BEAZER HOMES USA INC
Form 10-Q
August 01, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-12822

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. YES x NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	(Do not check if a smaller reporting company)	
Smaller reporting company	¨	Emerging growth company	¨

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

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

Class	Outstanding as of July 27, 2017
Common Stock, $0.001 par value	33,536,450

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2017	September 30, 2016
ASSETS		
Cash and cash equivalents	$168,381	$228,871
Restricted cash	12,735	14,405
Accounts receivable (net of allowance of $176 and $354, respectively)	39,816	53,226
Income tax receivable	380	292
Owned inventory	1,655,853	1,569,279
Investments in unconsolidated entities	3,850	10,470
Deferred tax assets, net	312,370	309,955
Property and equipment, net	18,658	19,138
Other assets	9,582	7,522
Total assets	$2,221,625	$2,213,158
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$119,408	$104,174
Other liabilities	119,654	134,253
Total debt (net of premium of $3,606 and $1,482, respectively, and debt issuance costs of $14,908 and $15,514, respectively)	1,334,623	1,331,878
Total liabilities	1,573,685	1,570,305
Stockholders' equity:		
Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued)	—	—
Common stock (par value $0.001 per share, 63,000,000 shares authorized, 33,545,740 issued and outstanding and 33,071,331 issued and outstanding, respectively)	34	33
Paid-in capital	872,217	865,290
Accumulated deficit	(224,311)	(222,470)
Total stockholders' equity	647,940	642,853
Total liabilities and stockholders' equity	$2,221,625	$2,213,158

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Total revenue	$478,588	$459,937	$1,243,297	$1,189,993
Home construction and land sales expenses	399,675	370,367	1,043,041	980,094
Inventory impairments and abandonments	470	11,917	752	15,098
Gross profit	78,443	77,653	199,504	194,801
Commissions	18,773	17,500	48,728	45,856
General and administrative expenses	40,794	40,457	117,282	111,024
Depreciation and amortization	3,307	3,387	9,139	9,434
Operating income	15,569	16,309	24,355	28,487
Equity in income of unconsolidated entities	158	62	213	71
Gain (loss) on extinguishment of debt	—	429	(15,563)	(2,030)
Other expense, net	(2,871)	(5,344)	(12,007)	(18,467)
Income (loss) from continuing operations before income taxes	12,856	11,456	(3,002)	8,061
Expense (benefit) from income taxes	5,742	5,349	(1,262)	2,067
Income (loss) from continuing operations	7,114	6,107	(1,740)	5,994
Income (loss) from discontinued operations, net of tax	9	(325)	(101)	(447)
Net income (loss) and comprehensive income (loss)	$7,123	$5,782	$(1,841)	$5,547
Weighted average number of shares:				
Basic	31,971	31,813	31,944	31,793
Diluted	32,375	31,820	31,944	31,797
Basic income (loss) per share:				
Continuing operations	$0.22	$0.19	$(0.05)	$0.19
Discontinued operations	—	(0.01)	—	(0.01)
Total	$0.22	$0.18	$(0.05)	$0.18
Diluted income (loss) per share:				
Continuing operations	$0.22	$0.19	$(0.05)	$0.19
Discontinued operations	—	(0.01)	—	(0.01)
Total	$0.22	$0.18	$(0.05)	$0.18

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	$(1,841)	$5,547
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	9,139	9,434
Stock-based compensation expense	7,327	5,844
Inventory impairments and abandonments	752	15,098
Deferred and other income tax (benefit) expense	(2,404)	619
Write-off of deposit on legacy land investment	2,700	—
Gain on sale of fixed assets	(123)	(893)
Change in allowance for doubtful accounts	(178)	(186)
Equity in income of unconsolidated entities	(233)	(71)
Cash distributions of income from unconsolidated entities	138	99
Non-cash loss on extinguishment of debt	3,676	155
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	13,588	(13,340)
(Increase) decrease in income tax receivable	(88)	198
Increase in inventory	(70,770)	(35,298)
Increase in other assets	(1,970)	(1,405)
Increase (decrease) in trade accounts payable	14,986	(4,090)
Decrease in other liabilities	(14,607)	(12,580)
Net cash used in operating activities	(39,908)	(30,869)
Cash flows from investing activities:		
Capital expenditures	(8,661)	(9,718)
Proceeds from sale of fixed assets	126	2,549
Investments in unconsolidated entities	(3,005)	(3,138)
Return of capital from unconsolidated entities	1,621	1,142
Increases in restricted cash	(7,484)	(4,679)
Decreases in restricted cash	9,154	24,734
Net cash (used in) provided by investing activities	(8,249)	10,890
Cash flows from financing activities:		
Repayment of debt	(257,173)	(239,312)
Proceeds from issuance of new debt	250,000	137,900
Repayment of borrowings from credit facility	(25,000)	(50,000)
Borrowings from credit facility	25,000	50,000
Debt issuance costs	(4,757)	(2,545)
Other financing activities	(403)	(438)
Net cash used in financing activities	(12,333)	(104,395)
Decrease in cash and cash equivalents	(60,490)	(124,374)
Cash and cash equivalents at beginning of period	228,871	251,583
Cash and cash equivalents at end of period	$168,381	$127,209

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(1) Description of Business
Beazer Homes USA, Inc. (“we,” “us,” “our,” “Beazer,” “Beazer Homes” and the “Company”) is a geographically diversified homebuilder with active operations in 13 states within three geographic regions in the United States: the West, East and Southeast. Our homes are designed to appeal to homeowners at different price points across various demographic segments, and are generally offered for sale in advance of their construction. Our objective is to provide our customers with homes that incorporate exceptional value and quality, while seeking to maximize our return on invested capital over the course of a housing cycle.
For an additional description of our business, refer to Item 1 within our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (2016 Annual Report).
(2) Basis of Presentation and Summary of Significant Accounting Policies
The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such unaudited condensed consolidated financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments (consisting primarily of normal recurring adjustments) necessary for a fair presentation have been included in the accompanying unaudited condensed consolidated financial statements. The results of our consolidated operations presented herein for the three and nine months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full fiscal year due to seasonal variations in our operations and other factors. For further information and a discussion of our significant accounting policies other than those discussed below, refer to Note 2 to the audited consolidated financial statements within our 2016 Annual Report.
Basis of Consolidation. These unaudited condensed consolidated financial statements present the consolidated balance sheet, income (loss), comprehensive income (loss) and cash flows of the Company, including its consolidated subsidiaries. Intercompany balances have been eliminated in consolidation.
In the past, we have discontinued homebuilding operations in various markets. Results from certain of these exited markets are reported as discontinued operations in the accompanying unaudited condensed consolidated statements of income (loss) for all periods presented (see Note 16 for a further discussion of our discontinued operations).
We evaluated events that occurred after the balance sheet date but before these financial statements were issued for accounting treatment and disclosure.
Our fiscal 2017 began on October 1, 2016 and ends on September 30, 2017. Our fiscal 2016 began on October 1, 2015 and ended on September 30, 2016.
Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make informed estimates and judgments that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Accordingly, actual results could differ from these estimates.
Inventory Valuation. We assess our inventory assets no less than quarterly for recoverability in accordance with the policies described in Notes 2 and 5 to the audited consolidated financial statements within our 2016 Annual Report. Our homebuilding inventories that are accounted for as held for development (projects in progress) include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. For those communities that have been idled (land held for future development), all applicable interest and real estate taxes are expensed as incurred, and the inventory is stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We record land held for sale at the lower of the carrying value or fair value less costs to sell.
Recent Accounting Pronouncements.
Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU

