BEAZER HOMES USA INC
Form 10-Q
May 12, 2008

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2007

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 1200, Atlanta, Georgia 30328
(Address of principal executive offices) (Zip Code)
(770) 829-3700
(Registrant's telephone number, including area code)

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

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

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

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

Class	Outstanding at April

	25, 2008
Common Stock, $0.001 par value	39,234,305 shares

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

EXPLANATORY NOTE
Restatement of Consolidated Financial Results

In April 2007, the Audit Committee of the Board of Directors initiated an independent investigation of our mortgage origination business through independent legal counsel and independent forensic accountants. During the course of this investigation, the Audit Committee determined that our mortgage origination practices related to certain loans in prior periods violated certain applicable federal and/or state origination requirements. During the course of the investigation, the Audit Committee also discovered accounting and financial reporting errors and/or irregularities that required restatement resulting primarily from (1) inappropriate accumulation of reserves and/or accrued liabilities associated with land development and house costs (“Inventory Reserves”) and the subsequent improper release of such reserves and accrued liabilities and (2) inaccurate revenue recognition with respect to certain model home sale-leaseback transactions. In conjunction with the restatement of the items above, we also made corresponding capitalized interest, capitalized indirect costs and income tax adjustments to our unaudited condensed consolidated financial statements as these balances were impacted by the aforementioned adjustments. We also made other adjustments to our unaudited condensed consolidated financial statements relating to corrections of accounting and financial reporting errors and/or irregularities, some errors previously identified, but historically not considered to be material to require correction, and some errors and irregularities discovered as part of the restatement process, consisting of (1) reclassifying model home furnishings and sales office leasehold improvements from owned inventory to property, plant and equipment, net in the amount of $47.0 million at September 30, 2006; (2) reclassifying depreciation and amortization of model home furnishings and sales office leasehold improvements from home construction and land sales expenses to depreciation and amortization in the amounts of $7.3 million and $21.3 million for the three and nine months ended June 30, 2006, respectively; (3) recognizing total revenue ($11.6 million) and home construction and land sales expenses ($8.7 million) for the nine months ended June 30, 2006 related to inappropriate revenue recognition timing in the fiscal year ended September 30, 2005 and 2006 first and second quarters for certain home closings in California; (4) reclassifying the results of operations from our title services from other income, net ($1.6 million and $4.8 million) to total revenue ($2.5 million and $7.1 million) and selling, general and administrative (“SG&A”) expenses ($1.0 million and $2.4 million) for the three and nine months ended June 30, 2006, respectively; (5) reclassifying $5.0 million from restricted cash at September 30, 2006 to cash and cash equivalents as such amount was determined not to be restricted; (6) recognizing the reversal of a previously presented $13.9 million reduction in the Trinity moisture intrusion reserves through home construction and land sales expenses in the three months ended March 31, 2006 instead of the previously presented reversal of $13.9 million in the three months ended June 30, 2006; (7) certain other miscellaneous immaterial adjustments; and (8) the related tax effects of the adjustments described in (1) through (7) above.

As discussed in Note 12 to the accompanying unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, we have restated our unaudited condensed consolidated financial statements and the related disclosures for the three and nine months ended June 30, 2006 and as of September 30, 2006. Specifically, we have restated our unaudited condensed consolidated balance sheets as of September 30, 2006, the related unaudited condensed consolidated statements of operations, including related disclosures, for the three and nine months ended June 30, 2006 and the related unaudited condensed consolidated statement of cash flows for the nine months ended June 30, 2006. The accompanying Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2, has been updated to reflect the effects of the restatement.

We are concurrently filing our Annual Report on Form 10-K for the fiscal year ended September 30, 2007, the Quarterly Reports on Form 10-Q/A for the fiscal quarters ended December 31, 2006 and March 31, 2007 with this June 30, 2007 Form 10-Q, all of which contain restated financial statements for the comparative periods of fiscal

2007, 2006 and 2005, as applicable.

For additional discussion of the Audit Committee's investigation, the accounting errors and irregularities identified, and the adjustments made as a result of the restatements, see Notes 8 and 12 to the Unaudited Condensed Consolidated Financial Statements. For a description of the material weaknesses identified by management as a result of the investigation and our internal reviews, and management's plan to remediate those material weaknesses, see Part I, Item 4 – Controls and Procedures.

FORWARD-LOOKING STATEMENTS

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

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

- the timing and final outcome of the United States Attorney investigation, the Securities and Exchange Commission's ("SEC") investigation and other state and federal agency investigations, the putative class action lawsuits, the derivative claims, multi-party suits and similar proceedings as well as the results of any other litigation or government proceedings;
- material weaknesses in our internal control over financial reporting;
- additional asset impairment charges or writedowns;
- economic changes nationally or in local markets, including changes in consumer confidence, volatility of mortgage interest rates and inflation;
- continued or increased downturn in the homebuilding industry;
- estimates related to homes to be delivered in the future (backlog) are imprecise as they are subject to various cancellation risks which cannot be fully controlled;
- continued or increased disruption in the availability of mortgage financing;
- our cost of and ability to access capital and otherwise meet our ongoing liquidity needs including the impact of any further downgrades of our credit ratings;
- potential inability to comply with covenants in our debt agreements;
- continued negative publicity;
- increased competition or delays in reacting to changing consumer preference in home design;
- shortages of or increased prices for labor, land or raw materials used in housing production;
- factors affecting margins such as decreased land values underlying land option agreements, increased land development costs on projects under development or delays or difficulties in implementing initiatives to reduce production and overhead cost structure;
- the performance of our joint ventures and our joint venture partners;
- the impact of construction defect and home warranty claims and the cost and availability of insurance, including the availability of insurance for the presence of moisture intrusion;
- a material failure on the part of our subsidiary Trinity Homes LLC to satisfy the conditions of the class action settlement agreement, including assessment and remediation with respect to moisture intrusion related issues;
- delays in land development or home construction resulting from adverse weather conditions;
- potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations, or governmental policies and possible penalties for failure to comply with such laws, regulations and governmental policies;
- effects of changes in accounting policies, standards, guidelines or principles; or
- terrorist acts, acts of war and other factors over which the Company has little or no control.

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

BEAZER HOMES USA, INC.
FORM 10-Q

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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, 2007	September 30, 2006 As Restated, See Note 12
ASSETS		
Cash and cash equivalents	$ 123,909	$ 167,570
Restricted cash	5,492	4,873
Accounts receivable	72,941	338,033
Income tax receivable	42,209	-
Inventory		
Owned inventory	2,906,689	3,137,021
Consolidated inventory not owned	412,533	471,441
Total Inventory	3,319,222	3,608,462
Residential mortgage loans available-for-sale	24,354	92,157
Investments in unconsolidated joint ventures	132,922	124,799
Deferred tax assets	179,436	71,344
Property, plant and equipment, net	77,123	76,454
Goodwill	91,616	121,368
Other assets	122,018	109,611
Total Assets	$ 4,191,242	$ 4,714,671
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$ 92,061	$ 140,008
Other liabilities	474,440	557,754
Obligations related to consolidated inventory not owned	263,050	330,703
Senior Notes (net of discounts of $3,151 and $3,578, respectively)	1,521,849	1,551,422
Junior subordinated notes	103,093	103,093
Warehouse Line	20,774	94,881
Other secured notes payable	121,372	89,264
Model home financing obligations	116,522	117,079
Total Liabilities	2,713,161	2,984,204
Stockholders' Equity:		
Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued)	-	-
Common stock (par value $.001 per share, 80,000,000 shares authorized, 42,539,215 and 42,318,098 issued and		

39,208,887 and 38,889,554 outstanding, respectively)	43	42
Paid-in capital	538,886	529,326
Retained earnings	1,123,003	1,390,552
Treasury stock, at cost (3,330,328 and 3,428,544 shares, respectively)	(183,851)	(189,453)
Total Stockholders' Equity	1,478,081	1,730,467
Total Liabilities and Stockholders' Equity	$ 4,191,242	$ 4,714,671

