-Atlantic	**108,294**	113,840	**284,780**	309,176
Florida	**32,751**	72,470	**127,205**	270,124
Southeast	**77,204**	152,121	**246,013**	491,359
Other homebuilding	**124,892**	164,417	**355,770**	482,128
Financial Services	**880**	1,778	**2,939**	5,469
Consolidated total	**$ 455,578**	$ 753,456	**$ 1,361,649**	$ 2,373,048

27

Table of Contents

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Operating (loss) income (a)				
West	**$ (41,402)**	$ (62,394)	**$ (158,245)**	$ (122,582)
Mid-Atlantic	**5,061**	(11,852)	**(50,024)**	(37,205)
Florida	**(10,801)**	(20,166)	**(44,830)**	(42,560)
Southeast	**(12,313)**	(1,917)	**(75,784)**	17,788
Other homebuilding	**(17,582)**	(14,580)	**(75,139)**	(52,429)
Financial Services	**202**	1,188	**1,012**	3,144
Segment operating loss	**(76,835)**	(109,721)	**(403,010)**	(233,844)
Corporate and unallocated (b)	**(64,509)**	(72,408)	**(226,863)**	(170,564)
Total operating loss	**(141,344)**	(182,129)	**(629,873)**	(404,408)
Equity in loss of unconsolidated joint ventures	**(18,568)**	(939)	**(75,069)**	(7,012)
Other (expense) income, net	**(13,489)**	2,664	**(20,907)**	7,870
Loss before income taxes	**$ (173,401)**	$ (180,404)	**$ (725,849)**	$ (403,550)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Depreciation and amortization				
West	**$ 1,705**	$ 3,037	**$ 4,778**	$ 8,364
Mid-Atlantic	**1,169**	940	**2,829**	2,637
Florida	**289**	427	**1,183**	1,320
Southeast	**524**	859	**2,189**	2,862
Other homebuilding	**1,532**	1,544	**4,739**	4,503
Financial Services	**8**	(11)	**22**	24
Segment total	**5,227**	6,796	**15,740**	19,710
Corporate and unallocated (b)	**819**	977	**2,510**	3,128
Consolidated total	**$ 6,046**	$ 7,773	**$ 18,250**	$ 22,838

	June 30, 2008	September 30, 2007
Assets (c)		
West	**$ 716,876**	$ 940,161
Mid-Atlantic	**480,146**	546,182
Florida	**125,273**	242,733
Southeast	**308,144**	403,472

Other homebuilding	**296,161**	469,520
Financial Services	**37,258**	36,035
Corporate and unallocated (b)	**1,182,199**	1,279,017
Discontinued operations	**314**	12,901
Consolidated total	**$ 3,146,371**	$ 3,930,021

(a) Operating loss includes charges related to the abandonment of lot option agreements totaling $27.8 million and $44.8 million for the three months ended June 30, 2008 and 2007 and $67.9 million and $89.1 million for the nine months ended June 30, 2008 and 2007, respectively. Operating loss also includes inventory impairment charges in the amounts of $67.7 million and $109.4 million for the three months ended June 30, 2008 and 2007 and $383.9 million and $310.8 million for the nine months ended June 30, 2008 and 2007, respectively, which have

been recorded in the segments to which the inventory relates (see Note 3).

Table of Contents

(b) Corporate and unallocated includes amortization of capitalized interest and numerous shared services functions that benefit all segments, the costs of which are not allocated to the operating segments reported above including information technology, national sourcing and purchasing, treasury, corporate finance, legal, branding and other national marketing costs. In addition, for the three and nine months ended June 30, 2008, corporate and unallocated also includes $11.0 million and $28.2 million, respectively, of investigation and related expenses. The three and nine months ended June 30, 2007 included $0.9 million of investigation and related

expenses.

(c) Segment assets as of both June 30, 2008 and September 30, 2007 include goodwill assigned from prior acquisitions. See Note 1 for goodwill by segment as of June 30, 2008 and September 30, 2007.

(d) Primarily consists of cash and cash equivalents, consolidated inventory not owned, deferred taxes, capitalized interest and other corporate items that are not allocated to the segments.

(12) Supplemental Guarantor Information

As discussed in Note 7, our obligation to pay principal, premium, if any, and interest under certain debt are guaranteed on a joint and several basis by substantially all of our subsidiaries. The guarantees are full and unconditional and the guarantor subsidiaries are 100% owned by Beazer Homes. We have determined that separate, full financial statements of the guarantors would not be material to investors and, accordingly, supplemental financial information for the guarantors is presented. In June 2008, Beazer Mortgage Corp. became a guarantor of the Revolving Credit Facility and certain of the Company s Senior Notes.

Table of Contents

Beazer Homes USA, Inc.
Condensed Consolidating Balance Sheet Information
June 30, 2008
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS						
Cash and cash equivalents	$ 323,583	$ 8,702	$ 175	$ 1,743	$ (20,001)	$ 314,202
Restricted cash		903				903
Accounts receivable		53,031	6	55		53,092
Income tax receivable	144,544					144,544
Owned inventory		1,908,227				1,908,227
Consolidated inventory not owned		120,316				120,316
Residential mortgage loans available-for-sale			93			93
Investments in unconsolidated joint ventures	3,093	34,634				37,727
Deferred tax assets	416,354					416,354
Property, plant and equipment, net		51,581				51,581
Goodwill		16,143				16,143
Investments in subsidiaries	864,060				(864,060)	
Intercompany	891,055	(971,763)	56,883	3,824	20,001	
Other assets	36,184	40,685	40	6,280		83,189
Total assets	$2,678,873	$1,262,459	$57,197	$11,902	$(864,060)	$3,146,371
LIABILITIES AND STOCKHOLDERS EQUITY						
Trade accounts payable	$	$ 90,111	$	$	$	$ 90,111
Other liabilities	122,385	237,110	373	7,014		366,882
Intercompany	503			(503)		
Obligations related to consolidated inventory not owned		83,005				83,005
Senior notes (net of discounts of $2,682)	1,522,318					1,522,318
Junior subordinated notes	103,093					103,093

Other notes payable		50,388				50,388
Model home financing obligations	86,388					86,388
Total liabilities	1,834,687	460,614	373	6,511		2,302,185
Stockholders equity	844,186	801,845	56,824	5,391	(864,060)	844,186
Total liabilities and stockholders equity	$2,678,873	$1,262,459	$57,197	$11,902	$(864,060)	$3,146,371

Table of Contents

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

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

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

Table of Contents

Beazer Homes USA, Inc.
Unaudited Condensed Consolidating Statement of Operations Information
Three Months Ended June 30, 2008
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	$	$ 455,427	$	$ 151	$	$ 455,578
Home construction and land sales expenses	26,693	380,819				407,512
Inventory impairments and option contract abandonments	1,875	93,607				95,482
Gross (loss) profit	(28,568)	(18,999)		151		(47,416)
Selling, general and administrative expenses		83,452		65		83,517
Depreciation and amortization		6,046				6,046
Goodwill impairment		4,365				4,365
Operating (loss) income	(28,568)	(112,862)		86		(141,344)
Equity in (loss) of unconsolidated joint ventures		(18,568)				(18,568)
Other (expense) income, net	(14,083)	567		27		(13,489)
(Loss) income before income taxes	(42,651)	(130,863)		113		(173,401)
(Benefit from) provision for income taxes	(15,964)	(47,776)		33		(63,707)
Equity in loss of subsidiaries	(83,007)				83,007	
Net (loss) income from continuing operations	(109,694)	(83,087)		80	83,007	(109,694)
Net (loss) from discontinued operations			(148)			(148)
Equity in loss of subsidiaries	(148)				148	
Net (loss) income	$(109,842)	$ (83,087)	$(148)	$ 80	$83,155	$(109,842)

Beazer Homes USA, Inc.
Unaudited Condensed Consolidating Statement of Operations Information
Nine Months Ended June 30, 2008
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp. (a)	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	$	$1,361,146	$	$ 503	$	$1,361,649
Home construction and land sales expenses	75,982	1,147,270				1,223,252
Inventory impairments and option contract abandonments	12,468	439,386				451,854
Gross (loss) profit	(88,450)	(225,510)		503		(313,457)
Selling, general and administrative expenses		245,472		224		245,696
Depreciation and amortization		18,250				18,250
Goodwill impairment		52,470				52,470
Operating (loss) income	(88,450)	(541,702)		279		(629,873)
Equity in (loss) of unconsolidated joint ventures		(75,069)				(75,069)
Other (expense) income, net	(28,122)	7,036		179		(20,907)
(Loss) income before income taxes	(116,572)	(609,735)		458		(725,849)
(Benefit from) provision for income taxes	(43,633)	(206,298)		160		(249,771)
Equity in loss of subsidiaries	(403,139)				403,139	
Net (loss) income from continuing operations	(476,078)	(403,437)		298	403,139	(476,078)
Net (loss) from discontinued operations			(1,893)			(1,893)
Equity in loss of subsidiaries	(1,893)				1,893	
Net (loss) income	$(477,971)	$ (403,437)	$(1,893)	$ 298	$405,032	$ (477,971)