2014-09 requires entities to recognize revenue at an amount that the entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under the existing revenue recognition guidance. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for one year, which makes the guidance effective for the

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Company's first fiscal year beginning after December 15, 2017. Additionally, the FASB is permitting entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We have been involved in industry-specific discussions with the FASB on the treatment of certain items related to our business. However, due to the nature of our operations, we expect to identify similar performance obligations under ASU 2014-09 compared with the deliverables and separate units of account we have identified under existing accounting standards. As a result, we expect the timing of our revenues to remain generally the same. Nonetheless, we are still evaluating the impact of specific parts of this ASU, and expect our revenue-related disclosures to change.

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

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

(3) Supplemental Cash Flow Information

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

	Nine Months Ended June 30,	
(In thousands)	2017	2016
Supplemental disclosure of non-cash activity:		
Non-cash land acquisitions [(a)]	$8,346	$8,265
Land acquisitions for debt	6,305	—
Supplemental disclosure of cash activity:		
Interest payments	$60,847	$95,316
Income tax payments	548	1,219

Tax refunds received	3	198

[a] For the nine months ended June 30, 2017 and June 30, 2016, non-cash land acquisitions were comprised of lot takedowns from one of our unconsolidated land development joint ventures.

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(4) Investments in Unconsolidated Entities

As of June 30, 2017, we participated in certain joint ventures and other unconsolidated entities in which Beazer had less than a controlling interest. The following table presents our investment in these unconsolidated entities, as well as the total equity and outstanding borrowings of these unconsolidated entities as of June 30, 2017 and September 30, 2016:

(In thousands)	June 30, 2017	September 30, 2016
Beazer's investment in unconsolidated entities	$ 3,850	$ 10,470
Total equity of unconsolidated entities	12,288	31,615
Total outstanding borrowings of unconsolidated entities	16,624	14,702

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(In thousands)	2017	2016	2017	2016
Equity in income of unconsolidated entities	$ 158	$ 62	$ 213	$ 71

For the three and nine months ended June 30, 2017 and 2016, there were no impairments related to our investments in these unconsolidated entities.

Guarantees. Our joint ventures typically obtain secured acquisition, development and construction financing. Historically, Beazer and our joint venture partners had provided varying levels of guarantees of debt and other debt-related obligations for these unconsolidated entities. However, as of June 30, 2017 and September 30, 2016, we had no outstanding guarantees or other debt-related obligations related to our investments in unconsolidated entities.

We and our joint venture partners generally provide unsecured environmental indemnities to land development joint venture project lenders. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the three and nine months ended June 30, 2017 and 2016, we were not required to make any payments related to environmental indemnities.

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

(5) Inventory

The components of our owned inventory are as follows as of June 30, 2017 and September 30, 2016:

(In thousands)	June 30, 2017	September 30, 2016
Homes under construction	$ 558,533	$ 377,191
Development projects in progress	706,134	742,417
Land held for future development	152,959	213,006
Land held for sale	20,182	29,696
Capitalized interest	148,330	138,108
Model homes	69,715	68,861
Total owned inventory	$ 1,655,853	$ 1,569,279

Homes under construction include homes substantially finished and ready for delivery and homes in various stages of construction, including the cost of the underlying lot. We had 132 (with a cost of $39.0 million) and 178 (with a cost of $56.1 million) substantially completed homes that were not subject to a sales contract (spec homes) as of June 30, 2017 and September 30, 2016, respectively. Development projects in progress consist principally of land and land

improvement costs. Certain of the fully developed lots in this category are reserved by a customer deposit or sales contract. Land held for future development consists of communities for which construction and development activities are expected to occur in the future or have been idled, and are stated at cost unless

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facts and circumstances indicate that the carrying value of the assets may not be recoverable. All applicable interest and real estate taxes on land held for future development are expensed as incurred. Land held for sale includes land and lots that do not fit within our homebuilding programs and strategic plans in certain markets, and is classified as such once certain criteria is met (refer to Note 2 to the audited consolidated financial statements within our 2016 Annual Report). These assets are recorded at the lower of the carrying value or fair value less costs to sell.
The amount of interest we are able to capitalize is dependent upon our qualified inventory balance, which considers the status of our inventory holdings. Our qualified inventory balance includes the majority of our homes under construction and development projects in progress, but excludes land held for future development and land held for sale (see Note 6 for additional information on capitalized interest).
Total owned inventory, by reportable segment, is presented by category in the table below as of June 30, 2017 and September 30, 2016:

(In thousands)	Projects in Progress [(a)]	Land Held for Future Development	Land Held for Sale	Total Owned Inventory
June 30, 2017				
West Segment	$662,958	$ 128,096	$ 4,612	$795,666
East Segment	293,802	13,920	13,159	320,881
Southeast Segment	325,523	10,943	1,311	337,777
Corporate and unallocated [(b)]	200,429	—	1,100	201,529
Total	$1,482,712	$ 152,959	$ 20,182	$1,655,853
September 30, 2016				
West Segment	$586,420	$ 172,015	$ 6,577	$765,012
East Segment	276,785	30,036	20,930	327,751
Southeast Segment	276,385	10,955	1,090	288,430
Corporate and unallocated [(b)]	186,987	—	1,099	188,086
Total	$1,326,577	$ 213,006	$ 29,696	$1,569,279

[(a)] Projects in progress include homes under construction, development projects in progress, capitalized interest and model homes categories from the preceding table.
[(b)] Projects in progress amount includes capitalized interest and indirect costs that are maintained within our Corporate and unallocated segment. Land held for sale amount includes parcels held by our discontinued operations.
Inventory Impairments. When conducting our community level review for the recoverability of our inventory related to projects in progress, we establish a quarterly “watch list” of communities that carry gross margins in backlog and in our forecast that are below a minimum threshold of profitability, as well as recent closings that have gross margins less than a specific threshold. Each community is first evaluated qualitatively to determine if there are temporary factors driving the low profitability levels. Following our qualitative evaluation, communities with more than ten homes remaining to close are subjected to substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to gross margins below our watch list threshold. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. For certain communities, we determined that it is prudent to reduce sales prices or further increase sales incentives in response to a variety of factors, including competitive market conditions in those specific submarkets for the product and locations of these communities. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information. Market deterioration that exceeds our initial estimates may lead us to incur impairment charges on previously impaired homebuilding assets, in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if markets deteriorate.
As of June 30, 2017, there were three communities on our watch list, all in the West segment. However, none of these communities required further analysis to be performed after considering certain qualitative factors. For the quarter

ended June 30, 2016, there were seven communities on our quarterly watch list; of these communities, two in our West segment and one in our East segment required further impairment analysis to be performed after considering the number of lots remaining in each community and certain other qualitative factors. This additional analysis led to an impairment charge for two of these communities.