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006 As Restated, See Note 12	2007	2006 As Restated, See Note 12
Total revenue	$ 758,146	$ 1,191,952	$ 2,390,014	$ 3,528,635
Home construction and land sales expenses	643,954	895,565	2,012,150	2,602,009
Inventory impairments and option contract abandonments	154,244	10,721	399,856	20,352
Gross (loss) profit	(40,052)	285,666	(21,992)	906,274
Selling, general and administrative expenses	104,131	151,027	325,515	429,765
Depreciation and amortization	7,880	9,919	23,169	29,038
Goodwill impairment	29,752	-	29,752	-
Operating (loss) income	(181,815)	124,720	(400,428)	447,471
Equity in (loss) income of unconsolidated joint ventures	(939)	1,127	(7,012)	1,809
Other income (loss), net	2,731	(73)	8,055	2,458
(Loss) income before income taxes	(180,023)	125,774	(399,385)	451,738
(Benefit from) provision for income taxes	(61,276)	44,165	(143,544)	166,609
Net (loss) income	$ (118,747)	$ 81,609	$ (255,841)	$ 285,129
Weighted average number of shares:				
Basic	38,459	39,435	38,388	40,281
Diluted	38,459	43,929	38,388	44,909
Earnings per share:				
Basic	$ (3.09)	$ 2.07	$ (6.66)	$ 7.08
Diluted	$ (3.09)	$ 1.89	$ (6.66)	$ 6.44
Cash dividends per share	$ 0.10	$ 0.10	$ 0.30	$ 0.30

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended June 30,	
	2007	2006 As Restated, See Note 12
Cash flows from operating activities:		
Net (loss) income	$ (255,841)	$ 285,129
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	23,169	29,038
Stock-based compensation expense	7,406	11,446
Inventory impairments and option contract abandonments	399,856	20,352
Goodwill impairment	29,752	-
Deferred income tax (benefit) provision	(108,092)	22,581
Tax benefit from stock transactions	(3,212)	(8,438)
Equity in loss (income) of unconsolidated joint ventures	7,012	(1,809)
Cash distributions of income from unconsolidated joint ventures	3,625	-
Changes in operating assets and liabilities:		
Decrease in accounts receivable	265,092	37,625
Increase in income tax receivable	(42,209)	-
Increase in inventory	(116,057)	(823,012)
Decrease (increase) in residential mortgage loans available-for-sale	67,803	(31,267)
Increase in other assets	(12,083)	(27,705)
(Decrease) increase in trade accounts payable	(47,947)	5,570
Decrease in other liabilities	(97,175)	(135,132)
Other changes	950	(26)
Net cash provided by (used in) operating activities	122,049	(615,648)
Cash flows from investing activities:		
Capital expenditures	(23,948)	(39,080)
Investments in unconsolidated joint ventures	(18,666)	(44,875)
Changes in restricted cash	(619)	-
Distributions from unconsolidated joint ventures	1,732	3,911
Net cash (used in) investing activities	(41,501)	(80,044)
Cash flows from financing activities:		
Borrowings under credit facilities and warehouse line	130,031	1,365,031
Repayment of credit facilities and warehouse line	(204,138)	(1,313,220)
Repayment of other secured notes payable	(14,431)	(13,555)
Borrowings under senior notes	-	275,000
Borrowings under junior subordinated notes	-	103,093
Repurchase of senior notes	(30,413)	-
Borrowings under model home financing obligations	5,061	67,355
Repayment of model home financing obligations	(5,618)	(286)
Debt issuance costs	(324)	(5,931)
Proceeds from stock option exercises	4,423	7,107
Common stock redeemed	(304)	(1,924)

Treasury stock purchases	-	(183,329)
Tax benefit from stock transactions	3,212	8,438
Dividends paid	(11,708)	(12,250)
Net change in book overdraft	-	127,431
Net cash (used in) provided by financing activities	(124,209)	422,960
Decrease in cash and cash equivalents	(43,661)	(272,732)
Cash and cash equivalents at beginning of period	167,570	297,098
Cash and cash equivalents at end of period	$ 123,909	$ 24,366

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(1) Summary of Significant Accounting Policies

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

Reclassifications. Inventory impairments and option contract abandonments in the amounts of $7.8 million and $20.4 million for the three and nine months ended June 30, 2006, respectively, have been reclassified from home construction and land sales expenses to inventory impairments and option contract abandonments in the accompanying unaudited condensed consolidated statements of operations to conform to the current fiscal 2007 presentation. Depreciation and amortization in the amounts of $2.6 million and $7.7 million for the three and nine months ended June 30, 2006 have been reclassified from selling, general and administrative expenses to depreciation and amortization in the accompanying unaudited condensed consolidated statements of operations to conform to the current fiscal 2007 presentation.

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

Nonvested stock granted to employees is valued based on the market price of the common stock on the date of the grant. Performance based, nonvested stock granted to employees is valued using the Monte Carlo valuation method.

A Monte Carlo simulation model requires the following inputs, as of the modification date: (1) expected dividend yield on the underlying stock, (2) expected price volatility of the underlying stock, (3) risk-free interest rate for a period corresponding with the expected term of the option and (4) fair value of the underlying stock. The methodology used to determine these assumptions is similar as for the Black-Scholes Model discussed above; however, the expected term is determined by the model in the Monte-Carlo simulation.

For Beazer Homes and each member of the peer group, the following inputs were used in the Monte Carlo simulation model to determine fair value as of the grant date for the performance-based, nonvested awards: risk-free interest rate ranging from 4.54% to 4.8% for 2007 grants and 4.53% to 4.55% for 2006 grants; expected aggregate discrete dividends during the performance period ($0.10 per quarter for Company all grants); and expected annualized volatility ranging from 35.16% to 38.14% for the Company's 2007 grants and from 34.3% to 42.9% for the Company's 2006 grants.

Compensation cost arising from nonvested stock granted to employees and from non-employee stock awards is recognized as an expense using the straight-line method over the vesting period. Unearned compensation is now included in paid-in capital in accordance with SFAS 123R. As of June 30, 2007, there was $23.6 million of total unrecognized compensation cost related to nonvested stock. That cost is expected to be recognized over a weighted average period of 3.9 years. For the three and nine months ended June 30, 2007, our total stock-based compensation expense, included in selling, general and administrative expenses (“SG&A”), was approximately $3.5 million ($2.4 million net of tax) and $7.4 million ($5.0 million net of tax). Stock compensation expense for the three and nine months ended June 30, 2007 includes the reversal of approximately $550,000 and $3.9 million, respectively, of previously recorded stock compensation expense as a result of unvested stock-based award forfeitures. Stock-based compensation expense for the three and nine months ended June 30, 2006 was $5.5 million ($3.7 million net of tax) and $11.4 million ($7.8 million net of tax), respectively.

Activity relating to nonvested stock awards for the three and nine months ended June 30, 2007 is as follows.

	Three Months Ended June 30, 2007		Nine Months Ended June 30, 2007	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning of period	920,154	$ 48.85	974,457	$ 50.66
Granted	105,882	34.08	287,436	39.12
Vested	(12,108)	40.91	(35,730)	45.87
Forfeited	(35,891)	42.91	(248,126)	50.19
End of period	978,037	$ 47.57	978,037	$ 47.57

In addition, during the three and nine months ended June 30, 2007, employees surrendered 5,542 and 8,766 shares, respectively, to us in payment of minimum tax obligations upon the vesting of nonvested stock under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of approximately $164,000 and $304,000, or approximately $29.68 and $34.70 per share, respectively.

The fair value of each grant during the three and nine months ended June 30, 2007 was estimated on the date of grant using the Black-Scholes option-pricing model. Expected life of options/SSARs granted was computed using the mid-point between the vesting period and contractual life of the options/SSARs and was a weighted average of 5.25 years. Expected volatilities were based on the historical volatility of the Company's stock and other factors and ranged from 59.8% to 61.7%. Expected discrete dividends of $0.10 per quarter were assumed in lieu of a continuously compounding dividend yield. The weighted average risk-free interest rate ranged from 4.54% to 4.76%.