Table of Contents

Beazer Homes USA, Inc.
Unaudited Condensed Consolidating Statement of Operations Information
Three Months Ended June 30, 2007
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	$	$ 752,968	$	$ 488	$	$ 753,456
Home construction and land sales expenses	37,394	617,449			(7,354)	647,489
Inventory impairments and option contract abandonments		154,244				154,244
Gross (loss) profit	(37,394)	(18,725)		488	7,354	(48,277)
Selling, general and administrative expenses		96,138		189		96,327
Depreciation and amortization		7,773				7,773
Goodwill impairment		29,752				29,752
Operating (loss) income	(37,394)	(152,388)		299	7,354	(182,129)
Equity in (loss) of unconsolidated joint ventures		(939)				(939)
Other income, net		2,617		47		2,664
(Loss) income before income taxes	(37,394)	(150,710)		346	7,354	(180,404)
(Benefit from) provision for income taxes	(15,516)	(49,222)		141	3,123	(61,474)
Equity in loss of subsidiaries	(97,052)				97,052	
Net (loss) income from continuing operations	(118,930)	(101,488)		205	101,283	(118,930)
Net income from discontinued operations			183			183
Equity in income of subsidiaries	183				(183)	
Net (loss) income	$(118,747)	$(101,488)	$183	$ 205	$101,100	$(118,747)

Beazer Homes USA, Inc.
Unaudited Condensed Consolidating Statement of Operations Information
Nine Months Ended June 30, 2007
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	$	$2,371,672	$	$ 1,376	$	$2,373,048
Home construction and land sales expenses	112,102	1,938,008			(27,423)	2,022,687
Inventory impairments and option contract abandonments		399,856				399,856
Gross (loss) profit	(112,102)	33,808		1,376	27,423	(49,495)
Selling, general and administrative expenses		301,712		611		302,323
Depreciation and amortization		22,838				22,838
Goodwill impairment		29,752				29,752
Operating (loss) income	(112,102)	(320,494)		765	27,423	(404,408)
Equity in (loss) of unconsolidated joint ventures		(7,012)				(7,012)
Other income, net		7,738		132		7,870
(Loss) income before income taxes	(112,102)	(319,768)		897	27,423	(403,550)
(Benefit from) provision for income taxes	(43,534)	(112,625)		348	10,650	(145,161)
Equity in loss of subsidiaries	(189,821)				189,821	
Net (loss) income from continuing operations	(258,389)	(207,143)		549	206,594	(258,389)
Net income from discontinued operations			2,548			2,548
Equity in income of subsidiaries	2,548				(2,548)	
Net (loss) income	$(255,841)	$ (207,143)	$2,548	$ 549	$204,046	$ (255,841)

33

Table of Contents

Beazer Homes USA, Inc.
Unaudited Condensed Consolidating Statement of Cash Flows
Nine Months Ended June 30, 2008
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Net cash (used in)/provided by operating activities	$(193,242)	$ 221,400	$(3,952)	$ 293	$	$ 24,499
Cash flows from investing activities:						
Capital expenditures		(8,487)	536	2		(7,949)
Investments in unconsolidated joint ventures		(11,137)				(11,137)
Changes in restricted cash		4,268				4,268
Net cash (used in) provided by investing activities		(15,356)	536	2		(14,818)
Cash flows from financing activities:						
Repayment of other secured notes payable		(100,472)				(100,472)
Repayment of model home financing obligations	(27,728)					(27,728)
Debt issuance costs	(21,135)					(21,135)
Common stock redeemed	(27)					(27)
Tax benefit from stock transactions	(454)					(454)
Advances to/from subsidiaries	118,873	(96,870)	(6,109)	(111)	(15,783)	
Net cash provided by (used in) financing activities	69,529	(197,342)	(6,109)	(111)	(15,783)	(149,816)
	(123,713)	8,702	(9,525)	184	(15,783)	(140,135)

(Decrease)/increase in cash and cash equivalents						
Cash and cash equivalents at beginning of period	447,296		9,700	1,559	(4,218)	454,337
Cash and cash equivalents at end of period	$ 323,583	$ 8,702	$ 175	$ 1,743	$(20,001)	$ 314,202

Table of Contents

Beazer Homes USA, Inc.
Unaudited Condensed Consolidating Statement of Cash Flows
Nine Months Ended June 30, 2007
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Net cash (used in)/provided by operating activities	$(248,780)	$ 300,159	$ 71,062	$ (392)	$	$ 122,049
Cash flows from investing activities:						
Capital expenditures		(23,768)	(180)			(23,948)
Investments in unconsolidated joint ventures		(18,666)				(18,666)
Changes in restricted cash		(619)				(619)
Distributions from unconsolidated joint ventures		1,732				1,732
Net cash used in investing activities		(41,321)	(180)			(41,501)
Cash flows from financing activities:						
Borrowings under credit facilities and warehouse line			130,031			130,031
Repayment of credit facilities and warehouse line			(204,138)			(204,138)
Repayment of other secured notes payable		(14,431)				(14,431)
Repurchase of senior notes	(30,413)					(30,413)
Borrowings under model home financing obligations	5,061					5,061
Repayment of model home financing obligations	(5,618)					(5,618)

Debt issuance costs			(324)			(324)
Proceeds from stock option exercises	4,423					4,423
Common stock redeemed	(304)					(304)
Tax benefit from stock transactions	3,212					3,212
Dividends paid	(11,708)					(11,708)
Advances to/from subsidiaries	205,262	(244,407)	1,696	(200)	37,649	
Net cash provided by (used in) financing activities	169,915	(258,838)	(72,735)	(200)	37,649	(124,209)
(Decrease)/increase in cash and cash equivalents	(78,865)		(1,853)	(592)	37,649	(43,661)
Cash and cash equivalents at beginning of period	254,915		10,664	829	(98,838)	167,570
Cash and cash equivalents at end of period	$ 176,050	$	$ 8,811	$ 237	$(61,189)	$ 123,909

(13) Discontinued Operations

On February 1, 2008, the Company determined that it would discontinue its mortgage origination services through Beazer Mortgage Corporation (BMC). In February 2008, the Company entered into a new marketing services arrangement with Countrywide Financial Corporation (Countrywide), whereby the Company would market Countrywide as the preferred mortgage provider to its customers. In addition, during the nine months ended June 30, 2008, the Company wrote off its entire $7.1 million investment in Homebuilders Financial Network LLC (HFN). This writeoff is included in equity in loss of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations. HFN was a joint venture investment which was established to provide loan processing services to mortgage originators. The Company assigned its ownership interest to its joint venture partner. The Company s joint venture interest in HFN was not owned by Beazer Mortgage Corporation and, therefore, the associated write-off is not included in the discontinued operations information presented below.

The Company has classified the results of operations of BMC, previously included in our Financial Services segment, as discontinued operations in the accompanying unaudited condensed consolidated statements of operations for all periods presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). As of June 30, 2008, substantially all BMC operating activities have ceased. Discontinued operations were not segregated in the unaudited condensed consolidated statements of cash flows. Therefore, amounts for certain captions in the unaudited condensed consolidated statements of cash flows will not agree with the respective data in the unaudited condensed consolidated statements of operations.

Table of Contents

The results of the BMC operations classified as discontinued operations in the unaudited condensed consolidated statements of operations for the three and nine months ended June 30, 2008 and 2007 were as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Total revenue	**$**	$ 4,690	**$ 3,497**	$ 16,966
Exit and disposal charges of mortgage origination business	**(28)**		**(621)**	
(Loss) income from discontinued operations before income taxes	**(237)**	381	**(3,034)**	4,165
(Benefit from) provision for income taxes	**(89)**	198	**(1,141)**	1,617
(Loss) income from discontinued operations, net of tax	**$ (148)**	$ 183	**$ (1,893)**	$ 2,548

The income (loss) from discontinued operations for the three and nine months ended June 30, 2008, included approximately $28,000 and $0.6 million of charges directly related to the cessation of BMC operating activities. These charges consist of approximately $435,000 for severance and termination benefits and approximately $186,000 for other expenses directly related to the liquidation.

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

	June 30, 2008	September 30, 2007
ASSETS		
Cash and cash equivalents	**$ 175**	$ 9,700
Accounts receivable	**6**	1,038
Residential mortgage loans available-for-sale	**93**	781
Other	**40**	1,382
Assets of discontinued operations	**$ 314**	$ 12,901
LIABILITIES		
Trade accounts payable and other liabilities	**$ 373**	$ 4,958
Liabilities of discontinued operations	**$ 373**	$ 4,958

(14) Subsequent Events

On July 1, 2008, the Company completed the sale of two large condominium projects in Virginia for total cash proceeds of $85 million which approximated their fair value, less costs to sell, included in inventory as of June 30, 2008. As previously discussed in Note 7, on August 7, 2008, we entered into an amendment to our Revolving Credit Facility which changed the size, covenants and pricing for the facility. The Revolving Credit Facility is now a $400 million secured revolving credit facility.

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

Executive Overview and Outlook. The homebuilding environment continued to deteriorate during fiscal 2008 as consumer confidence declined, the availability of home mortgage credit tightened significantly and the economy continued to slow down. In addition, the supply of new and resale homes in the marketplace remained excessive for

the levels of consumer demand. These pressures in the marketplace resulted in the continued use of increased sales incentives and price reductions in an effort to generate sales and reduce inventory levels. We believe that the homebuilding market will remain challenging throughout fiscal 2008 and into fiscal 2009. In addition, as a result of the various ongoing investigations and litigation discussed herein and the issues relating thereto, we have been the subject of continuing negative publicity. This negative publicity has contributed to significant declines in the prices of our publicly traded securities. We believe this negative publicity has also discouraged and may continue to discourage a number of potential homebuyers from purchasing a home from us and has adversely affected our relationships with certain of our partners, such as land sellers, contractors and suppliers. Continuing negative publicity could continue to have a material adverse effect on our business and the market price of our publicly traded securities. We incurred expenses related to the investigation and related expenses of $11.0 million and $28.2 million for the three and nine months ended June 30, 2008 as compared to $0.9 million for both of the comparable periods in the prior fiscal year.