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The table below summarizes the results of our impairment analysis by reportable segment for the period presented (as noted, such analysis was not required for the current quarter):

($ in thousands)		Undiscounted Cash Flow Analyses Prepared		
Segment [a]	# of Communities on Watch List [b]	# of Communities [c]	Pre-analysis Book Value (BV)	Aggregate Undiscounted Cash Flow as a % of BV [d]
Quarter Ended June 30, 2016				
West	4	2	$ 22,969	124.0 %
East	2	1	22,469	88.5 %
Southeast	1	—	—	— %
Corporate and unallocated [e]	—	—	2,794	N/A [f]
Total	7	3	$ 48,232	

[a] We have elected to aggregate our disclosure at the reportable segment level because we believe this level of disclosure is most meaningful to the readers of our financial statements.
[b] Number of communities in this column excludes communities that are closing out and have less than ten closings remaining.
[c] Number of communities in this column is lower than the number of communities on our watch list because it excludes communities due to certain qualitative considerations that would imply that the low profitability levels are temporary in nature.
[d] An aggregate undiscounted cash flow as a percentage of book value under 100% would indicate a possible impairment and is consistent with our "watch list" methodology. While this metric for the communities in the West segment was above 100% for the quarter ended June 30, 2016 in total, for the community that we ultimately impaired, the metric was below 100%, while the metric for the community we did not impair was above 100%.
[e] Amount represents capitalized interest and indirects balance related to the communities for which an undiscounted cash flow analysis was prepared. Capitalized interest and indirects are maintained within our Corporate and unallocated segment.
[f] N/A - not applicable.

The following table presents, by reportable segment, details around the impairment charges taken on projects in progress for the periods presented:

($ in thousands)	Three Months Ended				Nine Months Ended			
Segment	# of Communities Impaired	# of Lots Impaired	Impairment Charge	Estimated Fair Value of Impaired Inventory at time of Impairment	# of Communities Impaired	# of Lots Impaired	Impairment Charge	Estimated Fair Value of Impaired Inventory at time of Impairment
June 30, 2016								
West	1	179	$ 5,216	$ 10,827	2	213	$ 6,729	$ 16,345
East	1	78	5,894	18,073	1	78	5,894	18,073
Corporate and unallocated [a]	—	—	789	—	—	—	1,101	—
Total	2	257	$ 11,899	$ 28,900	3	291	$ 13,724	$ 34,418

[a] Amount represents capitalized interest and indirects balance that was impaired. Capitalized interest and indirects are maintained within our Corporate and unallocated segment.

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The following table presents the values of significant quantitative unobservable inputs we used in determining the fair value of the communities we impaired during the periods presented:

	Three Months Ended	Nine Months Ended
Unobservable Inputs	June 30, 2016	June 30, 2016
Average selling price (in thousands)	$355 - $560	$355 - $560
Closings per community per month	2 - 4	2 - 4
Discount rate	14.15 %	14.15% - 15.33%

Impairments on land held for sale generally represent write downs of these properties to net realizable value, less estimated costs to sell, and are based on current market conditions and our review of recent comparable transactions. Our assumptions about land sales prices require significant judgment because the real estate market is highly sensitive to changes in economic conditions. We calculate the estimated fair value of land held for sale based on current market conditions and assumptions made by management, which may differ materially from actual results and may result in additional impairments if market conditions deteriorate.

From time-to-time, we also determine that the proper course of action with respect to a community is to not exercise an option and to write off the deposit securing the option takedown and the related pre-acquisition costs, as applicable. In determining whether to abandon lots or lot option contracts, our evaluation is primarily based upon the expected cash flows from the property. Additionally, in certain limited instances, we are forced to abandon lots due to environmental, permitting or other regulatory issues that do not allow us to build on those lots. If we intend to abandon or walk away from a property, we record a charge to earnings for the deposit amount and any related capitalized costs in the period such decision is made. Abandonment charges generally relate to our decision to abandon lots or not exercise certain option contracts that are not projected to produce adequate results, no longer fit with our long-term strategic plan or, in limited circumstances, are not suitable for building due to environmental or regulatory restrictions that are enacted.

The following table presents, by reportable segment, our total impairment and abandonment charges for the periods presented:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Projects in Progress:				
West	$—	$5,216	$—	$6,729
East	—	5,894	—	5,894
Corporate and unallocated [(a)]	—	789	—	1,101
Total impairment charges on projects in progress	$—	$11,899	$—	$13,724
Land Held for Sale:				
West	$—	$—	$94	$—
East	470	18	470	215
Southeast	—	—	—	371
Total impairment charges on land held for sale	$470	$18	$564	$586
Abandonments:				
East	$—	$—	$188	$—
Southeast	—	—	—	788
Total abandonments charges	$—	$—	$188	$788
Total impairment and abandonment charges	$470	$11,917	$752	$15,098

[(a)] Amount represents capitalized interest and indirects balance that was impaired. Capitalized interest and indirects are maintained within our Corporate and unallocated segment.

Lot Option Agreements and Variable Interest Entities (VIEs). As previously discussed, we also have access to land inventory through lot option contracts, which generally enable us to defer acquiring portions of properties owned by

third parties and unconsolidated entities until we have determined whether to exercise our lot option. The majority of our lot option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land for the right to acquire lots during a specified period of time at a specified price. Under lot option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our liability under option contracts is generally limited

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

The following table provides a summary of our interests in lot option agreements as of June 30, 2017 and September 30, 2016:

(In thousands)	Deposits & Non-refundable Pre-acquisition Costs Incurred	Remaining Obligation
As of June 30, 2017		
Unconsolidated lot option agreements	$ 91,286	$ 439,316
As of September 30, 2016		
Unconsolidated lot option agreements	$ 80,433	$ 446,414

(6) Interest

Our ability to capitalize interest incurred during the three and nine months ended June 30, 2017 and 2016 was limited by our inventory eligible for capitalization. The following table presents certain information regarding interest for the periods presented:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Capitalized interest in inventory, beginning of period	$ 146,916	$ 140,139	$ 138,108	$ 123,457
Interest incurred	26,243	28,758	79,812	89,313
Capitalized interest impaired	—	(626)	—	(710)
Interest expense not qualified for capitalization and included as other expense [(a)]	(2,934)	(5,406)	(12,232)	(19,471)
Capitalized interest amortized to home construction and land sales expenses [(b)]	(21,895)	(20,467)	(57,358)	(50,191)
Capitalized interest in inventory, end of period	$ 148,330	$ 142,398	$ 148,330	$ 142,398