The following table summarizes stock options and SSARs outstanding as of June 30, 2007, as well as activity during the three and nine months then ended:

	Three Months Ended June 30, 2007		Nine Months Ended June 30, 2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	1,877,799	$ 46.39	2,135,572	$ 43.82
Granted	264,706	34.00	538,594	38.61
Exercised	(15,000)	27.73	(312,501)	14.15
Forfeited	(44,747)	43.84	(278,907)	58.20
Outstanding at end of period	2,082,758	$ 45.00	2,082,758	$ 45.00
Exercisable at end of period	623,194	$ 26.41	623,194	$ 26.41
Vested and expected to vest in the future	1,728,032	$ 42.64	1,728,032	$ 42.64

At June 30, 2007, the weighted-average remaining contractual life for all options/SSARs outstanding, currently exercisable, and vested or expected to vest in the future was 5.41 years, 4.43 years and 5.40 years, respectively.

At June 30, 2007, 1,728,032 SSARs/Options were vested or expected to vest in the future with a weighted average exercise price of $42.64 and a weighted average expected life of 3.44 years. At June 30, 2007, the aggregate intrinsic value of SSARs/options outstanding, vested and expected to vest in the future and SSARs/options exercisable was approximately $1.3 million. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the stock option. The intrinsic value of stock options exercised during the three and nine months ended June 30, 2007 was approximately $117,000 and $8.7 million, respectively.

Recent Accounting Pronouncements. In 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN 48 defines the threshold for recognizing the benefits of tax return positions as well as guidance regarding the measurement of the resulting tax benefits. FIN 48 requires a company to recognize for financial statement purposes the impact of a tax position, if a tax return position is “more likely than not” to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective as of the beginning of our fiscal year ending September 30, 2008, with the cumulative effect of the change recorded as an adjustment to retained earnings. We estimate that the cumulative effect upon adoption of FIN 48 will decrease retained earnings by approximately $10 million.

On November 29, 2006, the FASB ratified EITF Issue No. 06-8, Applicability of the Assessment of a Buyer’s Continuing Investment Under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums. The EITF states that the adequacy of the buyer’s continuing investment under SFAS 66 should be assessed in determining whether to recognize profit under the percentage-of-completion method on the sale of individual units in a condominium project. This consensus could require that additional deposits be collected by developers of condominium projects that wish to recognize profit during the construction period under the percentage-of-completion method. EITF 06-8 is effective for fiscal years beginning after March 15, 2007. The adoption of EITF 06-8 will not have a material impact on our consolidated financial position, results of operations or cash flows.

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

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

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. SFAS 159 permits companies to measure certain financial instruments and other items at fair value. SFAS 159 is effective for our fiscal year beginning October 1, 2008. We are currently evaluating the impact of adopting SFAS 159 on our consolidated financial condition and results of

operations; however, it is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

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

In December 2007, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) 110 which expresses the views of the Staff regarding the use of the “simplified” method (the mid-point between the vesting period and contractual life of the option) for “plain vanilla” options in accordance with SFAS 123R. SAB 110 will allow the use of the “simplified” method beyond December 31, 2007 under certain conditions including a company’s inability to rely on historical exercise data. We are currently evaluating the impact of adopting SAB 110 on our consolidated financial condition and results of operations.

Inventory Valuation – Held for Development. Our homebuilding inventories that are accounted for as held for development include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We assess these assets periodically for recoverability in accordance with the provisions of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If the expected undiscounted cash flows generated are expected to be less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its estimated fair value based on discounted cash flows.

We conduct a review of the recoverability of our homebuilding inventory held for development at the community level as factors indicate that an impairment may exist. We evaluate, among other things, the following information for each community:

- Actual "Net Contribution Margin" (defined as homebuilding revenues less homebuilding costs and direct selling expenses) for homes closed in the current fiscal quarter, fiscal year to date and prior two fiscal quarters. Homebuilding costs include land and land development costs (based upon an allocation of such costs, including costs to complete the development, or specific lot costs), home construction costs (including an estimate of costs, if any, to complete home construction), previously capitalized indirect costs (principally for construction supervision), capitalized interest and estimated warranty costs;
- Projected Net Contribution Margin for homes in backlog;
- Actual and trending new orders and cancellation rates;
- Actual and trending base home sales prices and sales incentives for home sales that occurred in the prior two fiscal quarters that remain in backlog at the end of the fiscal quarter and expected future homes sales prices and sales incentives and absorption over the expected remaining life of the community;
- A comparison of our community to our competition to include, among other things, an analysis of various product offerings including, the size and style of the homes currently offered for sale, community amenity levels, availability of lots in our community and our competition's, desirability and uniqueness of our community and other market factors; and
- Other events that may indicate that the carrying value may not be recoverable.

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

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

The fair value of the assets held for development is estimated using the present value of the estimated future cash flows using discount rates commensurate with the risk associated with the underlying community assets. The discount rate used may be different for each community. The factors considered when determining an appropriate discount rate

for a community include, among others: (1) community specific factors such as the number of lots in the community, the status of land development in the community, the competitive factors influencing the sales performance of the community and (2) overall market factors such as employment levels, consumer confidence and the existing supply of new and used homes for sale. As of June 30, 2007, we used discount rates of 17% to 22% in our estimated discounted cash flow impairment calculations. We recorded impairments on land held for development and homes under construction of $109.4 million and $306.8 million during the three and nine months ended June 30, 2007. Impairments on inventory held for development totaled $0.8 million for the nine months ended June 30, 2006.

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

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

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

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

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

the sale of the land is probable within one year;

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

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

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

In determining the fair value of the assets less cost to sell, we considered factors including current sales prices for comparable assets in the area, recent market analysis studies, appraisals, any recent legitimate offers, and listing prices of similar properties. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell. During the nine months ended June 30, 2007, we recorded inventory impairments on land held for sale of $4.0 million. No held for sale inventory impairments were recorded for the three months ended June 30, 2007 or the three or nine months ended June 30, 2006.

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

Goodwill. Goodwill represents the excess of the purchase price over the fair value of assets acquired. We test goodwill for impairment annually as of April 30 or more frequently if an event occurs or circumstances indicate that the asset might be impaired. For purposes of goodwill impairment testing, we compare the fair value of each reporting unit with

its carrying amount, including goodwill. Each of our operating divisions is considered a reporting unit. The fair value of each reporting unit is determined based on expected discounted future cash flows. If the carrying amount of a reporting unit exceeds its fair value, the goodwill within the reporting unit may be potentially impaired. An impairment loss is recognized if the carrying amount of the goodwill exceeds implied fair value of that goodwill. The housing market continued to deteriorate during the third quarter of fiscal 2007. This deterioration has resulted in an oversupply of inventory, reduced levels of demand, increased cancellation rates, aggressive price competition and increased incentives for homes sales. Based on our annual impairment tests and consideration of the current and expected future market conditions, we determined that goodwill for our Northern California, Nevada, and Tampa, Florida reporting units was impaired in accordance with Statement of Financial Accounting Standards ("SFAS") 142, Goodwill and Other Intangible Assets and recorded non-cash, pre-tax goodwill impairment charges totaling $29.8 million during the quarter ended June 30, 2007. Based on our annual goodwill impairment test as of April 30, 2006, we had no impairment of goodwill.

Goodwill impairment charges are reported in Corporate and unallocated and are not allocated to our homebuilding segments. Goodwill balances by reportable segment as of September 30, 2006 and June 30, 2007 were as follows:

Goodwill (in thousands)	September 30, 2006	Impairments	June 30, 2007
West	$ 55,452	$ (26,418)	$ 29,034
Mid-Atlantic	23,286	-	23,286
Florida	13,740	(3,334)	10,406
Southeast	17,641	-	17,641
Other homebuilding	11,249	-	11,249
Consolidated total	$ 121,368	$ (29,752)	$ 91,616

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

(2) Supplemental Cash Flow Information

During the nine months ended June 30, we paid interest of $126.9 million in 2007 and $95.5 million in 2006. In addition, we paid income taxes of $15.7 million in 2007 and $165.3 million in 2006. We also had the following non-cash activity (in thousands):

	Nine Months Ended June 30, 2007	Nine Months Ended June 30, 2006
Supplemental disclosure of non-cash activity:		
Increase in consolidated inventory not owned	$ -	$ 32,582
Land acquired through issuance of notes payable	46,539	53,266
Issuance of stock under deferred bonus stock plans	426	-

(3) Inventory

(in thousands)	June 30, 2007	September 30, 2006
Homes under construction	$ 1,175,302	$ 1,144,750
Development projects in progress	1,511,651	1,813,720
Unimproved land held for future development	11,240	12,213
Land Held for Sale	65,747	30,074

Model homes	142,749	136,264
Total Owned Inventory	$ 2,906,689	$ 3,137,021

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 443 ($101.1 million) and 1,197 ($240.8 million) completed homes that were not subject to a sales contract at June 30, 2007 and September 30, 2006, respectively. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a deposit or sales contract.