Table of Contents

We have responded to this challenging environment with a disciplined operating approach, responding to what was during the third quarter of fiscal 2008 and what we expect will continue to be a challenging environment for the homebuilding industry. We continue to make reductions in direct costs and overhead expenses and remain committed to aligning our land supply and inventory levels to current expectations for lower home closings, exercising caution with respect to further investment in inventory. We have focused on the generation of cash from our existing inventory supply as the timing of a market recovery in housing is currently uncertain. In addition, in July 2008, we completed the sale of two condominium projects in Virginia to third parties for cash proceeds of approximately $85 million.

We have also undertaken a comprehensive review of each of our markets in order to refine our overall investment strategy and to optimize capital and resource allocations in an effort to enhance our financial position and to increase shareholder value. This review entailed an evaluation of both external market factors and our position in each market and has resulted in the decision to discontinue homebuilding operations in Charlotte, NC, Cincinnati/Dayton, OH, Columbia, SC, Columbus, OH and Lexington, KY which was announced on February 1, 2008 and in Denver, CO and Fresno, CA which was announced during the third quarter of fiscal 2008. We intend to complete an orderly exit from each of these markets and remain committed to our remaining customer care responsibilities. We have committed to complete all homes under construction in these markets and are in the process of marketing the remaining land positions for sale. While the underlying basis for exiting each market was different, in each instance we concluded we could better serve shareholder interests by re-allocating the capital employed in these markets. As of June 30, 2008, these markets represented approximately 5% of the Company s total assets.

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

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

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

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

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

Operational Scale Efficiencies. Beyond marketing advantages, we attempt to create both national and local scale efficiencies as a result of the scope of our operations. On a national basis we are able to achieve volume purchasing advantages in certain product categories, share best practices in construction, planning and design among our markets and leverage our fixed costs in ways that improve profitability. On a local level, while we are not generally the largest builder within our markets, we do attempt to be a major

Table of Contents

participant within our selected submarkets and targeted buyer profiles. There are further design, construction and cost advantages associated with having strong market positions within particular markets.

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

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

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

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

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

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

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

We intend to attempt to negotiate a settlement with prosecutors and regulatory authorities that would allow us to quantify our exposure associated with reimbursement of losses and payment of regulatory and/or criminal fines, if they are imposed. See Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K for additional discussion of this matter. At this time, we believe that although it is probable that a liability exists related to this exposure, it is not reasonably estimable and would be inappropriate to record a liability as of June 30, 2008.

Effective February 1, 2008, we exited the mortgage origination business and entered into an exclusive preferred lender arrangement with a national third-party mortgage provider. This exclusive arrangement will continue to offer our

homebuyers the option of a simplified financing process while enabling us to focus on our core competency of homebuilding.

Internal Control Over Financial Reporting. A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim

Table of Contents

financial statements will not be prevented or detected on a timely basis. As is more fully discussed in Item 9.A. of our Form 10-K for fiscal 2007, management concluded that, as of September 30, 2007, there were material weaknesses in internal control over financial reporting as it relates to our control environment, including: deficiency in the effectiveness of our Code of Business Conduct and Ethics, compliance with laws and regulations, segregation of duties, and management override and collusion; and our accounting policy, procedures and controls related to our accounting for certain estimates involving significant management judgments.

As of June 30, 2008, we do not believe these material weaknesses have been fully remediated, but we are actively engaged in the implementation of remediation efforts to address them. We have appointed a Compliance Officer to implement and oversee our enhanced Compliance Program. We revised, adopted and distributed an amended Code of Business Conduct and Ethics and launched a comprehensive training program that emphasizes adherence to the vital importance of the Code of Business Conduct and Ethics. We transferred the administration of our Ethics Hotline from officers of the Company to an independent third party company. We terminated our former Chief Accounting Officer and took appropriate action, including the termination of employment, against other business unit employees who violated our Code of Business Conduct and Ethics. We hired a new, experienced Chief Accounting Officer and reorganized our field operations to concentrate certain accounting, accounts payable, billing, and purchasing functions into Regional Accounting Centers lead by Regional CFOs to minimize the lack of segregation of duties in our prior structure. We have designed and/or clarified and implemented several accounting policies related to estimates involving significant management judgments. We are continuing to design and/or clarify and implement additional policies related to other financial reporting areas to ensure that we have the appropriate review and approval, defining minimum documentation requirements, establishing objective guidelines to minimize the degree of judgment in the determination of certain accruals, enforcing consistent reporting practices, and enabling effective account reconciliation, trend analyses, and exception reporting capabilities.

Despite these material weaknesses, management believes the unaudited condensed consolidated financial statements included in this report present fairly, in all material respects, our financial position, results of operations and cash flows as of the dates and for the periods presented in conformity with accounting principals generally accepted in the United States of America. Item 4 Controls and Procedures describes the additional actions we are taking to remediate these material weaknesses.

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

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

$26.5 million, as of October 1, 2007.

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

Table of Contents

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision, consistent with the Company s historical accounting policy. After the adoption of FIN 48, the total amount of gross accrued interest and penalties was $19.3 million. The Company recorded an additional $2.3 million and $4.1 million of gross interest and penalties during the three and nine months ended June 30, 2008, respectively, in accordance with FIN 48, resulting in a $23.4 million accrued balance at June 30, 2008. The Company s liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of other liabilities.

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

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

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

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

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

Table of Contents

RESULTS OF OPERATIONS:

	Three Months Ended June 30,		Nine Months Ended June 30,	
($ in thousands)	**2008**	2007	**2008**	2007
Revenues:				
Homebuilding (a)	**$ 431,723**	$ 732,491	**$ 1,324,166**	$ 2,294,186
Land and lot sales	**22,975**	19,187	**34,544**	73,393
Financial Services	**880**	1,778	**2,939**	5,469
Total	**$ 455,578**	$ 753,456	**$ 1,361,649**	$ 2,373,048
Gross profit (loss):				
Homebuilding (b)	**$ (50,338)**	$ (49,303)	**$ (317,398)**	$ (56,409)
Land and lot sales	**2,042**	(752)	**1,002**	1,445
Financial Services	**880**	1,778	**2,939**	5,469
Total	**$ (47,416)**	$ (48,277)	**$ (313,457)**	$ (49,495)
Selling, general and administrative (SG&A) expenses:				
Homebuilding (c)	**$ 82,847**	$ 95,726	**$ 243,790**	$ 300,022
Financial Services	**670**	601	**1,906**	2,301
Total	**$ 83,517**	$ 96,327	**$ 245,696**	$ 302,323
Depreciation and amortization	**$ 6,046**	$ 7,773	**$ 18,250**	$ 22,838
As a percentage of total revenue:				
Gross Margin	**-10.4%**	-6.4%	**-23.0%**	-2.1%
SG&A homebuilding	**18.2%**	12.7%	**17.9%**	12.6%
SG&A Financial Services	**0.1%**	0.1%	**0.1%**	0.1%
Equity in loss of unconsolidated joint ventures from:				
Joint venture activities	**$ (91)**	$ (939)	**$ (12,027)**	$ (3,936)
Impairments	**(18,477)**		**(63,042)**	(3,076)
Equity in loss of unconsolidated joint ventures	**$ (18,568)**	$ (939)	**$ (75,069)**	$ (7,012)
Effective tax rate continuing operations	**36.7%**	34.1%	**34.4%**	36.0%

(a) The impact of deferrals (net

reversal of deferrals) in accordance with SFAS 66 on homebuilding revenues related to certain homes for which the sale of a related mortgage loan to a third-party investor had not been completed as of the balance sheet date was $(3.9) million and $25.6 million for the three and nine months ended June 30, 2007 .

(b) Homebuilding gross loss for the three months and nine months ended June 30, 2008 include $67.7 million and $383.9 million, respectively, of inventory impairment charges and $27.8 million and $67.9 million, respectively, of charges related to the abandonment of lot option agreements. Homebuilding gross profit (loss) for the three months and nine months ended June 30,

2007 include $109.4 million and $310.8 million, respectively, of inventory impairment charges and $44.8 million and $89.1 million, respectively, of charges related to the abandonment of lot option agreements.

(c) *Includes investigation and related expenses of $11.0 million and $28.2 million for the three and nine months ended June 30, 2008 and $0.9 million for both the three and nine months ended June 30, 2007.*

Revenues: Revenues decreased by 39.5% and 42.6% for the three and nine months ended June 30, 2008, respectively, compared to the same periods in the prior year as the number of homes closed decreased by 36.9% and 34.9%. Continued reduction in the levels of demand compared to last year resulted in decreased closings and average sales prices throughout most of our markets.

In addition, we had $23.0 million and $34.5 million of land and lot sales in the three and nine months ended June 30, 2008 compared to $19.2 million and $73.4 million in the three and nine months ended June 30, 2007, respectively, as we continued to review opportunities to minimize underperforming investments and reallocate funds to investments that will optimize overall returns.

Table of Contents

Gross Margin: Gross margin for the three months ended June 30, 2008 was (10.4%) and was significantly impacted by reduced revenues, non-cash, pretax charges of $27.8 million to abandon land option contracts and $67.7 million of recognized inventory impairments. Gross margin for the nine months ended June 30, 2008 was (23.0%) and was also impacted by the aforementioned revenue decrease, inventory impairments of $383.9 million and lot option abandonment charges of $67.9 million. Gross margins for the three months and nine months ended June 30, 2007 were (6.4%) and (2.1%), respectively and were impacted by inventory impairments of $109.4 million and $310.8 million and lot option abandonment charges of $44.8 million and $89.1 million for the three and nine months ended June 30, 2007, respectively.