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

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

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(7) Borrowings

As of June 30, 2017 and September 30, 2016, we had the following debt, net of premiums/discounts and unamortized debt issuance costs:

(In thousands)	Maturity Date	June 30, 2017	September 30, 2016
5 3/4% Senior Notes	June 2019	$321,393	$321,393
7 1/2% Senior Notes	September 2021	—	198,000
8 3/4% Senior Notes	March 2022	500,000	500,000
7 1/4% Senior Notes	February 2023	199,834	199,834
6 3/4% Senior Notes	March 2025	250,000	—
Unamortized debt premium, net		3,606	2,362
Unamortized debt issuance costs		(15,575)	(14,063)
Total Senior Notes, net		1,259,258	1,207,526
Term Loan (net of unamortized discount of $880 and unamortized debt issuance costs of $1,451)	March 2018	—	52,669
Junior Subordinated Notes (net of unamortized accretion of $39,353 and $40,903, respectively)	July 2036	61,420	59,870
Other Secured Notes payable	Various Dates	13,945	11,813
Total debt, net		$1,334,623	$1,331,878

Secured Revolving Credit Facility. Our Secured Revolving Credit Facility (the Facility) provides us with working capital and letter of credit capacity. On October 13, 2016, we executed a third amendment (the Third Amendment) to the Facility. The Third Amendment (1) extended the termination date of the Facility from January 15, 2018 to February 15, 2019; (2) increased the available maximum aggregate amount of commitments under the Facility (including borrowings and letters of credit) from $145.0 million to $180.0 million; (3) reduced the aggregate collateral ratio (as defined by the underlying Credit Agreement) from 5.00 to 1.00 to 4.00 to 1.00; and (4) reduced the after-acquired exclusionary condition (also as defined by the underlying Credit Agreement) from $1.0 billion to $800.0 million. The facility continues to be with three lenders. For additional discussion of the Facility, refer to Note 8 to the audited consolidated financial statements within our 2016 Annual Report.

As of June 30, 2017 and September 30, 2016, we had no borrowings outstanding under the Facility, but had $39.9 million and $38.2 million in letters of credit outstanding, respectively, leaving us with $140.1 million and $106.8 million in remaining capacity, respectively. The Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. As of June 30, 2017, we were in compliance with all such covenants.

Letter of Credit Facilities. We have entered into stand-alone, cash-secured letter of credit agreements with banks to maintain our pre-existing letters of credit and to provide for the issuance of new letters of credit (in addition to the letters of credit issued under the Facility). As of June 30, 2017 and September 30, 2016, we had letters of credit outstanding under these additional facilities of $11.1 million and $12.1 million, respectively, all of which were secured by cash collateral in restricted accounts. The Company may enter into additional arrangements to provide further letter of credit capacity.

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

All unsecured Senior Notes rank equally in right of payment with all of our existing and future senior unsecured obligations, senior to all of the Company's existing and future subordinated indebtedness and effectively subordinated to the Company's existing and future secured indebtedness, including indebtedness under the Facility, if outstanding, to the extent of the value of the assets securing such indebtedness. The unsecured Senior Notes and related guarantees are structurally subordinated to all indebtedness and other liabilities of all of the Company's subsidiaries that do not

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

The Company's Senior Notes are issued under indentures that contain certain restrictive covenants which, among other things, restrict our ability to pay dividends, repurchase our common stock, incur certain types of additional indebtedness and to make certain investments. Compliance with our Senior Note covenants does not significantly impact our operations. We were in compliance with the covenants contained in the indentures of all of our Senior Notes as of June 30, 2017.

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

Senior Note Description	Issuance Date	Maturity Date	Redemption Terms
5 3/4% Senior Notes	April 2014	June 2019	Callable at any time before March 15, 2019, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after March 15, 2019, callable at 100% of the principal amount plus, in each case, accrued and unpaid interest
8 3/4% Senior Notes	September 2016	March 2022	Callable at any time prior to March 15, 2019, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after March 15, 2019, callable at a redemption price equal to 104.375% of the principal amount; on or after March 15, 2020, callable at a redemption price equal to 102.188% of the principal amount; on or after March 15, 2021, callable at a redemption price equal to 100% of the principal amount plus, in each case, accrued and unpaid interest
7 1/4% Senior Notes	February 2013	February 2023	Callable at any time prior to February 1, 2018, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after February 1, 2018, callable at a redemption price equal to 103.625% of the principal amount; on or after February 1, 2019, callable at a redemption price equal to 102.41% of the principal amount; on or after February 1, 2020, callable at a redemption price equal to 101.208% of the principal amount; on or after February 1, 2021, callable at 100% of the principal amount plus, in each case, accrued and unpaid interest
6 3/4% Senior Notes	March 2017	March 2025	Callable at any time prior to March 15, 2020, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after March 15, 2020, callable at a redemption price equal to 105.063% of the principal amount; on or after March 15, 2021, callable at a redemption price equal to 103.375% of the principal amount; on or after March 15, 2022, callable at a redemption price equal to 101.688% of the principal amount; on or after March 15, 2023, callable at a redemption price equal to 100.000% of the principal amount, plus, in each case, accrued and unpaid interest

During the nine months ended June 30, 2017, we redeemed our outstanding Senior Notes due 2021, as well as the remaining balance on our term loan (discussed below), mainly by utilizing the proceeds received from the 2025 Notes issued during the current fiscal year, which is discussed above, as well as cash on hand. This debt repurchase activity resulted in a loss on extinguishment of debt of $15.6 million during the nine months ended June 30, 2017.

During the three months ended June 30, 2016, we redeemed $9.3 million and $3.0 million of our then outstanding Senior Notes due May 2019 and June 2019, respectively. This debt repurchase activity resulted in a gain on extinguishment of debt of $0.4 million for the three months ended June 30, 2016.
During the nine months ended June 30, 2016, we (1) redeemed our then outstanding Senior Notes due 2016, mainly by utilizing the proceeds received from the term loan issued, which is discussed below; and (2) redeemed $19.1 million and $3.6 million of our then outstanding Senior Notes due May 2019 and Senior Notes due June 2019, respectively. This debt repurchase activity resulted in a net loss on extinguishment of debt of $2.0 million for the nine months ended June 30, 2016.

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Term Loan. In March 2016, we entered into a credit agreement that provided us with a $140 million, two-year secured term loan (the Term Loan). We prepaid the remaining $55.0 million outstanding on the Term Loan in March 2017 with the proceeds of the 2025 Notes, along with cash on hand.