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

	June 30, 2007			September 30, 2006		
	Held for Development	Land Held for Sale	Total Owned Inventory	Held for Development	Land Held for Sale	Total Owned Inventory
West Segment	$ 926,075	$ 53,169	$ 979,244	$ 1,197,559	$ 6,411	$ 1,203,970
Mid-Atlantic Segment	501,912	691	502,603	449,909	-	449,909
Florida Segment	263,574	-	263,574	337,289	-	337,289
Southeast Segment	420,120	1,787	421,907	349,598	14,058	363,656
Other	473,369	10,100	483,469	559,124	9,605	568,729
Unallocated	255,892	-	255,892	213,468	-	213,468
Total	$ 2,840,942	$ 65,747	$ 2,906,689	$ 3,106,947	$ 30,074	$ 3,137,021

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Development projects and homes in process (Held for Development)				
West	$ 57,623	$ -	$ 140,532	$ -
Mid-Atlantic	6,516	-	41,495	-
Florida	16,931	-	54,904	-
Southeast	7,204	-	12,075	-
Other	14,960	-	39,450	809
Unallocated	6,194	-	18,389	-
Subtotal	$ 109,428	$ -	$ 306,845	$ 809
Land Held for Sale				
West	$ -	$ -	$ 3,105	$ -
Southeast	-	-	500	-
Other	-	-	350	-
Subtotal	$ -	$ -	$ 3,955	$ -
Lot Option Abandonments				
West	$ 19,858	$ 6,951	$ 31,616	$ 7,769
Mid-Atlantic	14,477	122	19,174	370
Florida	7,209	1,332	21,481	1,538
Southeast	2,685	246	5,934	3,837
Other	587	2,070	10,851	6,029
Subtotal	$ 44,816	$ 10,721	$ 89,056	$ 19,543
Total	$ 154,244	$ 10,721	$ 399,856	$ 20,352

The inventory impaired during the three and nine months ended June 30, 2007 represented 3,498 and 9,131 lots in 45 and 129 communities with an estimated fair value of $236.0 million and $672.7 million, respectively. The impairments recorded on our held for development inventory, for all segments, primarily resulted from the significant

decline in the homebuilding environment that negatively impacted the sales prices of homes and increased the sales incentives offered to potential homebuyers in our efforts to increase home sales absorptions. Our West and Florida segments experienced the most significant amount of inventory impairments as compared to our other homebuilding segments. Our West and Florida segments comprise approximately 26% and 11%, respectively, of our total land and lots owned as of June 30, 2007 and approximately 33% and 9%, respectively, of the dollar value of our held for development inventory as of June 30, 2007. In addition, our homebuilding markets that comprise our West segment consist of markets that once experienced the most significant home price appreciation in the nation during the 2004 through 2006 periods which was driven in large part by speculative purchases and the availability of mortgage credit during those time periods which are no longer present in the marketplace. The decline in the availability of mortgage loan products and the exit of speculators from the market, among other factors, contributed to the significant increase in the supply of new and used homes on the market for sale.

The impairments recorded in our other segments are primarily as a result of continued price competition brought on by the significant increase in new and resale home inventory during the three and nine months ended June 30, 2007 that has resulted in increased sales incentives and home sales price declines as we attempt to increase new orders and generate cash to the Company.

The inventory impaired during the nine months ended June 30, 2006 primarily represented homes in backlog sold at a loss for which a valuation adjustment was recorded to properly state the inventory at fair value. The homes generally closed in the following quarter.

We acquire certain lots by means of option contracts. Option contracts generally require the payment of cash for the right to acquire lots during a specified period of time at a certain price. Under option contracts, both with and without specific performance provisions, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our obligation with respect to options with specific performance provisions is included in our consolidated balance sheets in other liabilities. Under option contracts without specific performance obligations, our liability is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which aggregated approximately $249.8 million at June 30, 2007. This amount includes non-refundable letters of credit of approximately $35.0 million. The total remaining purchase price, net of cash deposits, committed under all options was $1.9 billion as of June 30, 2007. Only $81.6 million of the total remaining purchase price contains specific performance clauses which may require us to purchase the land or lots upon the land seller meeting certain obligations.

In addition, we have also completed a strategic review of all of the markets within our homebuilding segments and the communities within each of those markets with an initial focus on the communities for which land has been secured with option purchase contracts. As a result of this review, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as preacquisition costs. The total abandonments recorded for the three months and nine months ended June 30, 2007 were $44.8 million and $89.1 million representing 25 and 92 communities, respectively, with the West and Florida segments containing 35.5% and 24.1%, respectively, of the nine-month abandonments as the markets in those segments were among the markets with the highest levels of new and resale home supply.

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

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

We have determined that we are the primary beneficiary of certain of these option contracts. Our risk is generally limited to the option deposits that we pay, and creditors of the sellers generally have no recourse to the general credit of the Company. Although we do not have legal title to the optioned land, for those option contracts for which we are the primary beneficiary, we are required to consolidate the land under option at fair value. We believe that the exercise prices of our option contracts approximate their fair value. Our consolidated balance sheets at June 30, 2007 and

September 30, 2006 reflect consolidated inventory not owned of $412.5 million and $471.4 million, respectively. We consolidated $73.2 million and $146.6 million of lot option agreements as consolidated inventory not owned pursuant to FIN 46R as of June 30, 2007 and September 30, 2006, respectively. In addition, as of June 30, 2007 and September 30, 2006, we recorded $339.3 million and $324.8 million, respectively, of land under the caption "consolidated inventory not owned" related to lot option agreements in accordance with SFAS 49, Product Financing Arrangements. Obligations related to consolidated inventory not owned totaled $263.1 million at June 30, 2007 and $330.7 million at September 30, 2006. The difference between the balances of consolidated inventory not owned and obligations related to consolidated inventory not owned represents cash deposits paid under the option agreements.

(4) Investments in and Advances to Unconsolidated Joint Ventures

As of June 30, 2007, we participated in 24 land development joint ventures in which Beazer Homes had less than a controlling interest. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture's members and other third parties. Equity in (loss) income of unconsolidated joint ventures was $(0.9) million and $1.1 million for the three months ended June 30, 2007 and 2006 and $(7.0) million and $1.8 million for the nine months ended June 30, 2007 and 2006, respectively. Equity in loss of unconsolidated joint ventures for nine months ended June 30, 2007 includes the writedown of our investment in certain of our joint ventures, specifically $3.1 million of impairments of inventory held within those ventures in accordance with APB 18, The Equity Method of Accounting for Investments in Common Stock. Our joint ventures typically obtain secured acquisition and development financing. The following table presents our investment in and guarantees under our unconsolidated joint ventures, as well as total equity and outstanding borrowings of these joint ventures as of June 30, 2007 and September 30, 2006:

(in thousands)	June 30, 2007	September 30, 2006
Beazer's investment in joint ventures	$ 132,922	$ 124,799
Total equity of joint ventures	493,291	487,726
Total outstanding borrowings of joint ventures	764,943	753,801
Beazer's portion of loan to maintenance guarantees	7,717	20,500
Beazer's portion of repayment guarantees	40,935	22,825

At June 30, 2007 and September 30, 2006, total borrowings outstanding above include $435.1 million and $460.1 million related to one joint venture in which we are a 2.58% partner. In some instances, Beazer Homes and our joint venture partners have provided varying levels of guarantees of debt of our unconsolidated joint ventures. At June 30, 2007, these guarantees included, for certain joint ventures, construction completion guarantees, loan to value maintenance agreements, repayment guarantees and environmental indemnities. See Note 8 for further discussion of these guarantees.