Selling, General and Administrative Expense: Selling, general and administrative expense (SG&A) totaled $83.5 million and $96.3 million for the three months ended June 30, 2008 and 2007 and $245.7 million and $302.3 million for the nine months ended June 30, 2008 and 2007, respectively. The 13.3% and 18.7% decreases in SG&A expense for the three and nine months ended June 30, 2008, respectively, compared to the same periods of the prior year related to lower salary expense as a result of the realignment of our overhead structure and lower sales commissions related to decreased revenues, partially offset by $11.0 million and $28.2 million, respectively, of investigation and related expenses. The decrease in SG&A expense, exclusive of the investigation related expense, was 24.0% and 27.9% for the three and nine months ended June 30, 2008 as compared to the comparable periods of the prior year. SG&A expense as a percentage of total revenue for the three and nine months ended June 30, 2008 increased to 18.3% and 18.0% (15.9% and 16.0% excluding the investigation related expenses) from 12.8% and 12.7% (12.7% and 12.7% excluding the investigation related expenses) for the comparable periods in the prior year due to the impact of reduced revenues on fixed overhead expenses and the impact of investigation related costs.

Goodwill Impairment Charges: As a result of significantly less than expected new orders in our prime selling season, which is our second fiscal quarter, significant pricing pressures and additional incentives provided to homebuyers, our reforecasting of expected future results of operations and increasing inventory impairment charges, we tested all remaining goodwill balances for impairment as of March 31, 2008 and recorded estimated goodwill impairment charges totaling $48.1 million relating to our reporting units in Arizona, Southern California, New Jersey and Virginia. In connection with our annual goodwill impairment test as of April 30, 2008, we finalized our impairment calculations, validating the impairments recorded for the three months ended March 31, 2008. Also, in connection with our annual goodwill impairment test and our decision in the third quarter to exit our Colorado market, we recorded an additional impairment charge of $4.4 million related to our reporting unit in Colorado. The goodwill impairment charges were based on estimates of fair value of the underlying assets of the reporting units. To the extent that there is further deterioration in market conditions or overall economic conditions or our strategic plans change, it is possible that our conclusion regarding fair value of reporting units which are currently not impaired could change, which could result in future goodwill impairments that have a material adverse effect on our financial position and results of operations.

Joint Venture Impairment Charges: As of June 30, 2008, we participated in 19 land development joint ventures in which we had less than a controlling interest. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. As a result of the deterioration of the housing market thus far in fiscal 2008 during the three and nine months ended June 30, 2008, we wrote down our investment in certain of our joint ventures reflecting $18.5 million and $63.0 million of impairments of inventory held within those joint ventures. Joint venture impairments during the nine months ended June 30, 2007 totaled $3.1 million. There were no joint venture impairments during the quarter ended June 30, 2007. If these adverse market conditions continue or worsen, we may have to take further writedowns of our investments in these joint ventures.

SEGMENT ANALYSIS ($ in thousands):

Homebuilding Revenue and Average Selling Price. The tables below summarize homebuilding revenue and the average selling prices of our homes by reportable segment ($ in thousands) for the three and nine months ended June 30, 2008 and 2007:

Table of Contents

	Three Months Ended June 30,					
	Homebuilding Revenues			Average Selling Price		
	2008	2007	Change	**2008**	2007	Change
West	**$ 111,557**	$ 248,830	-55.2%	**$ 274.1**	$ 350.8	-21.9%
Mid-Atlantic	**108,294**	107,153	1.1%	**443.8**	465.4	-4.6%
Florida	**32,751**	72,470	-54.8%	**215.5**	267.9	-19.6%
Southeast	**74,245**	142,191	-47.8%	**229.2**	232.9	-1.6%
Other	**104,876**	161,847	-35.2%	**190.7**	202.3	-5.7%
Total	**$ 431,723**	$ 732,491	-41.1%	**$ 257.4**	$ 282.1	-8.8%

	Nine Months Ended June 30,					
	Homebuilding Revenues			Average Selling Price		
	2008	2007	Change	**2008**	2007	Change
West	**$ 340,672**	$ 771,091	-55.8%	**$ 281.7**	$ 358.4	-21.4%
Mid-Atlantic	**282,260**	302,489	-6.7%	**407.9**	457.6	-10.9%
Florida	**126,745**	270,124	-53.1%	**232.6**	303.4	-23.3%
Southeast	**242,238**	474,003	-48.9%	**228.5**	232.0	-1.5%
Other	**332,251**	476,479	-30.3%	**190.1**	198.3	-4.1%
Total	**$ 1,324,166**	$ 2,294,186	-42.3%	**$ 252.0**	$ 281.8	-10.6%

Homebuilding Revenues: Homebuilding revenues decreased for the three and nine months ended June 30, 2008 compared to the same period of the prior year due to decreased closings in the majority of our markets, related to reduced demand, a continued high rate of cancellations, excess capacity in both new home and resale markets and the mortgage credit tightening as investors continued to divest of prior home purchases and potential homebuyers have difficulty selling their homes and/or obtaining financing. Specifically, 2008 homebuilding revenues in the West region decreased from 2007 by 55.2% and 55.8% driven by decreased closings across our West markets totaling 43.6% and 43.2% for the three and nine months ended June 30, respectively. Our Florida region continued to be challenged by significant declines in demand, high cancellations and excess capacity in both the new home and resale markets, driving decreases in homebuilding revenues of 54.8% and 53.1% for the three and nine months ended June 30, 2008 as compared to the same periods of fiscal 2007. Home closings in the Southeast region decreased by 46.7% and 47.5% due to deteriorating market conditions and competitive pressures, driving a decrease in revenue of 47.8% for the three months ended and 48.9% for the nine months ended June 30, 2008 compared to the comparable periods of fiscal 2007. Revenues in all markets in our Other Homebuilding region decreased due primarily to decreased closings. For the three months ended June 30, 2008, our Mid-Atlantic segment homebuilding revenues increased by 1.1% despite a 7.2% decline in closings driven by increased revenues and closings of 135.5% and 85.0%, respectively, in our New Jersey market primarily related to auction sales of high-end condominium units. For the nine months ended June 30, 2008, Mid-Atlantic revenues decreased by 6.7% related to competitive pricing pressures.

Land and Lot Sales Revenue. The table below summarizes land and lot sales revenues by reportable segment ($ in thousands) for the three and nine months ended June 30, 2008 and 2007:

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2008	2007	Change	**2008**	2007	Change
West	**$**	$	n/a	**$ 4,270**	$ 43,701	-90.2%
Mid-Atlantic		6,687	n/a	**2,520**	6,687	-62.3%
Florida			n/a	**460**		n/a

Southeast	**2,959**	9,930	-70.2%	**3,775**	17,356	-78.2%
Other	**20,016**	2,570	678.8%	**23,519**	5,649	316.3%
Total	**$ 22,975**	$ 19,187	19.7%	**$ 34,544**	$ 73,393	-52.9%

We generated revenues from land and lot sales of $20.0 million in our Other Homebuilding segment during the third quarter of fiscal 2008 in connection with our decision to exit our Ohio and Kentucky markets. Land and lot sales in our West segment for the nine months ended June 30, 2007 primarily related to our decision to sell certain parcels of land and lots that did not fit within our homebuilding programs in those markets.

Table of Contents

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2008		2007		**2008**		2007	
	Gross Profit (Loss)	**Gross Margin**	Gross Profit (Loss)	Gross Margin	**Gross Profit (Loss)**	**Gross Margin**	Gross Profit (Loss)	Gross Margin
Homebuilding								
West	**$ (27,421)**	**-24.6%**	$ (36,489)	-14.7%	**$ (114,401)**	**-33.6%**	$ (44,713)	-5.8%
Mid-Atlantic	**15,333**	**14.2%**	209	0.2%	**(19,295)**	**-6.8%**	272	0.1%
Florida	**(4,424)**	**-13.5%**	(9,844)	-13.6%	**(25,223)**	**-19.9%**	(10,570)	-3.9%
Southeast	**(1,085)**	**-1.5%**	15,537	10.9%	**(40,209)**	**-16.6%**	73,380	15.5%
Other	**(2,950)**	**-2.8%**	8,324	5.1%	**(23,845)**	**-7.2%**	15,946	3.3%
Corporate & Unallocated	**(29,791)**		(27,040)		**(94,425)**		(90,724)	
Total Homebuilding	**(50,338)**	**-11.7%**	(49,303)	-6.7%	**(317,398)**	**-23.9%**	(56,409)	-2.5%
Land and Lot Sales	**2,042**		(752)		**1,002**		1,445	
Financial Services	**880**		1,778		**2,939**		5,469	
Total	**$ (47,416)**	**-10.4%**	$ (48,277)	-6.4%	**$ (313,457)**	**-23.0%**	$ (49,495)	-2.1%

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

Corporate and unallocated: Corporate and unallocated costs above include the amortization of capitalized interest and indirect construction costs. The increase in corporate and unallocated costs relates primarily to a reduction in capitalized inventory costs due to lower inventories and costs incurred. Corporate and unallocated costs for the three and nine months ended June 30, 2008 include increased amortization of capitalized interest and indirect costs due to a lower capitalizable inventory base and the impairment of capitalized interest and indirect costs in connection with our impairment of inventory held for development. Costs for the three and nine months ended June 30, 2007, respectively, are offset by $6.0 million and $12.0 million of reductions in Trinity moisture intrusion accruals.