Junior Subordinated Notes. Our unsecured junior subordinated notes (Junior Subordinated Notes) mature on July 30, 2036. The Junior Subordinated Notes are redeemable at par and paid interest at a fixed rate of 7.987% for the first ten years ending July 30, 2016. The securities now have a floating interest rate as defined in the Junior Subordinated Notes Indenture, which was a weighted-average of 4.09% as of June 30, 2017 (because the rate on the portion of the Junior Subordinated Notes that was modified, as discussed subsequently, is subject to a floor). The obligations relating to these notes are subordinated to the Facility and the Senior Notes. In January 2010, we modified the terms of $75.0 million of these notes and recorded them at their then estimated fair value. Over the remaining life of the Junior Subordinated Notes, we will increase their carrying value until this carrying value equals the face value of the notes. As of June 30, 2017, the unamortized accretion was $39.4 million and will be amortized over the remaining life of the notes. As of June 30, 2017, we were in compliance with all covenants under our Junior Subordinated Notes.

Other Secured Notes Payable. We periodically acquire land through the issuance of notes payable. As of June 30, 2017 and September 30, 2016, we had outstanding secured notes payable of $13.9 million and $11.8 million, respectively, primarily related to land acquisitions. These secured notes payable related to land acquisitions have varying expiration dates between 2017 and 2019, and have a weighted-average fixed interest rate of 3.28% as of June 30, 2017. These notes are secured by the real estate to which they relate.

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

(8) Contingencies

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

Warranty Reserves. We provide a limited warranty (ranging from one to two years) covering workmanship and materials per our defined performance quality standards. In addition, we provide a limited warranty for up to ten years covering only certain defined structural element failures.

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

Our warranty reserves are included in other liabilities on our consolidated balance sheets, and the provision for warranty accruals is included in home construction expenses in our consolidated statements of income. We record reserves covering anticipated warranty expense for each home we close. Management reviews the adequacy of warranty reserves each reporting period based on historical experience and management’s estimate of the costs to remediate the claims, and adjusts these provisions accordingly. Our review includes a quarterly analysis of the historical data and trends in warranty expense by operating division. An analysis by division allows us to consider market specific factors such as our warranty experience, the number of home closings, the prices of homes, product mix and other data in estimating our warranty reserves. In addition, our analysis also contemplates the existence of any non-recurring or community-specific warranty-related matters that might not be included in our historical data and trends. While we adjust our estimated warranty liabilities each reporting period to the extent required as a result of our quarterly analyses, historical data and trends may not accurately predict actual warranty costs, which could lead to a

significant change in the reserve.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Balance at beginning of period	$ 25,386	$ 40,903	$ 39,131	$ 27,681
Accruals for warranties issued [a]	3,727	3,567	9,549	9,269
Changes in liability related to warranties existing in prior periods [b]	(1,293)	11,148	6,581	41,801
Payments made [b]	(7,998)	(15,028)	(35,439)	(38,161)
Balance at end of period	$ 19,822	$ 40,590	$ 19,822	$ 40,590

[a] Accruals for warranties issued are a function of the number of home closings in the period, the selling prices of the homes closed and the rates of accrual per home estimated as a percentage of the selling price of the home.
[b] Changes in liability related to warranties existing and payments made are elevated due to charges and subsequent payments related to water intrusion issues in certain of our communities located in Florida (refer to separate discussion below).

Florida Water Intrusion Issues

In the latter portion of fiscal 2014, we began to experience an increase in calls from homeowners reporting stucco and water intrusion issues in certain of our communities in Florida (the Florida stucco issues). These issues continued to be reported to us throughout our fiscal 2015 and fiscal 2016. Other builders were also dealing with stucco issues, some of which also received local media coverage. Through June 30, 2017, we cumulatively recorded charges related to these issues of $84.6 million (of which $11.0 million and $39.6 million were recorded in the three and nine months ended June 30, 2016, respectively). As of September 30, 2016, the accrual to cover outstanding payments and potential repair costs for the impacted homes was $22.6 million, after considering the repair costs already paid. For an additional discussion of this matter and the related expenses recorded in prior periods, refer to Note 9 to the audited consolidated financial statements within our 2016 Annual Report.

During our fiscal 2017, the number of homeowner calls beyond those anticipated based on our procedures and previous call history has continued to trend down. However, largely due to increased cost estimates for repairs of homes discovered in more recent periods, we recorded additional warranty adjustments related to the Florida stucco issues of $6.0 million during the nine months ended June 30, 2017 (the reserve was adjusted downward by $0.1 million during the current quarter). As of June 30, 2017, 709 homes have been identified as likely to require repairs (an increase of 19 homes over those that were anticipated to require repairs as of the end of our fiscal 2016), of which 609 homes have been repaired. We made payments related to the Florida stucco issues of $4.1 million and $21.4 million during the three and nine months ended June 30, 2017, respectively, including payments on fully repaired homes, as well as payments on homes for which remediation is not yet complete, bringing the remaining accrual related to this issue to $7.2 million as of June 30, 2017, which is included in our overall warranty liability detailed above. As of June 30, 2017, other homes in the impacted communities remain within the period of the applicable statute of repose, but as of the end of the current quarter are not deemed likely to require repairs and, accordingly, no reserve has been established for these homes. The cost to repair these homes would be approximately $2.9 million if the current cost estimates were applied to these additional homes.

Our assessment of the Florida stucco issues is ongoing. As a result, we anticipate that the ultimate magnitude of our liability may change as additional information is obtained. Certain visual and other inspections of the homes that could be subject to defect often do not reveal the severity or extent of the defects, which can only be discovered once we receive a homeowner call and begin repairs. The current fiscal year charges were offset by additional insurance recoveries; for a discussion of the amounts we have already recovered or anticipate recovering from our insurers, refer to the “Insurance Recoveries” section below.

In addition, we believe that we will also recover a portion of such repair costs from sources other than our own insurers, including the subcontractors involved with the construction of these homes and their insurers; however, no amounts related to subcontractor recoveries have been recorded in our unaudited condensed consolidated financial statements as of June 30, 2017. Any amounts recovered from our subcontractors related to homes closed during policy years for which we have exceeded the deductible in our insurance policies would be remitted to our insurers, while recoveries in other policy years would be retained by us.

Insurance Recoveries

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

we expect a substantial majority of additional costs incurred for warranty work on homes within these policy years to be reimbursed by our insurers. For two policy years, our exposure has exceeded the insurance claim limit for one division under our first layer of coverage; however, we are claiming and recovering additional amounts under our excess insurance coverage.

Warranty expense beyond the deductibles set in our insurance policies was recorded related to homes impacted by the Florida stucco issues, as well as other various warranty issues that are in excess of our insurance thresholds, during our current fiscal year. We adjust our insurance receivable balance each quarter to reflect our estimate of future costs to be incurred, as well as amounts received from our insurers. These adjustments were a decrease of $0.6 million and an increase of $5.6 million during the three and nine months ended June 30, 2017, respectively, to reflect the amount that we deem probable of receiving. The changes to our insurance receivable fully offset the current three and nine-month period movements in our reserve related to the Florida stucco issues. For the three and nine months ended June 30, 2016, $11.7 million and $47.9 million, respectively, were recorded in insurance recoveries. The recoveries recorded during the nine months ended June 30, 2016 were $3.6 million greater than the underlying expense related to the Florida stucco issues, as we began to recover more costs than initially anticipated. The remaining insurance recovery amount for the three and nine months ended June 30, 2016 beyond the Florida stucco issues related to expenditures for warranty issues that were individually immaterial but were also in excess of our insurance thresholds. Amounts recorded for anticipated insurance recoveries are reflected within our consolidated statements of income as a reduction of our home construction expenses, and associated amounts not yet received from our insurer are recorded on a gross basis (i.e. not net of any associated warranty expense) as a receivable within accounts receivable on our consolidated balance sheets.