(5) Interest

The following table sets forth certain information regarding interest (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Capitalized interest in inventory, beginning of period	$ 93,239	$ 66,713	$ 78,996	$ 50,808
Interest incurred and capitalized	37,394	32,877	112,102	86,771
Capitalized interest impaired	(3,314)	-	(9,140)	-
Capitalized interest amortized to house construction and land sales expenses	(30,040)	(21,760)	(84,679)	(59,749)
Capitalized interest in inventory, end of period	$ 97,279	$ 77,830	$ 97,279	$ 77,830

(6) Earnings Per Share and Stockholders' Equity

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Basic:				
Net (loss) income	$ (118,747)	$ 81,609	$ (255,841)	$ 285,129
Weighted average number of common shares outstanding	38,459	39,435	38,388	40,281
Basic (loss) earnings per share	$ (3.09)	$ 2.07	$ (6.66)	$ 7.08
Diluted:				
Net (loss) income	$ (118,747)	$ 81,609	$ (255,841)	$ 285,129
Interest on convertible debt - net of taxes	-	1,347	-	4,038
Net (loss) income available to common shareholders	$ (118,747)	$ 82,956	$ (255,841)	$ 289,167
Weighted average number of common shares outstanding	38,459	39,435	38,388	40,281
Effect of dilutive securities:				
Shares issuable upon conversion of convertible debt	-	3,499	-	3,499
Options to acquire common stock	-	464	-	538
Contingent shares (performance based stock)	-	72	-	48
Restricted stock	-	459	-	543
Diluted weighted average common shares outstanding	38,459	43,929	38,388	44,909
Diluted (loss) earnings per share	$ (3.09)	$ 1.89	$ (6.66)	$ 6.44

In computing diluted loss per share for the three and nine months ended June 30, 2007, common stock equivalents were excluded from the computation of diluted loss per share as a result of their anti-dilutive effect. Options to purchase 947,962 and 400,026 shares of common stock were not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2006, respectively, because their inclusion would have been anti-dilutive.

In June 2006, the Shareholder Rights Plan adopted in June 1996 by the Company's Board of Directors expired. No rights issued under this plan were redeemed or exercised prior to expiration.

(7) Borrowings

At June 30, 2007 and September 30, 2006 we had the following borrowings (in thousands):

	Maturity Date	June 30, 2007	September 30, 2006
Warehouse Line	February 2008	$ 20,774	$ 94,881
Revolving Credit Facility	August 2009	-	-
8 5/8% Senior Notes*	May 2011	180,000	200,000
8 3/8% Senior Notes*	April 2012	340,000	350,000
6 1/2% Senior Notes*	November 2013	200,000	200,000
6 7/8% Senior Notes*	July 2015	350,000	350,000
8 1/8% Senior Notes*	June 2016	275,000	275,000
4 5/8% Convertible Senior Notes*	June 2024	180,000	180,000
Junior subordinated notes	July 2036	103,093	103,093
Other secured notes payable	Various Dates	121,372	89,264
Model home financing obligations	Various Dates	116,522	117,079
Unamortized debt discounts		(3,151)	(3,578)
Total		$ 1,883,610	$ 1,955,739

* Collectively, the "Senior Notes"

Warehouse Line – Effective February 7, 2007, Beazer Mortgage amended its 364-day credit agreement (the "Warehouse Line") to extend its maturity date to February 8, 2008 and modify the maximum available borrowing capacity to $100 million, subject to compliance with the mortgage loan eligibility requirements as defined in the Warehouse Line. The Warehouse Line was secured by certain mortgage loan sales and related property. The Warehouse Line was entered into with a number of banks to fund the origination of residential mortgage loans. The maximum available borrowing capacity was subsequently reduced through amendments down to $17 million as of September 30, 2007. The Warehouse Line was not guaranteed by Beazer Homes USA, Inc. or any of its subsidiaries that are guarantors of the Senior Notes or Revolving Credit Facility. Borrowings under the Warehouse Line were $20.8 million and bore interest at 6.3% per annum as of June 30, 2007. Effective November 14, 2007, we terminated the Warehouse Line.

Revolving Credit Facility - In August 2005, we entered into a new four-year unsecured revolving credit facility (the "Revolving Credit Facility") with a group of banks which was expanded in June 2006 to $1 billion and which matures in August 2009. Our former credit facility included a $550 million four-year revolving credit facility and a $200 million four-year term loan which would have matured in June 2008. The Revolving Credit Facility, which replaced our former credit facility, includes a $50 million swing line commitment. We have the option to elect two types of loans under the Revolving Credit Facility which incur interest as applicable based on either the Alternative Base Rate or the Applicable Eurodollar Margin (both defined in the Revolving Credit Facility). The Revolving Credit Facility contains various operating and financial covenants. Substantially all of our significant subsidiaries are guarantors of the obligations under the Revolving Credit Facility (see Note 11).

We fulfill our short-term cash requirements with cash generated from our operations and funds available from our Revolving Credit Facility. Available borrowings under the Revolving Credit Facility are limited to certain percentages of homes under contract, unsold homes, substantially improved lots, lots under development, raw land and accounts receivable. There were no borrowings outstanding under the Revolving Credit Facility at June 30, 2007 or September 30, 2006; however, we had $138.6 million and $145.6 million of letters of credit outstanding under the Revolving Credit Facility at June 30, 2007 and September 30, 2006, respectively. At June 30, 2007, we had available borrowings of $268.0 million under the Revolving Credit Facility.

In July 2007, we replaced our Revolving Credit Facility with a new $500 million, four-year unsecured revolving credit facility with a group of banks (the "New Revolving Credit Facility"), which matures in 2011 and has a $350 million sublimit for the issuance of standby letters of credit. We have the option to elect two types of loans under this New Revolving Credit Facility which incur interest as applicable based on either the Alternative Base Rate or the Applicable Eurodollar Margin (both defined in the Revolving Credit Facility).

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

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

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At June 30, 2007, under the most restrictive covenants of each indenture, approximately $110.3 million of our retained earnings was available for cash dividends and for share repurchases. Each indenture provides that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes.

In March 2007, we voluntarily repurchased $10.0 million of our outstanding 8 5/8% Senior Notes and $10.0 million of our outstanding 8 3/8% Senior Notes on the open market. The aggregate purchase price was $20.6 million, or an average of 102.9% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest as of the purchase date. The repurchase of the notes resulted in a $562,500 pretax loss during the second quarter of fiscal 2007. On March 28, 2007, we repurchased an additional $10.0 million of our outstanding 8 5/8% Senior Notes which were cash settled on April 2, 2007 at a purchase price of $9.85 million, or an average of 98.5% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest as of the purchase date. The repurchase of the notes resulted in a $150,000 pre-tax gain. Gains/losses from notes repurchased are included in other (loss) income, net in the accompanying unaudited condensed consolidated statements of operations. Senior Notes purchased by the Company were cancelled.

In June 2006, we issued $275 million of 8 1/8% Senior Notes due in June 2016. Interest on the 8 1/8% Senior Notes is payable semi-annually. We may redeem these notes at any time, in whole or in part, at a redemption price equal to the principal amount thereof plus an applicable premium, as defined in the 8 1/8% Senior Notes, plus accrued and unpaid interest.

On October 26, 2007, we obtained consents from holders of our Senior Notes to approve amendments of the indentures under which the Senior Notes were issued. These amendments restrict our ability to secure additional debt in excess of $700 million until certain conditions are met and enable us to invest up to $50 million in joint ventures. The consents also provided us with a waiver of any and all defaults under the Senior Notes that may have occurred or may occur on or prior to May 15, 2008 relating to filing or delivering annual and quarterly financial statements. Fees and expenses related to obtaining these consents totaled approximately $21 million.

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

On April 30, 2008, we received a default notice from The Bank of New York Trust Company, National Association, the trustee under the indenture governing these junior subordinated notes. The notice alleges that we are in default under the indenture because we have not yet furnished certain required information (including our annual audited and quarterly unaudited financial statements). The notice further alleges that this default will become an event of default under the indenture if not remedied within 30 days. We expect to be able to cure this default on or before May 15, 2008.