Land and Lot Sales Gross Profit (Loss). The table below summarizes land and lot sales gross profit (loss) by reportable segment ($ in thousands) for the three and nine months ended June 30, 2008 and 2007:

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2008	2007	Change	**2008**	2007	Change
West	**$**	$ (520)	n/a	**$ 1,582**	$ 2,419	-34.6%
Mid-Atlantic	**1,475**	907	62.6%	**1,482**	907	63.4%
Florida			n/a	**99**		n/a

Southeast	**120**	239	-49.8%	**236**	64	268.8%
Other	**447**	(1,378)	132.4%	**(2,397)**	(1,945)	-23.2%
Total	**$ 2,042**	$ (752)	371.5%	**$ 1,002**	$ 1,445	-30.7%

The gain on land and lot sales recognized in the third quarter of fiscal 2008 reflects a final adjustment to a prior quarter land sale in our Mid-Atlantic segment and the sale of homebuilding assets in certain markets we are exiting in our Southeast and Other Homebuilding Segments as discussed above.

Table of Contents

Inventory Impairments. The following tables set forth, by reportable segment, the inventory impairments and lot option abandonment charges recorded for the three and nine months ended June 30, 2008 and 2007 (in thousands):

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2008	2007	**2008**	2007
Development projects and homes in process (Held for Development)				
West	**$ 20,371**	$ 57,623	**$ 145,792**	$ 140,532
Mid-Atlantic	**2,402**	6,516	**52,280**	41,495
Florida	**9,032**	16,931	**21,171**	54,904
Southeast	**9,817**	7,204	**27,427**	12,075
Other	**2,085**	14,960	**7,409**	39,450
Unallocated	**3,053**	6,194	**19,790**	18,389
Subtotal	**$ 46,760**	$ 109,428	**$ 273,869**	$ 306,845
Land Held for Sale				
West	**$ 6,910**	$	**$ 7,714**	$ 3,105
Mid-Atlantic	**5,631**		**14,802**	
Florida	**804**		**23,839**	
Southeast	**3,793**		**19,246**	500
Other	**3,828**		**44,458**	350
Subtotal	**$ 20,966**	$	**$ 110,059**	$ 3,955
Lot Option Abandonments				
West	**$ 14,134**	$ 19,858	**$ 14,962**	$ 31,616
Mid-Atlantic	**21**	14,477	**6,679**	19,174
Florida	**606**	7,209	**4,354**	21,481
Southeast	**684**	2,685	**28,074**	5,934
Other	**12,311**	587	**13,857**	10,851
Subtotal	**$ 27,756**	$ 44,816	**$ 67,926**	$ 89,056
Total	**$ 95,482**	$ 154,244	**$ 451,854**	$ 399,856

The inventory impaired during the three and nine months ended June 30, 2008 represented 2,430 and 8,850 lots in 44 and 191 communities with an estimated fair value of $164.2 million and $556.2 million, respectively. The impairments recorded on our held for development inventory, for all segments, primarily resulted from the continued significant decline in the homebuilding environment that negatively impacted the sales prices of homes and increased the sales incentives offered to potential homebuyers in our efforts to increase home sales absorptions. Fiscal year to date, our West and Mid-Atlantic segments experienced the most significant amount of inventory impairments as compared to our other homebuilding segments due to the fact that the number of owned land and lots in the West and Mid-Atlantic segments comprise approximately 29.5% and 12.7%, respectively, of our total land and lots owned as of

June 30, 2008 and approximately 37.4% and 19.9%, respectively, of the dollar value of our held for development inventory as of June 30, 2008. In addition, our homebuilding markets that comprise our West segment consist of markets that once experienced the most significant home price appreciation in the nation during the 2004 through 2006 periods which was driven in large part by speculative purchases and the availability of mortgage credit during those time periods which are no longer present in the marketplace. The decline in the availability of mortgage loan products and the exit of speculators from the market, among other factors, contributed to the significant increase in the supply of new and used homes on the market for sale.

The impairments recorded in our other homebuilding segments are primarily as a result of continued price competition brought on by the significant increase in new and resale home inventory during the three and nine months ended June 30, 2008 that has resulted in increased sales incentives and home sales price declines as we attempt to increase new orders and generate cash to the Company.

In addition, we have also completed a strategic review of all of the markets within our homebuilding segments and the communities within each of those markets with an initial focus on the communities for which land has been secured with option purchase contracts. As a result of this review, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as preacquisition costs. The total abandonments recorded for the three months and nine months ended June 30, 2008 were

Table of Contents

$27.8 million and $67.9 million representing 21 and 61 communities, respectively, with the Southeast and Other Homebuilding segments representing 41.3% and 20.4%, respectively, of the nine-month abandonments as we made decisions to abandon certain option contracts that no longer fit in our long-term strategic plan and also related to our decision to exit our Colorado and Kentucky markets.

Unit Data by Segment:

	New Orders, net						Cancellation Rates			
	Three Months Ended June 30,			Nine Months Ended June 30,			Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	Change	**2008**	2007	Change	**2008**	2007	**2008**	2007
West	**594**	726	-18.2%	**1,420**	2,224	-36.2%	**30.0%**	40.0%	**36.3%**	38.2%
Mid-Atlantic	**107**	327	-67.3%	**411**	1,128	-63.6%	**67.2%**	31.0%	**60.0%**	23.8%
Florida	**188**	357	-47.3%	**509**	891	-42.9%	**26.8%**	30.1%	**28.5%**	33.2%
Southeast	**409**	647	-36.8%	**1,117**	2,128	-47.5%	**19.8%**	33.3%	**23.8%**	30.7%
Other	**476**	991	-52.0%	**1,525**	2,550	-40.2%	**44.9%**	38.8%	**42.9%**	39.4%
Total	**1,774**	3,048	-41.8%	**4,982**	8,921	-44.2%	**36.8%**	36.3%	**38.5%**	34.8%

	Closings					
	Three Months Ended June 30,			Nine Months Ended June 30,		
	2008	2007	Change	**2008**	2007	Change
West	**407**	721	-43.6%	**1,206**	2,125	-43.2%
Mid-Atlantic	**244**	263	-7.2%	**692**	676	2.4%
Florida	**152**	266	-42.9%	**545**	861	-36.7%
Southeast	**324**	608	-46.7%	**1,060**	2,018	-47.5%
Other	**550**	801	-31.3%	**1,748**	2,391	-26.9%
Total	**1,677**	2,659	-36.9%	**5,251**	8,071	-34.9%

New Orders and Backlog: New orders, net of cancellations, decreased 44.2% to 4,982 units during the nine month period ended June 30, 2008, compared to 8,921 units for the same period in the prior year related to weaker market conditions resulting in reduced demand and higher cancellations compared to the number of new orders received in the first nine months of fiscal 2007. For the three and nine months ended June 30, 2008, we experienced cancellation rates of 36.8% and 38.5% compared to 36.3% and 34.8% for the three and nine months ended June 30, 2007. These cancellation rates in both fiscal 2008 and 2007 reflect the continued challenging market environment which includes the inability of many potential homebuyers to sell their existing homes and obtain affordable financing. In addition, on July 1, 2008, we completed the sale of two large condominium projects in Virginia, which resulted in the cancellation of 109 orders and 215 orders for the three and nine months ended June 30, 2008, respectively, and the significant increase in the cancellation rate for our Mid-Atlantic segment. The increase in cancellation rates in our Other Homebuilding segment primarily relates to our decision to exit our Ohio, Kentucky and Colorado markets in this segment and our decision to curtail production in certain communities.

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. The aggregate dollar value of homes in backlog at June 30, 2008 of $668.1 million decreased 60.5% from $1.69 billion at June 30, 2007, related to a decrease in the number of homes in backlog from 5,952 units at June 30, 2007 to 2,716 units at June 30, 2008. The decrease in the number of homes in backlog across all of our markets is driven primarily by the aforementioned market weakness, lower new orders and

higher rate of cancellations.

Table of Contents

	Backlog at June 30,		
	2008	2007	Change
West	**705**	1,274	-44.7%
Mid-Atlantic	**362**	1,029	-64.8%
Florida	**202**	538	-62.5%
Southeast	**561**	1,431	-60.8%
Other	**886**	1,680	-47.3%
Total	**2,716**	5,952	-54.4%

Backlog has declined in all of our homebuilding segments due primarily to the significant downturn in our industry and the reduction in the availability of mortgage credit for our potential homebuyers. As the availability of mortgage loans declines and the inventory of new and used homes remains at elevated levels, buyers of homes in backlog may have difficulty selling their homes, which results in slower new sales absorptions and high cancellation rates. Each cancellation results in a reduction of backlog. As a result, increased cancellation rates result in reductions to backlog. Continued reduced levels of backlog will produce less revenue in the future which could also result in additional asset impairment charges and lower levels of liquidity.

FINANCIAL CONDITION AND LIQUIDITY:

Our sources of cash liquidity include, but are not limited to, cash from operations, amounts available under credit facilities, proceeds from senior notes and other bank borrowings, the issuance of equity securities and other external sources of funds. Our short-term and long-term liquidity depend primarily upon our level of net income, working capital management (accounts receivable, accounts payable and other liabilities) and bank borrowings.

We reduced our Revolving Credit Facility during fiscal 2008 as we transitioned from an unsecured facility to a secured facility in response to the decline in our business. Our available liquidity from our facility was reduced in this process due to the limited pool of assets pledged as collateral. We intend to add additional real estate assets to the facility as collateral over the next six months upon the completion of the required appraisals and bank review. In order to adjust to the decrease in new orders resulting from the deterioration in the homebuilding market, we have significantly reduced our fixed costs, through headcount reductions, office consolidations and other cost reduction initiatives, a reduction in land acquisition and development expenditures, closed homebuilding divisions in non-core markets and sold inventory assets not deemed strategic to our future homebuilding activities. These activities have reduced the near term liquidity required to fund our operations while cash has been generated from the sale of inventory assets. We are selectively investing in real estate assets as we position the Company for the eventual industry recovery. We have a short term focus on preserving cash which will provide us with the liquidity we need to fund our operations as we build availability under our facility. In addition, in December 2007, we suspended our dividend payments and share repurchase program and any resumption of such programs will be at the discretion of the Board of Directors. During the second quarter of fiscal 2008, we discontinued our mortgage operations and entered into an exclusive preferred lender arrangement with a national third-party mortgage provider. In its most profitable year, our mortgage operations generated approximately $10 million in cash and, therefore, the discontinuation of our mortgage operations is not expected to have a material impact on our future liquidity.