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

Additionally, we entered into agreements with our third-party insurer during three months ended June 30, 2016 to resolve certain issues related to the extent of our insurance coverage for multiple policy years. These agreements resulted in our recognition of $15.5 million in further insurance recoveries (in addition to those discussed above), which was recorded within our unaudited consolidated statements of income as a reduction of our home construction expenses.

Litigation

From time-to-time, we receive claims from institutions that have acquired mortgages originated by our subsidiary, Beazer Mortgage Corporation (BMC), demanding damages or indemnity or that we repurchase such mortgages. BMC stopped originating mortgages in 2008. We have been able to resolve these claims for no cost or for amounts that are not material to our consolidated financial statements. We cannot rule out the potential for additional mortgage loan repurchase or indemnity claims in the future from other investors. At this time, we do not believe that the exposure related to any such claims would be material to our consolidated financial condition, results of operations or cash flows. As of June 30, 2017, no liability has been recorded for any additional claims related to this matter, as such exposure is not both probable and reasonably estimable.

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

Other Matters

During January 2017, we made our final payment under the Deferred Prosecution Agreement and associated Bill of Information (the DPA) entered into on July 1, 2009 with the United States Attorney for the Western District of North

Carolina and a separate but related agreement with the United States Department of Housing and Urban Development (HUD) and the Civil Division of the United States Department of Justice (the HUD Agreement). For a further discussion of the HUD Agreement, refer to Note 9 to the audited consolidated financial statements within our 2016 Annual Report. During the three and nine months ended June 30, 2016, we accrued $1.9 million and $4.2 million, respectively, related to the HUD Agreement, which was recorded within general and administrative expenses (G&A) in our consolidated statement of income.

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

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covered in whole or in part by insurance. In our opinion, based on our current assessment, the ultimate resolution of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows. We have an accrual of $4.4 million and $10.2 million in other liabilities on our consolidated balance sheets for litigation and related matters, excluding warranty, as of June 30, 2017 and September 30, 2016, respectively.
We had outstanding letters of credit and performance bonds of approximately $51.0 million and $208.6 million, respectively, as of June 30, 2017, related principally to our obligations to local governments to construct roads and other improvements in various developments. We have an immaterial amount of outstanding letters of credit relating to our land option contracts as of June 30, 2017.

(9) Fair Value Measurements

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

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

Certain of our assets are required to be recorded at fair value on a recurring basis. The fair value of our deferred compensation plan assets is based on market-corroborated inputs (Level 2).
Certain of our assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value of these assets may not be recovered. We review our long-lived assets, including inventory, for recoverability when factors indicate an impairment may exist, but no less than quarterly. Fair value of assets deemed to be impaired is determined based upon the type of asset being evaluated. The fair value of our owned inventory assets, when required to be calculated, is discussed within Notes 2 and 5. The fair value of our investments in unconsolidated entities is determined primarily using a discounted cash flow model to value the underlying net assets of the respective entities. Due to the substantial use of unobservable inputs in valuing the assets on a non-recurring basis, they are classified within Level 3.
Determining which hierarchical level an asset or liability falls within requires significant judgment. We evaluate our hierarchy disclosures each quarter.
The following table presents the period-end balances of our assets measured at fair value on a recurring basis, and the impairment-date fair value of certain assets measured at fair value on a non-recurring basis, for each hierarchy level. These balances represent only those assets whose carrying values were adjusted to fair value during the periods presented:

(In thousands)	Level 1	Level 2	Level 3		Total
Nine Months Ended June 30, 2017					
Deferred compensation plan assets [a]	$ —	$1,059	$ —		$1,059
Land held for sale [b]	—	—	325	[c]	325
Nine Months Ended June 30, 2016					
Deferred compensation plan assets [a]	$ —	$696	$ —		$696
Development projects in progress [b]	—	—	34,418	[c]	34,418
Land held for sale [b]	—	—	16,473	[c]	16,473
As of September 30, 2016					
Deferred compensation plan assets [a]	$ —	$765	$ —		$765

[a] Measured at fair value on a recurring basis.
[b] Measured at fair value on a non-recurring basis.
[c] Amounts represent the impairment-date fair value of certain development projects in progress and land held for sale assets that were impaired during the nine months ended June 30, 2017 and 2016.

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The fair value of our cash and cash equivalents, restricted cash, accounts receivable, trade accounts payable, other liabilities and amounts due under the Facility (if outstanding) approximate their carrying amounts due to the short maturity of these assets and liabilities. When outstanding, obligations related to land not owned under option agreements approximate fair value.

The following table presents the carrying value and estimated fair value of certain of our other financial liabilities as of June 30, 2017 and September 30, 2016:

	As of June 30, 2017		As of September 30, 2016	
(In thousands)	Carrying Amount [a]	Fair Value	Carrying Amount [a]	Fair Value
Senior Notes [b]	$1,259,258	$1,363,124	$1,207,526	$1,253,614
Term Loan	N/A [c]	N/A	52,669	52,669
Junior Subordinated Notes	61,420	61,420	59,870	59,870
	$1,320,678	$1,424,544	$1,320,065	$1,366,153

[a] Carrying amounts are net of unamortized debt premium/discounts, debt issuance costs or accretion.

[b] The estimated fair value for our publicly-held Senior Notes has been determined using quoted market rates (Level 2).

[c] N/A - Not applicable

(10) Income Taxes

Income Tax Provision. Our income tax provision for quarterly interim periods is based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Our total income tax provision, including discontinued operations, was a tax expense of $5.7 million and a tax benefit of $1.3 million for the three and nine months ended June 30, 2017, respectively, compared to an income tax expense of $5.2 million and $1.8 million for the three and nine months ended June 30, 2016, respectively. Our current fiscal year income tax benefit was primarily driven by (1) the loss incurred from continuing operations; and (2) the Company's completion of work necessary to claim an additional $1.3 million in tax credits, which were recorded in the current fiscal year but related to our fiscal 2016; partially offset by (3) several discrete tax expenses, including a prior period balance due for one of our operating jurisdictions based on new information received. The tax expense for the nine months ended June 30, 2016 was primarily driven by our earnings from continuing operations offset by the Company's completion of work necessary to claim an additional $1.6 million in tax credits, which were recorded in our fiscal 2016 but related to our fiscal 2015.