Other Secured Notes Payable - We periodically acquire land through the issuance of notes payable. As of June 30, 2007 and September 30, 2006, we had outstanding notes payable of $121.4 million and $89.3 million, respectively, primarily related to land acquisitions. These notes payable expire at various times through 2010 and had fixed and variable rates ranging from 6.75% to 11.00% at June 30, 2007. These notes are secured by the real estate to which they relate. During the first six months of fiscal 2008, we repaid $95 million of these secured notes payable.

Model Home Financing Obligations - Due to a continuing interest in certain model home sale-leaseback transactions discussed in Note 12, we have recorded $116.5 million and $117.1 million of debt as of June 30, 2007 and September 30, 2006, respectively, related to these "financing" transactions in accordance with SFAS 98 (As amended), Accounting for Leases. These model home transactions incur interest at a variable rate of one-month LIBOR plus 450 basis points, 9.82% as of June 30, 2007, and expire at various times through 2015.

Other than the addition of the model home financing obligations discussed above, there were no material changes to the future maturities of our borrowings.

(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 that include claims related to moisture intrusion.

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

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

Our warranty reserves at June 30, 2007 and 2006 include accruals for Trinity Homes LLC ("Trinity") moisture intrusion issues discussed more fully below. Warranty reserves are included in other liabilities and the provision for warranty accruals is included in home construction and land sales expenses in the unaudited condensed consolidated financial statements. We record reserves covering anticipated warranty expense for each home closed. Management reviews the adequacy of warranty reserves each reporting period based on historical experience and management's estimate of the costs to remediate the claims and adjusts these provisions accordingly. While we believe that our warranty reserves are adequate, historical data and trends may not accurately predict actual warranty costs, or future developments could lead to a significant change in the reserve. Our warranty reserves, which include amounts related to the Trinity moisture intrusion issues discussed below, are as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Balance at beginning of period	$ 87,467	$ 109,712	$ 99,030	$ 136,481
Provisions (reductions) (1)	(4,163)	4,841	6,495	2,695
Payments	(10,124)	(13,645)	(32,345)	(38,268)
Balance at end of period	$ 73,180	$ 100,908	$ 73,180	$ 100,908

(1) Upon review of the adequacy of the warranty reserves, it was determined that the warranty reserve as of June 30, 2007 and 2006, respectively, contained reserves in excess of anticipated claims related to the Trinity moisture intrusion issues. As a result, the provision for warranty reserves was reduced by $6.0 million and $12.0 million for the three and nine months ended June 30, 2007 and $1.3 million and $21.7 million for the three and nine months ended June 30, 2006, respectively.

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

We have experienced a significant number of such claims in our Midwest region and particularly with respect to homes built by Trinity a subsidiary which was acquired in the Crossmann acquisition in 2002.

As of June 30, 2007, there were eight pending lawsuits related to such complaints received by Trinity. All suits are by individual homeowners, and the cost to resolve these matters is not expected to be material, either individually or in the aggregate. Additionally, a class action suit was filed in the State of Indiana in August 2003 against Trinity Homes LLC. The parties in the class action reached a settlement agreement which was approved by the court on October 20, 2004.

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

Under the settlement, subject to Trinity's timely performance of the specified assessments and remediation activities for homeowners who file claims, each homeowner releases Trinity, Beazer Homes Investments, LLC and other affiliated companies, including Beazer Homes, from the claims asserted in the class action lawsuit, claims arising out of external moisture intrusion, claims of improper brick installation, including property damage claims, loss or diminution of property value claims, and most personal injury claims, among others. No appeals of the court's order approving the settlement were received by the court within the timeframe established by the court. The Company sent out the claims notices on December 17, 2004, and the class members had until February 15, 2005 to file claims. A total of 1,311 valid claims were filed (of the 2,161 total class members), of which 613 complaints had been received prior to our receipt of the claim notices. Class members who did not file a claim by February 15, 2005 are no longer able to file a class action claim under the settlement or pursue an individual claim against Trinity. As of June 30, 2007, we have completed remediation of 1,410 homes related to 1,808 total Trinity claims.

Our warranty reserves at June 30, 2007 and September 30, 2006 include accruals for our estimated costs to assess and remediate all homes for which Trinity had received complaints related to moisture intrusion. Warranty reserves also include accruals for class action claims received, pursuant to the settlement discussed above, from class members who had not previously contacted Trinity with complaints.

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

As of June 30, 2007 and September 30, 2006, we accrued for our estimated cost to remediate homes that we had assessed and assigned to one of the above categories, as well as our estimated cost to remediate those homes for which an assessment had not yet been performed. For purposes of our accrual, we have historically assigned homes not yet assessed to categories based on our expectations about the extent of damage and trends observed from the results of assessments performed to date. In addition, our cost estimation process considers the subdivision of the claimant along with the categorization discussed above. Once a home is categorized, detailed budgets are used as the basis to prepare our estimated costs to remediate such home.

During fiscal 2004, we initiated a program under which we offered to repurchase a limited number of homes from specific homeowners. The program was concluded during the first quarter of fiscal 2005. We have repurchased a total of 54 homes under the program. During the nine months ended June 30, 2007, the Company sold 12 of the repurchased homes, bringing the total homes sold to date to 34. The remaining 20 homes were acquired for an aggregate purchase price of $8.5 million which is included in owned inventory at estimated fair value less costs to sell. As of September 30, 2006 there were 32 homes remaining which were acquired for an aggregate purchase price of $13.2 million.

The following accruals at June 30, 2007 represent our best estimates of the costs to resolve all asserted complaints associated with Trinity moisture intrusion issues. We regularly review our estimate of these costs. Since the commencement of the remediation program, our remediation cost per home has continued to decrease as homes requiring more extensive repairs were addressed first and our internal processes and procedures, including enhanced contractor bid negotiations and inspections, improved as experience gained in addressing these issues has yielded meaningful benefits on a per home basis. Changes in the accrual for Trinity moisture intrusion issues during the period

were as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Balance at beginning of period	$ 36,975	$ 55,581	$ 47,704	$ 80,708
Reductions	(6,000)	(1,300)	(12,000)	(21,700)
Payments	(3,309)	(2,636)	(8,038)	(7,363)
Balance at end of period	$ 27,666	$ 51,645	$ 27,666	$ 51,645

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

Guarantees

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

Loan to Value Maintenance Agreements
We and our joint venture partners generally provide credit enhancements to acquisition, development and construction borrowings in the form of loan to value maintenance agreements, which can limit the amount of additional funding provided by the lenders (although not generally requiring repayment of the borrowings) to the extent such borrowings plus construction completion costs exceed a specified percentage of the value of the property securing the borrowings. During the nine months ended June 30, 2007 and 2006, we were not required to make any payments on the loan to value maintenance guarantees. At June 30, 2007, we had total loan to value maintenance guarantees of $7.7 million related to our unconsolidated joint venture borrowings.

Repayment Guarantees
We and our joint venture partners have repayment guarantees related to certain joint venture's borrowings. These repayment guarantees requires the repayment of all or a portion of the debt of the unconsolidated joint venture in the event the joint venture defaults on its obligations under the borrowing or files for bankruptcy. During the nine months ended June 30, 2007 and 2006, we were not required to make payments related to any portion of the repayment guarantees. At June 30, 2007, we had repayment guarantees of $40.9 million related to the borrowings on these applicable unconsolidated joint ventures, some of which are only triggered upon bankruptcy of the joint venture.

Environmental Indemnities
Additionally, we and our joint venture partners generally provide unsecured environmental indemnities to joint venture project lenders. In each case, we have performed due diligence on potential environmental risks. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the three and nine months ended June 30, 2007 and 2006, we were not required to make any payments related to environmental indemnities.

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

Other Contingencies - We and certain of our subsidiaries have been named as defendants in various claims, complaints and other legal actions, most relating to construction defects, moisture intrusion and related mold claims and product liability. Certain of the liabilities resulting from these actions are covered in whole or part by insurance. In our opinion, based on our current assessment, the ultimate resolution of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows. We have accrued $19.9 million and $18.5 million in other liabilities related to these matters as of June 30, 2007 and September 30, 2006, respectively.