We have generated in excess of $90 million of cash during the fourth quarter of fiscal 2008 as a result of the sale of certain assets that do not fit with our future homebuilding plans in various markets. Specifically, in July 2008, we completed the sale of two condominium projects in Virginia to third parties recognizing cash proceeds of approximately $85 million.

We believe that our current and available short-term and long-term capital resources are sufficient to fund our reduced level of capital expenditures and working capital requirements, our scheduled debt payments, and our interest and tax obligations for the next twelve months. However, any material variance from our projected operating results or land investments, or investments in or acquisitions of businesses, or any reduction in availability under our Revolving Credit Facility, as described in more detail below, could require us to obtain additional equity or debt financing. Any

such additional equity 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.

At June 30, 2008, we had cash and cash equivalents of $314.2 million, compared to $454.3 million at September 30, 2007. The decrease in cash was due primarily to the repayment of certain secured notes payable, model home financing and debt issuance costs offset by cash provided by operating activities of $24.5 million relating primarily to the increase in income tax receivable and deferred income tax benefit. Our net cash provided by operating activities for the nine months ended June 30, 2008 was $24.5 million compared to cash provided by operations of $122.0 million in the same period of the prior year. Based on the applicable year s closings, as of June 30, 2008 and June 30, 2007, our land bank includes a 5.0 year supply of land/lots for future development. The years supply in

Table of Contents

land bank remained flat as of June 30, 2008 when compared to June 30, 2007 primarily due to the decline in closings despite a 36% decrease in the number of lots in the ending land bank as of June 30, 2008 as compared to June 30, 2007. As the homebuilding market declined, we were successful in significantly reducing our land bank through the abandonment of lot option contracts, the sale of land assets not required in our homebuilding program and through the sale of new homes with only 3.6 years of owned land and lots for future homebuilding activities as of June 30, 2008. The decrease in land bank from June 30, 2007 to June 30, 2008 related to our decision to eliminate non-strategic positions to align our land supply with our expectations for future home closings. Net cash used in investing activities was $14.8 million for the nine months ended June 30, 2008 compared to $41.5 million for the comparable period of fiscal 2007, as we invested in unconsolidated joint ventures, albeit to a lesser extent, to support our land acquisition strategy and incurred capital expenditures for model and sales office improvements to support our marketing efforts. Net cash used in financing activities was $149.8 million for the nine months ended June 30, 2008 related primarily to the repayment of certain secured notes payable and model home financing obligations and the payment of debt issuance costs. Net cash used in financing activities was $124.2 million for the nine months ended June 30, 2007 and consisted primarily of net borrowings under credit facilities and warehouse line of $74.1 million, repurchase of Senior Notes and other secured notes payable of $44.8 million and dividends paid of $11.7 million.

At June 30, 2008 we had the following borrowings *(in thousands)*:

	Maturity Date	**June 30, 2008**	September 30, 2007
Revolving Credit Facility	July 2011	**$**	$
8 5/8% Senior Notes*	May 2011	**180,000**	180,000
8 3/8% Senior Notes*	April 2012	**340,000**	340,000
6 1/2% Senior Notes*	November 2013	**200,000**	200,000
6 7/8% Senior Notes*	July 2015	**350,000**	350,000
8 1/8% Senior Notes*	June 2016	**275,000**	275,000
4 5/8% Convertible Senior Notes*	June 2024	**180,000**	180,000
Junior subordinated notes	July 2036	**103,093**	103,093
Other secured notes payable	Various Dates	**50,388**	118,073
Model home financing obligations	Various Dates	**86,388**	114,116
Unamortized debt discounts		**(2,682)**	(3,033)
Total		**$ 1,762,187**	$ 1,857,249

* Collectively, the Senior Notes

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

Revolving Credit Facility. Effective November 14, 2007, we terminated the Warehouse Line, at which time there were no borrowings outstanding.

Revolving Credit Facility In July 2007, we replaced our former credit facility with a new $500 million, four-year unsecured revolving credit facility (the Revolving Credit Facility) with a group of banks, which matures in 2011. As a result of a series of amendments, as more fully described below, the Revolving Credit Facility is now a $400 million secured revolving credit facility. The former credit facility included a $1 billion four-year revolving credit facility which would have matured in August 2009. The Revolving Credit Facility has a $350 million sublimit for the issuance of standby letters of credit. We have the option to elect two types of loans under the Revolving Credit Facility which incur interest as applicable based on either the Alternative Base Rate or the Applicable Eurodollar Margin (both defined in the Revolving Credit Facility). The Revolving Credit Facility contains various operating and financial covenants. Substantially all of our significant subsidiaries are guarantors of the obligations under the Revolving Credit Facility (see Note 12).

Table of Contents

We fulfill our short-term cash requirements with cash generated from our operations and funds available from our Revolving Credit Facility. There were no amounts outstanding under the Revolving Credit Facility at June 30, 2008 or September 30, 2007; however, we had $71.5 million and $133.3 million of letters of credit outstanding under the Revolving Credit Facility at June 30, 2008 and September 30, 2007, respectively.

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

On May 13, 2008 and June 30, 2008, we obtained limited waivers which relaxed, through August 15, 2008, our minimum consolidated tangible net worth and maximum leverage ratio requirements under our Revolving Credit Facility. During the term of the limited waivers, the minimum consolidated tangible net worth could not be less than $700 million and the leverage ratio could not exceed 2.50 to 1.00.

On August 7, 2008, we entered into an amendment to our Revolving Credit Facility which changed the size, covenants and pricing for the facility. The size of the Revolving Credit Facility was reduced from $500 million to $400 million and is subject to further reductions to $250 million and $100 million if our consolidated tangible net worth (defined in the agreement as stockholders equity less intangible assets) falls below $350 million and $250 million, respectively. As of June 30, 2008, our consolidated tangible net worth was $784.2 million. The facility size is also subject to reduction to $250 million if our leverage ratio (defined in the agreement as the ratio of consolidated debt (net of average unrestricted cash in excess of $20 million) to consolidated tangible net worth) exceeds 5.0x (or 3.5x excluding the effect of any deferred tax valuation allowance). Our leverage ratio at June 30, 2008 was 2.19x. Further, the facility size is subject to reduction to $200 million if our interest coverage ratio for the quarter ending June 30, 2010 is less than 1.0x.

Availability under the facility continues to be subject to satisfaction of a secured borrowing base. The amendment provides that the book value of the assets securing the facility must exceed 3.0x the outstanding loans and letters of credit. Such coverage level increases to 4.5x and 6.0x to the extent the facility size is reduced to $250 million or $100 million, respectively. At June 30, 2008, we had available borrowing capacity of $90.7 million under the Revolving Credit Facility. At August 7, 2008, after giving effect to the amendment, we had no additional available borrowing capacity. However, we expect to add more real estate assets to the borrowing base over the next six months in order to increase our availability thereunder, which becomes available after the required appraisals and other bank review procedures are completed. The availability under our facility is not impacted by any actions of the respective credit rating agencies.

The interest margins under the Revolving Credit Facility were increased and are now based on the facility size. The Eurodollar Margin under the facility is now 4.5%. To the extent the facility size is reduced to $250 million or $100 million, the Eurodollar Margin will increase to 5.0% and 5.5%, respectively.

The financial maintenance covenants pertaining to the leverage ratio, interest coverage ratio and land inventory were eliminated as part of the August amendment. The remaining financial maintenance covenants are a minimum tangible net worth covenant (which requires us to have at least $100 million of consolidated tangible net worth) and a minimum liquidity covenant. The minimum liquidity covenant, which is applicable for so long as our interest coverage ratio is less than 1.75x, requires us to maintain either (a) $120 million of unrestricted cash and borrowing base availability or (b) a ratio (the Adjusted Coverage Ratio) of adjusted cash flow from operations (defined as cash flow from operations plus interest incurred) to interest incurred of at least 1.75x. The following table sets forth our financial covenant requirements under our Revolving Credit Facility and our compliance as if such covenants were in place as of June 30, 2008:

Financial Covenant	Covenant Requirement	Actual

Consolidated Tangible Net Worth	> $100 million	$784.2 million
Minimum Liquidity	> $120 million of unrestricted cash and borrowing base availability OR Adjusted Coverage Ratio > 1.75x	$314.2 million of unrestricted cash and borrowing base availability and Adjusted Coverage Ratio of 3.94x

Table of Contents

We believe that the elimination and relaxation of the financial maintenance covenants will permit us to comply with the amended covenants for the foreseeable future. However, further deteriorations in the housing market generally, or in our business particularly, could result in our
having to seek additional amendments or waivers under the Revolving Credit Facility. To the extent that we default any of these covenants and we are unable to obtain waivers, the lenders under the Revolving Credit Facility could accelerate our obligations thereunder. Any such acceleration would result in an event of default under our Senior Notes described below and would permit the holders thereof to accelerate our obligations under the Senior Notes.

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

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At June 30, 2008, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. Each indenture provides that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes.