Deferred Tax Assets and Liabilities. The Company continues to evaluate its deferred tax assets each period to determine if a valuation allowance is required based on whether it “is more likely than not” that some portion of these deferred tax assets will not be realized. As of September 30, 2016 and again as of June 30, 2017, we concluded that it is more likely than not that a substantial portion of our deferred tax assets will be realized. As of June 30, 2017, our conclusions on the valuation allowance of $66.3 million and Internal Revenue Code Section 382 limitations related to our deferred tax assets remain consistent with the determinations we made during the period ended September 30, 2016, and are based on similar company specific and industry factors to those discussed in Note 13 to the audited consolidated financial statements within our 2016 Annual Report.

(11) Stock-based Compensation

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Stock options expense	$53	$135	$215	$385
Restricted stock awards expense	2,757	1,921	7,112	5,459
Before tax stock-based compensation expense	2,810	2,056	7,327	5,844
Tax benefit	(1,001)	(1,043)	(2,608)	(2,891)

After tax stock-based compensation expense	$1,809	$1,013	$4,719	$2,953

During the nine months ended June 30, 2017 and 2016, employees surrendered 31,359 shares and 15,707 shares, respectively, to us in payment of minimum tax obligations upon the vesting of stock awards under our stock incentive plans. We valued this stock at the market price on the date of surrender, for an aggregate value of approximately $403,000 and $205,000 for the nine months ended June 30, 2017 and 2016, respectively.

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Stock Options. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model (Black-Scholes Model). The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price. As of June 30, 2017, the intrinsic value of our stock options outstanding, vested and expected to vest and exercisable were $0.8 million, $0.8 million and $0.4 million, respectively. As of June 30, 2017 and September 30, 2016, there were $0.3 million and $0.4 million, respectively, of total unrecognized compensation cost related to nonvested stock options. The cost remaining as of June 30, 2017 is expected to be recognized over a weighted-average period of 1.6 years.

During the nine months ended June 30, 2017, we issued 29,410 stock options, each for one share of the Company's stock. These stock options typically vest ratably over three years from the date of grant, or two years from the date of grant if issued under the Employee Stock Option Program (EOP; refer to Note 16 of the notes to the consolidated financial statements in our 2016 Annual Report). We used the following assumptions for stock options granted, which derived the weighted average fair value shown, for the period presented:

	Nine Months Ended June 30, 2017	
Expected life of options	5.4 years	
Expected volatility	50.10	%
Expected dividends	—	
Weighted average risk-free interest rate	1.85	%
Weighted average fair value	$ 5.83	

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

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

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2017	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	688,175	$ 16.39	672,669	$ 16.49
Granted	—	—	29,410	12.50
Expired	(84,976)	28.45	(84,976)	28.45
Forfeited	(3,085)	7.54	(16,989)	11.93
Outstanding at end of period	600,114	$ 14.73	600,114	$ 14.73
Exercisable at end of period	478,967	$ 15.93	478,967	$ 15.93

Vested or expected to vest in the future	596,309	$ 14.78	596,309	$ 14.78

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

Compensation cost arising from restricted stock awards granted to employees is recognized as an expense using the straight-line method over the vesting period. As of June 30, 2017 and September 30, 2016, there was $11.2 million and $11.0 million, respectively, of total unrecognized compensation cost related to nonvested restricted stock awards. The cost remaining as of June 30, 2017 is expected to be recognized over a weighted average period of 1.7 years.

We issued two types of restricted stock awards during the nine months ended June 30, 2017 as follows: (1) performance-based restricted stock awards with a payout based on the Company's performance and certain market conditions; and (2) time-based restricted stock awards. Each award type is discussed further below.

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Performance-Based Restricted Stock Awards. During the nine months ended June 30, 2017, we issued 263,696 shares of performance-based restricted stock (2017 Performance Shares) to our executive officers and certain other employees that also have market conditions. The 2017 Performance Shares are structured to be awarded based on the Company's performance under three pre-determined financial metrics at the end of the three-year performance period. After determining the number of shares earned based on these financial metrics, which can range from 0% to 175% of the targeted number of shares, the award will be subject to further upward or downward adjustment by as much as 20% based on the Company's relative total shareholder return (TSR) compared against the S&P Homebuilders Select Industry Index during the three-year performance period. The 2017 Performance Shares were valued using the Monte Carlo valuation model due to the existence of the TSR market condition and had an estimated fair value of $13.60 per share on the date of grant.

A Monte Carlo valuation model requires the following inputs: (1) the expected dividend yield on the underlying stock; (2) the expected price volatility of the underlying stock; (3) the risk-free interest rate for the period corresponding with the expected term of the award; and (4) the fair value of the underlying stock. For the Company and each member of the peer group, the following inputs were used in the Monte Carlo valuation model to determine the fair value as of the grant date for the 2017 Performance Shares: 0% dividend yield for the Company; expected price volatility ranging from 32.6% to 66.0%; and a risk-free interest rate of 1.30%. The methodology used to determine these assumptions is similar to the Black-Scholes Model; however, the expected term is determined by the model in the Monte Carlo simulation.

Each Performance Share represents a contingent right to receive one share of the Company's common stock if vesting is satisfied at the end of the three-year performance period. Any 2017 Performance Shares earned in excess of the target number of 263,696 shares may be settled in cash or additional shares at the discretion of the Compensation Committee of our Board of Directors. Any portion of these that do not vest at the end of the period will be forfeited.

Time-Based Restricted Stock Awards. During nine months ended June 30, 2017, we also issued 271,855 shares of time-based restricted stock (Restricted Shares) to our directors, executive officers and certain other employees. The Restricted Shares granted to our non-employee directors vest on the one-year anniversary of the date of grant, while the Restricted Shares granted to our executive officers and other employees vest ratably on each anniversary over three years from the date of grant.

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

	Three Months Ended June 30, 2017					
	Performance-Based Restricted Stock		Time-Based Restricted Stock		Total Restricted Stock	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of period	683,699	$ 15.72	891,703	$ 16.43	1,575,402	$ 16.12
Granted	—	—	2,453	11.89	2,453	11.89
Vested	—	—	(3,416)	17.77	(3,416)	17.77
End of period	683,699	$ 15.72	890,740	$ 16.42	1,574,439	$ 16.12

	Nine Months Ended June 30, 2017					
	Performance-Based Restricted Stock		Time-Based Restricted Stock		Total Restricted Stock	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of period	448,693	$ 16.71	807,124	$ 17.52	1,255,817	$ 17.23

Granted	263,696	13.60	271,855	12.50	535,551	13.04
Vested	—	—	(187,146)	15.53	(187,146)	15.53
Forfeited	(28,690)	11.65	(1,093)	19.07	(29,783)	11.92
End of period	683,699	$ 15.72	890,740	$ 16.42	1,574,439	$ 16.12