Other Matters

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

In June 2006, we received an Administrative Order issued by the New Jersey Department of Environmental Protection alleging certain violations of a wetlands disturbance permit with respect to a project in New Jersey, and assessing a proposed fine of $630,000. We met with the Department to discuss their concerns and requested a hearing on the matter which has not yet been scheduled. We believe that we have significant defenses to the alleged violations and intend to contest the agency’s findings and the proposed fine.

In August 2006, we received an Administrative Order issued by the New Jersey Department of Environmental Protection alleging certain violations of a wetlands disturbance permit with respect to a second project in New Jersey, and assessing a proposed fine of $678,000. We met with the Department to discuss their concerns and requested a hearing on the matter which has not yet been scheduled. We believe that we have significant defenses to the alleged violations and intend to contest the agency’s findings and the proposed fine.

We had performance bonds and outstanding letters of credit of approximately $632.9 million and $92.9 million, respectively, at June 30, 2007 related principally to our obligations to local governments to construct roads and other improvements in various developments in addition to the letters of credit of approximately $59.8 million relating to our land option contracts discussed in Note 3. We do not believe that any such letters of credit or bonds are likely to be drawn upon.

Investigations and Litigation

We and our subsidiary, Beazer Mortgage Corporation, are under criminal and civil investigations by the United States Attorney’s office in the Western District of North Carolina, the SEC and other federal and state agencies. We and certain of our current and former employees, officers and directors have been named as defendants in securities class action lawsuits, lawsuits regarding ERISA claims, and derivative shareholder actions. In addition, certain of our subsidiaries have been named in class action and multi-party lawsuits regarding claims made by homebuyers. We cannot predict or determine the timing or final outcome of the governmental investigations or the lawsuits or the effect that any adverse findings in the investigations or adverse determinations in the lawsuits may have on us. While we are cooperating with the governmental investigations, developments, including the expansion of the scope of the investigations, could negatively impact us, could divert the efforts and attention of our management team from the operation of our business, and/or result in further departures of executives or other employees. An unfavorable

determination resulting from any governmental investigation could result the filing of criminal charges, the payment of substantial criminal or civil fines, the imposition of injunctions on our conduct or the imposition of other penalties or consequences, including but not limited to the Company having to adjust, curtail or terminate the conduct of certain of our business operations. Any of these outcomes could have a material adverse effect on our business, financial condition, results of operations and prospects. An unfavorable determination in any of the lawsuits could result in the payment by us of substantial monetary damages which may not be fully covered by insurance. Further, the legal costs associated with the investigations and the lawsuits and the amount of time required to be spent by management and the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our business, financial condition and results of operations. See the discussion below for details related to these investigations and related litigation.

Investigations

United States Attorney, State and Federal Agency Investigations. Beazer Homes and its subsidiary, Beazer Mortgage Corporation, are under criminal and civil investigations by the United States Attorney's Office in the Western District of North Carolina and other state and federal agencies concerning the matters that have been the subject of the independent investigation by the Audit Committee of the Beazer Homes' Board of Directors (the "Investigation") as described in Note 12 and further in this note. The Company is fully cooperating with these investigations.

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

Mortgage Origination Issues

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

We intend to attempt to negotiate a settlement with prosecutors and regulatory authorities that would allow us to quantify our exposure associated with reimbursement of losses and payment of regulatory and/or criminal fines, if they are imposed. At this time, we believe that although it is probable that a liability exists related to this exposure, it is not reasonably estimable and would be inappropriate to record a liability as of June 30, 2007.

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

Litigation

Securities Class Actions. Beazer Homes and certain of our current and former executive officers are named as defendants in a putative class action securities lawsuit filed on March 29, 2007 in the United States District Court for the Northern District of Georgia. Plaintiffs filed this action on behalf of a purported class of purchasers of Beazer Homes' common stock between July 27, 2006 and March 27, 2007. The complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing materially false and misleading statements regarding our business and prospects because we did not disclose facts related to alleged improper lending practices in our mortgage origination business. Plaintiffs seek an unspecified amount of compensatory damages. Two additional lawsuits were filed subsequently on May 18, 2007 and May 21, 2007 in the United States District Court for the Northern District of Georgia making similar factual allegations and asserting class periods of July 28, 2005 through March 27, 2007, and March 30, 2005 through March 27, 2007, respectively. The court has consolidated these three lawsuits and plaintiffs are expected to file a consolidated amended

complaint within thirty days after the filing of our fiscal 2007 Form 10-K with the SEC. The Company intends to vigorously defend against these actions.

Derivative Shareholder Actions. Certain of Beazer Homes' current and former executive officers and directors were named as defendants in a derivative shareholder suit filed on April 16, 2007 in the United States District Court for the Northern District of Georgia. The complaint also names Beazer Homes as a nominal defendant. The complaint, purportedly on behalf of Beazer Homes, alleges that the defendants (i) violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder; (ii) breached their fiduciary duties and misappropriated information; (iii) abused their control; (iv) wasted corporate assets; and (v) were unjustly enriched. Plaintiffs seek an unspecified amount of compensatory damages against the individual defendants and in favor of Beazer Homes. An additional lawsuit was filed subsequently on August 29, 2007 in the United States District Court for the Northern District of Georgia asserting similar factual allegations. A motion to consolidate the two Georgia derivative actions is pending, and the plaintiffs are expected to designate the operative complaint within five days after the Court consolidates the actions. Additionally, on September 12, 2007, another derivative suit was filed in Delaware Chancery Court, and the plaintiffs filed an amended complaint on October 26, 2007. The Delaware complaint raises similar factual and legal claims as those asserted by the plaintiffs in the Georgia derivative actions. The defendants have moved to dismiss the Delaware action, or in the alternative, to stay the case pending resolution of the derivative litigation pending in Georgia. The defendants intend to vigorously defend against these actions.

ERISA Class Actions. On April 30, 2007, a putative class action complaint was filed on behalf of a purported class consisting of present and former participants and beneficiaries of the Beazer Homes 401(k) Plan, naming Beazer Homes, certain of its current and former officers and directors and the Benefits Administration Committee as defendants. The complaint was filed in the United States District Court for the Northern District of Georgia. The complaint alleges breach of fiduciary duties, including those set forth in the Employee Retirement Income Security Act ("ERISA") as a result of the investment of retirement monies held by the 401(k) Plan in common stock of Beazer Homes at a time when participants were allegedly not provided timely, accurate and complete information concerning Beazer Homes. Four additional lawsuits were filed subsequently on May 11, 2007, May 14, 2007, June 15, 2007 and July 27, 2007 in the United States District Court for the Northern District of Georgia making similar allegations. The court has consolidated these five lawsuits, and the plaintiffs are expected to file a consolidated amended complaint within thirty days after the filing of our fiscal 2007 Form 10-K with the SEC. The Company intends to vigorously defend against these actions.

Homeowners Class Action Lawsuits and Multi-Plaintiff Lawsuit. Beazer Homes' subsidiaries, Beazer Homes Corp. and Beazer Mortgage Corporation, were named as defendants in a putative class action lawsuit filed on March 23, 2007 in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division. The complaint was filed as a putative class action. The purported class is defined as North Carolina residents who purchased homes in subdivisions in North Carolina containing homes constructed by the defendants where the foreclosure rate is allegedly significantly higher than the state-wide average. The complaint alleged that the defendants utilized unfair trade practices to allow low-income purchasers to qualify for loans they allegedly could not afford, resulting in foreclosures that allegedly diminished plaintiffs' property values. Plaintiffs sought an unspecified amount of compensatory damages and also request that any damage award be trebled. On April 25, 2008, the District Court dismissed all causes of action with prejudice. If Plaintiffs file a motion for reconsideration of the District Court's decision or appeal the judgment of the District Court, the defendants will continue to vigorously defend this action.

A second putative homeowner class action lawsuit was filed on April 23, 2007 in the United States District Court for the District of South Carolina, Columbia Division. The complaint alleged that Beazer Homes Corp. and Beazer Mortgage Corporation illegally facilitated the financing of the purchase of homes sold to low-income purchasers, who allegedly would not have otherwise qualified for the loans. Certain of the plaintiffs also alleged that the defendants' practices resulted in foreclosures that allegedly diminished plaintiffs' property values. The complaint demanded an unspecified amount of damages, including damages for alleged violations of federal RICO statutes and punitive damages. The Company filed a motion to dismiss and the District Court dismissed all causes of action with prejudice on September 10, 2007. The plaintiffs subsequently filed a motion for reconsideration which the District Court denied. The plaintiffs did not file a notice of appeal and this case is now concluded.