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

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

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

On April 30, 2008, we received a default notice from The Bank of New York Trust Company, National Association, the trustee under the indenture governing these junior subordinated notes. The notice alleged that we were in default under the indenture because we had not yet furnished certain required information (including our annual audited and quarterly unaudited financial statements). The notice further alleged that this default would become an event of default under the indenture if not remedied within 30 days. The Company subsequently delivered the information that was subject to the default notice thereby curing any alleged default that may have occurred.

Other Secured Notes Payable We periodically acquire land through the issuance of notes payable. As of June 30, 2008 and September 30, 2007, we had outstanding notes payable of $50.4 million and $118.1 million, respectively, primarily related to land acquisitions. These notes payable expire at various times through 2010 and had fixed and variable rates ranging from 5.4% to 8.0% at June 30, 2008. These notes are secured by the real estate to which they relate. During the first nine months of fiscal 2008, we repaid

Table of Contents

$100.5 million of these secured notes payable. In connection with the sale of our interest in two joint ventures to our joint venture partner, we also acquired that partner s interest in two separate joint ventures. In connection with the acquisition of one of these ventures, we assumed the joint venture s debt of approximately $22.7 million which is included in other secured notes payable as of June 30, 2008.

Model Home Financing Obligations - Due to a continuing interest in certain model home sale-leaseback transactions, we have recorded $86.4 million and $114.1 million of debt as of June 30, 2008 and September 30, 2007, respectively, related to these financing transactions in accordance with SFAS 98 (As amended), *Accounting for Leases.* These model home transactions incur interest at a variable rate of one-month LIBOR plus 450 basis points, 7.0% as of June 30, 2008, and expire at various times through 2015.

Stock Repurchases and Dividends Paid On November 18, 2005, as part of an acceleration of Beazer Homes comprehensive plan to enhance stockholder value, our Board of Directors authorized an increase in our stock repurchase plan to ten million shares of our common stock. Shares may be purchased for cash in the open market, on the NYSE, or in privately negotiated transactions. We did not repurchase any shares in the open market during the three or nine months ended June 30, 2008 and 2007. At June 30, 2008, we are authorized to purchase approximately 5.4 million additional shares pursuant to the plan. In December 2007, we suspended our repurchase program and any resumption of such program will be at the discretion of the Board of Directors and is unlikely in the foreseeable future.

For the nine months ended June 30, 2007, we paid quarterly cash dividends of $0.10 per common share, or a total of approximately $11.7 million. We did not pay any dividends for the nine months ended June 30, 2008. On November 2, 2007, our Board of Directors suspended our dividend payments. The Board concluded that suspending dividends, which will allow us to conserve approximately $16 million of cash annually, was a prudent effort in light of the continued deterioration of the housing market.

Off-Balance Sheet Arrangements and Aggregate Contractual Commitments We historically have attempted to control half or more of our land supply through option contracts. As a result of the flexibility that these options provide us, upon a change in market conditions we may renegotiate the terms of the options prior to exercise or terminate the agreement. Option contracts generally require the payment of cash or the posting of a letter of credit for the right to acquire lots during a specified period of time at a certain price. Under option contracts, both with and without specific performance provisions, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our obligations with respect to options with specific performance provisions are included in our unaudited condensed consolidated balance sheets in other liabilities. Under option contracts without specific performance obligations, our liability is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which aggregated approximately $76.7 million at June 30, 2008. This amount includes non-refundable letters of credit of approximately $12.8 million. The total remaining purchase price, net of cash deposits, committed under all options was $861.6 million as of June 30, 2008. Only $34.8 million of total remaining purchase price under such options contains specific performance clauses which may require us to purchase the land or lots upon the land seller meeting certain obligations.

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

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

Certain of our option contracts are with sellers who are deemed to be Variable Interest Entities (VIE s) under FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46R). We have determined that we are the primary beneficiary of certain of these option contracts. Our risk is generally limited to the option deposits that we pay, and creditors of the sellers generally have no recourse to the general credit of the

Company. Although we do not have legal title to the optioned land, for those option contracts for which we are the primary beneficiary, we are required to consolidate the land under option at fair value. We believe that the exercise prices of our option contracts approximate their fair value. Our condensed consolidated balance sheets at June 30, 2008 and September 30, 2007 reflect consolidated inventory not owned of $120.3 million and

Table of Contents

$237.4 million, respectively. We consolidated $37.1 million and $92.3 million of lot option agreements as consolidated inventory not owned pursuant to FIN 46R as of June 30, 2008 and September 30, 2007, respectively. In addition, as of June 30, 2008 and September 30, 2007, we recorded $83.3 million and $145.1 million, respectively, of land under the caption consolidated inventory not owned related to lot option agreements in accordance with SFAS 49, *Product Financing Arrangements*. Obligations related to consolidated inventory not owned totaled $83.0 million at June 30, 2008 and $177.9 million at September 30, 2007. The difference between the balances of consolidated inventory not owned and obligations related to consolidated inventory not owned represents cash deposits paid under the option agreements.

We participate in a number of land development joint ventures in which we have less than a controlling interest. We enter into joint ventures in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. We account for our interest in these joint ventures under the equity method. Our condensed consolidated balance sheets include investments in joint ventures totaling $37.7 million and $109.1 million at June 30, 2008 and September 30, 2007, respectively.

Our joint ventures typically obtain secured acquisition and development financing. At June 30, 2008, our unconsolidated joint ventures had borrowings outstanding totaling $640.2 million. In some instances, we and our joint venture partners have provided varying levels of guarantees of debt of our unconsolidated joint ventures. At June 30, 2008, we had repayment guarantees totaling $39.1 million and loan-to-value maintenance guarantees of $6.0 million related to certain of our unconsolidated joint ventures debt (see Notes 4 and 9 to the unaudited condensed consolidated financial statements for additional information regarding our joint ventures and related guarantees).

CRITICAL ACCOUNTING POLICIES:

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a number of market risks in the ordinary course of business. Our primary market risk exposure relates to fluctuations in interest rates. We do not believe that our exposure in this area is material to cash flows or earnings. As of June 30, 2008, we had $124.9 million of variable rate debt outstanding. Based on our average outstanding borrowings under our variable rate debt at June 30, 2008, a one-percentage point increase in interest rates would negatively impact our annual pre-tax earnings by approximately $1.2 million.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Management, under the supervision and with the participation of its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Act), as of the end of period covered by this report. Management concluded that, as of June 30, 2008, the Company s disclosure controls and procedures were not effective primarily because of the identification of material weaknesses in our internal control over financial reporting, further described below and in Item 9A of our fiscal 2007 Form 10-K, which we view as an integral part of our disclosure controls and procedures. In addition, our disclosure controls and procedures not relating to internal control over financial reporting were not sufficiently documented and were not designed to require all accounting and financial employees, and other corporate employees with specific knowledge of, or responsibility for, other disclosures to complete quarterly certifications (management representations).

Based on a number of factors, including the completion of the Audit Committee s investigation, our internal review that identified revisions to our previously issued financial statements, efforts to remediate the material weaknesses in

internal control over financial reporting described below, and the performance of additional procedures by management designed to ensure the reliability of our financial reporting, we believe that the unaudited condensed consolidated financial statements in this Report fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with accounting principles generally accepted in the United States of America (GAAP).

Table of Contents

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

Material Weaknesses

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

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

Code of Conduct Violations

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

Compliance With Laws and Regulations

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

Segregation of Duties

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

Management Override and Collusion

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

Table of Contents

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

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

Require detailed analyses and review of certain subjective estimates;

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

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

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

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

The material weaknesses described above resulted in the restatement of our annual financial statements for fiscal years 1998-2006 and our quarterly financial statements for the quarters ended December 31, 2006 and March 31, 2007. These material weaknesses had the following impacts on the Company s financial reporting:

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

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

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

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

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

Change in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except for the following:

An Awareness Campaign was launched in May 2008 in order to introduce all employees to the new Ethics Hotline process and to encourage reporting of all concerns.

We have designed and/or clarified and implemented several accounting policies related to estimates involving significant management judgments. We are continuing to design and/or clarify and implement additional policies related to other financial reporting areas to ensure that we have the appropriate review and approval, defining minimum documentation requirements, establishing objective guidelines to minimize the degree of judgment in the determination of certain accruals, enforcing consistent reporting practices, and enabling effective account reconciliation, trend analyses, and exception reporting capabilities.

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

Table of Contents

Remediation Steps to Address Material Weaknesses

The Company s executive, regional and financial management are committed to achieving and maintaining a strong control environment and an overall tone within the organization that empowers all employees to act with the highest standards of ethical conduct. In addition, management remains committed to the process of developing and implementing improved corporate governance and compliance initiatives. In addition to the changes in internal control over financial reporting described above and in our Quarterly Reports on Form 10-Q for the quarters ended December 31, 2007 and March 31, 2008, our current management team has been actively working on remediation efforts to address the material weaknesses, as well as other identified areas of risk as follows:

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

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

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

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

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

We are continuing to develop and/or clarify existing accounting policies related to estimates involving significant management judgments, as well as other financial reporting areas. The new policies will focus on ensuring appropriate review and approval, defining minimum documentation requirements, establishing objective guidelines to minimize the degree of judgment in the determination of certain accruals, enforcing consistent reporting practices, and enabling effective account reconciliation, trend analyses, and exception reporting capabilities.

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

Inherent Limitations over Internal Controls

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

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

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

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

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

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

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

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Investigations

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

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

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

Mortgage Origination Issues

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

We intend to attempt to negotiate a settlement with prosecutors and regulatory authorities that would allow us to quantify our exposure associated with reimbursement of losses and payment of regulatory and/or criminal fines, if they are imposed. See Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K for additional discussion of this matter. At this time, we believe that although it is probable that a liability exists related to this exposure, it is not reasonably estimable and would be inappropriate to record a liability as of June 30, 2008.