(12) Earnings Per Share

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

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The Company reported a net loss for the nine months ended June 30, 2017, but net income for the remaining periods presented. Accordingly, for the nine months ended June 30, 2017, all common stock equivalents were excluded from the computation of diluted loss per share because inclusion would have resulted in anti-dilution. For the three and nine months ended June 30, 2017, 0.5 million and 1.6 million shares related to nonvested stock-based compensation awards, respectively, were excluded from our calculation of diluted income per share as a result of their anti-dilutive effect. For both the three and nine months ended June 30, 2016, 1.5 million shares related to nonvested stock-based compensation awards were excluded from our calculation of diluted income per share as a result of their anti-dilutive effect.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Basic shares	31,971	31,813	31,944	31,793
Shares issuable upon vesting/exercise of stock awards/options	404	7	N/A	4
Diluted shares	32,375	31,820	31,944	31,797

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

(13) Other Liabilities

Our other liabilities include the following as of June 30, 2017 and September 30, 2016:

(In thousands)	June 30, 2017	September 30, 2016
Accrued interest	$25,890	$ 11,530
Accrued bonuses and deferred compensation	25,740	30,466
Accrued warranty expense	19,822	39,131
Customer deposits	16,032	12,140
Litigation accrual	4,351	10,178
Income tax liabilities	2,344	1,718
Other	25,475	29,090
Total other liabilities	$119,654	$ 134,253

(14) Segment Information

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

West: Arizona, California, Nevada and Texas

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

Southeast: Florida, Georgia, North Carolina and South Carolina

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

Management's evaluation of segment performance is based on segment operating income. Operating income for our homebuilding segments is defined as homebuilding, land sale and other revenues less home construction, land development and land sales expense, commission expense, depreciation and amortization and certain G&A expenses that are incurred by or allocated to our homebuilding segments. The accounting policies of our segments are described in Note 2 to the consolidated financial statements within our 2016 Annual Report.

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(In thousands)	2017	2016	2017	2016
Revenue				
West	$208,394	$205,983	$565,298	$543,109
East	135,246	140,717	336,045	348,109
Southeast	134,948	113,237	341,954	298,775
Total revenue	$478,588	$459,937	$1,243,297	$1,189,993

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(In thousands)	2017	2016	2017	2016
Operating income [a]				
West	$27,724	$23,822	$69,518	$59,535
East [b]	14,544	7,097	26,633	19,577
Southeast [c]	14,520	10,022	32,109	28,417
Segment total	56,788	40,941	128,260	107,529
Corporate and unallocated [d]	(41,219)	(24,632)	(103,905)	(79,042)
Total operating income	$15,569	$16,309	$24,355	$28,487

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(In thousands)	2017	2016	2017	2016
Depreciation and amortization				
West	$1,641	$1,475	$4,434	$4,025
East	742	764	1,869	2,195
Southeast	646	603	1,768	1,599
Segment total	3,029	2,842	8,071	7,819
Corporate and unallocated [d]	278	545	1,068	1,615
Total depreciation and amortization	$3,307	$3,387	$9,139	$9,434

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

[b] Operating income for our East segment for the nine months ended June 30, 2017 was impacted by a charge to G&A of $2.7 million related to the write-off of a deposit on a legacy investment in a development site that we deemed noncollectible.

[c] Operating income for our Southeast segment for the nine months ended June 30, 2016 was impacted by unexpected warranty costs related to the Florida stucco issues, net of expected insurance recoveries. This impact was a credit of $3.6 million.

[d] Corporate and unallocated operating loss includes amortization of capitalized interest; movement in capitalized indirects; expenses related to numerous shared services functions that benefit all segments but are not allocated to the operating segments reported above, including information technology, treasury, corporate finance, legal, branding and national marketing; and certain other amounts that are not allocated to our operating segments. For the three and nine months ended June 30, 2016, the Corporate and unallocated operating loss includes a $15.5 million reduction in cost of sales resulting from an agreement entered into during that quarter with our third-party insurer to resolve certain

issues related to the extent of our insurance coverage (see Note 8).
Corporate and unallocated depreciation and amortization represents depreciation and amortization related to assets held by our corporate functions that benefit all segments.

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

(In thousands)	Nine Months Ended June 30, 2017	2016
Capital Expenditures		
West	$4,659	$5,189
East	2,073	1,928
Southeast	1,705	2,323
Corporate and unallocated	224	278
Total capital expenditures	$8,661	$9,718

The following table contains our asset balance by segment as of June 30, 2017 and September 30, 2016:

(In thousands)	June 30, 2017	September 30, 2016
Assets		
West	$819,680	$ 778,521
East	331,138	344,898
Southeast	354,629	333,501
Corporate and unallocated [a]	716,178	756,238
Total assets	$2,221,625	$ 2,213,158

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

(15) Supplemental Guarantor Information

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

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

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	$ 169,331	$ 5,540	$ 878	$ (7,368)	$ 168,381
Restricted cash	11,348	1,387	—	—	12,735
Accounts receivable (net of allowance of $176)	—	39,814	2	—	39,816
Income tax receivable	380	—	—	—	380
Owned inventory	—	1,655,853	—	—	1,655,853
Investments in unconsolidated entities	773	3,077	—	—	3,850
Deferred tax assets, net	312,370	—	—	—	312,370
Property and equipment, net	—	18,658	—	—	18,658
Investments in subsidiaries	753,894	—	—	(753,894)	—
Intercompany	749,285	—	2,352	(751,637)	—
Other assets	667	8,900	15	—	9,582
Total assets	$ 1,998,048	$ 1,733,229	$ 3,247	$ (1,512,899)	$ 2,221,625
LIABILITIES AND STOCKHOLDERS' EQUITY					
Trade accounts payable	$ —	$ 119,408	$ —	$ —	$ 119,408
Other liabilities	27,078	92,177	399	—	119,654
Intercompany	2,352	756,653	—	(759,005)	—
Total debt (net of premium and debt issuance costs)	1,320,678	13,945	—	—	1,334,623
Total liabilities	1,350,108	982,183	399	(759,005)	1,573,685
Stockholders' equity	647,940	751,046	2,848	(753,894)	647,940
Total liabilities and stockholders' equity	$ 1,998,048	$ 1,733,229	$ 3,247	$ (1,512,899)	$ 2,221,625

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Beazer Homes USA, Inc.
Unaudited Condensed Consolidating Balance Sheet Information
September 30, 2016
(In thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	$ 215,646	$ 16,866	$ 859	$ (4,500)	$ 228,871
Restricted cash	12,867	1,538	—	—	14,405
Accounts receivable (net of allowance of $354)	—	53,225	1	—	53,226
Income tax receivable	292	—	—	—	292
Owned inventory	—	1,569,279	—	—	1,569,279
Investments in unconsolidated entities	773	9,697	—	—	10,470
Deferred tax assets, net	309,955	—	—	—	309,955
Property and equipment, net	—	19,138	—	—	19,138
Investments in subsidiaries	701,931	—	—	(701,931)	—
Intercompany	734,766	—	2,574	(737,340)	—
Other assets	577	6,930	15	—	7,522
Total assets	$ 1,976,807	$ 1,676,673	$ 3,449	$ (1,443,771)	$ 2,213,158
LIABILITIES AND STOCKHOLDERS' EQUITY					
Trade accounts payable	$ —	$ 104,174	$		