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

Litigation

Securities Class Action. Beazer Homes and certain of our current and former officers (the Individual Defendants), as well as our Independent Registered Accounting Firm, are named as defendants in putative class action securities litigation pending in the United States District Court for the Northern District of Georgia. Three separate complaints were initially filed between March 29 and May 21, 2007. The cases were subsequently consolidated by the court and the court appointed Glickenhaus & Co. and Carpenters Pension Trust Fund for Northern California as lead plaintiffs. On June 27, 2008, lead plaintiffs filed an Amended and Consolidated Class Action Complaint for Violation of the Federal Securities Laws (Consolidated Complaint), which purports to assert claims on behalf of a class of persons and

entities that purchased or acquired the securities of Beazer Homes during the period January 27, 2005 through May 12, 2008. The Consolidated Complaint asserts a claim against the defendants under Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act) and Rule 10b-5 promulgated thereunder for allegedly making materially false and misleading statements regarding our business and prospects, including, among other things, alleged misrepresentations and omissions related to alleged improper lending practices in our mortgage origination business, alleged misrepresentations and omissions related to improper revenue

Table of Contents

recognition and other accounting improprieties and alleged misrepresentations and omissions concerning our land investments and inventory. The Consolidated Complaint also asserts claims against the Individual Defendants under Sections 20(a) and 20A of the Exchange Act. Lead plaintiffs seek a determination that the action is properly maintained as a class action, an unspecified amount of compensatory damages and costs and expenses, including attorneys fees. The Company intends to vigorously defend against these actions.

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

ERISA Class Actions. On April 30, 2007, a putative class action complaint was filed on behalf of a purported class consisting of present and former participants and beneficiaries of the Beazer Homes USA, Inc. 401(k) Plan. The complaint was filed in the United States District Court for the Northern District of Georgia. The complaint alleges breach of fiduciary duties, including those set forth in the Employee Retirement Income Security Act (ERISA), as a result of the investment of retirement monies held by the 401(k) Plan in common stock of Beazer Homes at a time when participants were allegedly not provided timely, accurate and complete information concerning Beazer Homes. Four additional lawsuits were filed subsequently on May 11, 2007, May 14, 2007, June 15, 2007 and July 27, 2007 in the United States District Court for the Northern District of Georgia making similar allegations. The court consolidated these five lawsuits, and on June 27, 2008, the plaintiffs filed a consolidated amended complaint. The consolidated amended complaint names as defendants Beazer Homes, our chief executive officer, certain current and former directors of the Company, including the members of the Compensation Committee of the Board of Directors, and certain employees of the Company who acted as members of the Company s 401(k) Committee. The Company intends to vigorously defend against these actions.

Homeowners Class Action Lawsuits and Multi-Plaintiff Lawsuit. Beazer Homes subsidiaries, Beazer Homes Corp. and Beazer Mortgage Corporation, were named as defendants in a putative class action lawsuit filed on March 23, 2007 in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division. The complaint was filed as a putative class action. The purported class is defined as North Carolina residents who purchased homes in subdivisions in North Carolina containing homes constructed by the defendants where the foreclosure rate is allegedly significantly higher than the state-wide average. The complaint alleged that the defendants utilized unfair trade practices to allow low-income purchasers to qualify for loans they allegedly could not afford, resulting in foreclosures that allegedly diminished plaintiffs property values. Plaintiffs sought an unspecified amount of compensatory damages and also requested that any damage award be trebled. On April 25, 2008, the District Court granted the defendants motion to dismiss and dismissed all causes of action with prejudice. Plaintiffs appealed the dismissal to the United States Court of Appeals for the Fourth Circuit. On July 21, 2008, Plaintiffs filed a consent motion to dismiss the appeal with prejudice, and the Court of Appeals entered an order of dismissal and mandate the same day. This case is now concluded.

A second putative homeowner class action lawsuit was filed on April 23, 2007 in the United States District Court for the District of South Carolina, Columbia Division. The complaint alleged that Beazer Homes Corp. and Beazer

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

An additional putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation. The

Table of Contents

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. The purported class consists of all residents of North Carolina who purchased a home from Beazer, using mortgage financing provided by and through Beazer that included seller-funded down payment assistance, between January 1, 2000 and October 11, 2007. The Complaint demands an unspecified amount of damages, various forms of equitable relief, treble damages, attorneys fees and litigation expenses. The defendants moved to dismiss the Complaint on June 4, 2008. On July 25, 2008, in lieu of a response to the motion to dismiss, plaintiff filed an amended complaint. The Company has not yet filed a responsive pleading or motion, but intends to vigorously defend this action.

Beazer Homes Corp. and Beazer Mortgage Corporation are also named defendants in a lawsuit filed on July 3, 2007, in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division, but remanded on April 23, 2008 to the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The complaint was filed on behalf of ten individual homeowners who purchased homes from Beazer in Mecklenburg County. The complaint alleges certain deceptive conduct by the defendants and brings various claims under North Carolina statutory and common law, including a claim for punitive damages. On June 27, 2008 a second amended complaint, which added two plaintiffs to the lawsuit, was filed. The case has been designated as exceptional pursuant to Rule 2.1 of the General Rules of Practice of the North Carolina Superior and District Courts and has been assigned to the docket of the North Carolina Business Court. The Company filed a motion to dismiss on July 30, 2008 and intends to vigorously defend against this action.

Beazer Homes subsidiaries Beazer Homes Holdings Corp. and Beazer Mortgage Corporation were named as defendants in a putative class action lawsuit originally filed on March 12, 2008, in the Superior Court of the State of California, County of Placer. The lawsuit was amended on June 2, 2008 and named as defendants Beazer Homes Holding Corp., Beazer Homes USA, Inc., and Security Title Insurance Company. The purported class is defined as all persons who purchased a home from the defendants or their affiliates, with the assistance of a federally related mortgage loan, from March 25, 1999 to the present where Security Title Insurance Company received any money as a reinsurer of the transaction. The complaint alleges that the defendants violated RESPA and asserts claims under a number of state statutes alleging that defendants engaged in a uniform and systematic practice of giving and/or accepting fees and kickbacks to affiliated businesses including affiliated and/or recommended title insurance companies. The complaint also alleges a number of common law claims. Plaintiffs seek an unspecified amount of damages under RESPA, unspecified statutory, compensatory and punitive damages and injunctive and declaratory relief, as well as attorneys fees and costs. Defendants removed the action to federal court. The Company intends to vigorously defend against the action.

For each of the above actions, no accrual has been recorded as of June 30, 2008 or September 30, 2007, as losses, if any, related to these matters are not both probable and estimable.

Bond Indenture Trustee Litigation. On September 10, 2007, we filed an Amended Complaint For Declaratory Judgment and Injunctive Relief in an action pending in the United States District Court in Atlanta, Georgia against the trustees under the indentures governing our outstanding senior and convertible senior notes. We sought, among other relief, a declaration from the court against the trustees that the delay in filing with the SEC our Form 10-Q for the quarterly period ended June 30, 2007 did not constitute a default under the applicable indentures and that the delay would not give rise to any right of acceleration on the part of the holders of the senior and convertible senior notes. On October 29, 2007, we notified the court and the trustees that we had successfully concluded a consent solicitation concerning the notes at issue. The consents provided us with a waiver of any and all defaults under the indentures at issue that may have occurred or may occur prior to May 15, 2008, due to our failure to file or deliver reports or other information we would be required to file with the SEC. On May 15, 2008, we completed the filing of all our previously past due periodic reports with the SEC. We thereafter delivered copies of all such reports to the trustees, pursuant to the applicable indentures. On June 25, 2008, the trustees and we filed a stipulation dismissing the litigation without prejudice. This case is now concluded.

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

Table of Contents

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

Other Matters

In November 2003, Beazer Homes received a request for information from the EPA pursuant to Section 308 of the Clean Water Act seeking information concerning the nature and extent of storm water discharge practices relating to certain of our projects completed or under construction. The EPA has since requested information on additional projects and has conducted site inspections at a number of locations. In certain instances, the EPA or the equivalent state agency has issued Administrative Orders identifying alleged instances of noncompliance and requiring corrective action to address the alleged deficiencies in storm water management practices. As of June 30, 2008, no monetary penalties have been imposed in connection with such Administrative Orders. The EPA has reserved the right to impose monetary penalties at a later date, the amount of which, if any, cannot currently be estimated. Beazer Homes has taken action to comply with the requirements of each of the Administrative Orders and is working to otherwise maintain compliance with the requirements of the Clean Water Act.

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

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

We have accrued $18.5 million and $17.6 million in other liabilities related to these matters as of June 30, 2008 and September 30, 2007, respectively.

Item 5. Other Information

On August 7, 2008, the Company entered into an amendment to its Credit Agreement, dated as of July 25, 2007, among the Company, the lenders thereto and Wachovia Bank, National Association, as Agent. The material terms of the amendment are set forth above under Management s Discussion and Analysis of Financial Condition and Results of Operation Financial Condition and Liquidity - Revolving Credit Facility . The amendment is attached as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

Item 6. Exhibits

10.1	Third Amendment, dated as of August 7, 2008, to and under the Credit Agreement, dated as of July 25, 2007, among the Company, the lenders thereto and Wachovia Bank, National Association, as Agent
10.2	Amended and Restated 1999 Stock Incentive Plan (as amended through August 5, 2008)
31.1	Certification pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

Beazer Homes USA, Inc.

Date: August 8, 2008

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