An additional putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation. The Complaint alleges that Beazer violated the Real Estate Settlement Practices Act and North Carolina Gen. Stat. § 75-1.1 by (1) improperly requiring homebuyers to use Beazer-owned mortgage and settlement services as part of a down payment assistance program, and (2) illegally increasing the cost of homes and settlement services sold by Beazer Homes Corp. Plaintiff also asserts that Beazer was unjustly enriched by these alleged actions. The purported class consists of all residents of North Carolina who purchased a home from Beazer, using mortgage financing provided by and through Beazer that included seller-funded down payment assistance, between January 1, 2000 and October 11, 2007. The Complaint demands an unspecified amount of damages, various forms of equitable relief, treble damages, attorneys' fees and litigation expenses. The defendants have not yet filed a responsive pleading or motion, but intend to vigorously defend this action.

Beazer Homes Corp. and Beazer Mortgage Corporation are also named defendants in a lawsuit filed on July 3, 2007, in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was

removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division, but remanded on April 25, 2008 to the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The complaint was filed on behalf of ten individual homeowners who purchased homes from Beazer in Mecklenburg County. The complaint alleges certain deceptive conduct by the defendants and brings various claims under North Carolina statutory and common law, including a claim for punitive damages. The Company intends to vigorously defend against this action.

Bond Indenture Trustee Litigation. On September 10, 2007, we filed an Amended Complaint For Declaratory Judgment and Injunctive Relief in an action pending in the United States District Court in Atlanta, Georgia against the trustees under the indentures governing our outstanding senior and convertible senior notes. We sought, among other relief, a declaration from the court against the trustees that the delay in filing with the SEC our Form 10-Q for the quarterly period ended June 30, 2007 does not constitute a default under the applicable indentures and that the delay will not give rise to any right of acceleration on the part of the holders of the senior and convertible senior notes.

On October 29, 2007, we notified the court and the trustees that we had successfully concluded a consent solicitation concerning the notes at issue. Because the consents provide us with a waiver of any and all defaults under the indentures at issue that may have occurred or may occur prior to May 15, 2008 due to our failure to file or deliver reports or other information we would be required to file with the SEC, we continue to request the court to rule on our demand for declaratory judgment. In response to our notice of successful consent solicitation, the trustees requested the court to deny our request for a ruling on the merits and dismiss the action, without prejudice, on the ground that there is no justiciable controversy ripe for determination. We opposed the trustees' suggestion of mootness and requested the court to grant us declaratory judgment.

(9) Stock Repurchase Program

On November 18, 2005, as part of an acceleration of Beazer Homes' comprehensive plan to enhance stockholder value, our Board of Directors authorized an increase in our stock repurchase plan to ten million shares of our common stock. Shares may be purchased for cash in the open market, on the NYSE or in privately negotiated transactions. We did not repurchase any shares in the open market during the three or nine months ended June 30, 2007. During the nine months ended June 30, 2006, we repurchased approximately 3.1 million shares for an aggregate purchase price of $183.3 million or approximately $59 per share pursuant to the plan. At June 30, 2007, we are authorized to purchase approximately 5.4 million additional shares pursuant to the plan. We have currently suspended our repurchase program and any resumption of such program will be at the discretion of the Board of Directors, and is unlikely in the foreseeable future.

(10) Segment Information

As defined in SFAS 131, "Disclosures About Segments of an Enterprise and Related Information", we have 32 homebuilding operating segments operating in 21 states and one financial services segment. Revenues in our homebuilding segments are derived from the sale of homes which we construct and from land and lot sales. Revenues in our financial services segment are derived primarily from mortgage originations provided predominantly to customers of our homebuilding operations. We have aggregated our homebuilding segments into four reportable segments, described below, for our homebuilding operations and one reportable segment for our financial services operations. The segments reported have been determined to have similar economic characteristics including similar historical and expected future operating performance, employment trends, land acquisition and land constraints, and municipality behavior and meet the other aggregation criteria in SFAS 131. The reportable homebuilding segments, and all other homebuilding operations not required to be reported separately, include operations conducting business in the following states:

West: Arizona, California, Nevada and New Mexico

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

Florida

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

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Revenue				
West	$ 248,830	386,014	$ 814,792	1,212,173
Mid-Atlantic	113,840	228,773	309,176	651,403
Florida	72,470	108,337	270,124	418,650
Southeast	152,121	213,178	491,359	570,139
Other homebuilding	164,417	247,735	482,128	647,843
Financial Services	10,003	14,903	32,972	43,729
Intercompany elimination	(3,535)	(6,988)	(10,537)	(15,302)
Consolidated total	$ 758,146	$ 1,191,952	$ 2,390,014	$ 3,528,635

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Operating (loss) income (a)				
West	$ (62,394)	$ 46,389	$ (122,582)	$ 195,280
Mid-Atlantic	(11,852)	49,280	(37,205)	150,066
Florida	(20,166)	16,979	(42,560)	83,773
Southeast	(1,917)	17,420	17,788	44,612
Other homebuilding	(14,580)	7	(52,429)	(4,254)
Financial Services	1,502	3,778	7,124	10,331
Segment operating (loss) income	(109,407)	133,853	(229,864)	479,808
Corporate and unallocated (b)	(72,408)	(9,133)	(170,564)	(32,337)
Total operating (loss) income	(181,815)	124,720	(400,428)	447,471
Equity in (loss) income of unconsolidated joint ventures	(939)	1,127	(7,012)	1,809
Other income (loss), net	2,731	(73)	8,055	2,458
(Loss) income before income taxes	$ (180,023)	$ 125,774	$ (399,385)	$ 451,738

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Depreciation and Amortization				
West	$ 3,037	$ 2,685	$ 8,364	$ 11,117
Mid-Atlantic	940	1,315	2,637	3,890
Florida	427	446	1,320	1,661
Southeast	859	1,164	2,862	3,501
Other homebuilding	1,544	2,239	4,503	5,575
Financial Services	96	117	355	331
Corporate and unallocated	977	1,953	3,128	2,963
Consolidated total	$ 7,880	$ 9,919	$ 23,169	$ 29,038

	June 30, 2007	September 30, 2006
Assets (c)		
West	$ 1,143,529	$ 1,410,812
Mid-Atlantic	620,253	564,524
Florida	325,033	418,380
Southeast	452,595	435,771
Other homebuilding	521,806	643,164
Financial Services	122,071	205,669
Corporate and unallocated (d)	1,005,955	1,036,351
Consolidated total	$ 4,191,242	$ 4,714,671

(a) Operating (loss) income includes charges related to the abandonment of lot option agreements totaling $44.8 million and $10.7 million for the three months ended June 30, 2007 and 2006 and $89.1 million and $19.5 million for the nine months ended June 30, 2007 and 2006, respectively. Operating (loss) income also includes inventory impairment charges in the amounts of $109.4 million and $310.8 million for the three and nine months ended June 30, 2007 and $0.8 million for the three and nine months ended June 30, 2006, respectively, which have been recorded in the segments to which the inventory relates (see Note 3).

(b) Corporate and unallocated includes amortization of capitalized interest and numerous shared services functions that benefit all segments, the costs of which are not allocated to the operating segments reported above including information technology, national sourcing and purchasing, treasury, corporate finance, legal, branding and other national marketing costs. Corporate and unallocated for the three and nine months ended June 30, 2007 also includes a $29.8 million non-cash goodwill impairment charge to write-off all of the goodwill allocated to certain underperforming markets in Florida, Northern California and Nevada.

(c) Segment assets as of both June 30, 2007 and September 30, 2006 include goodwill assigned from prior acquisitions.

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

(11) Supplemental Guarantor Information

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

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

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS						
Cash and cash equivalents	$ 176,050	$ -	$ 8,811	$ 237	$ (61,189)	$ 123,909
Restricted cash	-	5,492	-	-	-	5,492
Accounts receivable	-	71,885	1,034	22	-	72,941
Income tax receivable	42,209	-	-	-	-	42,209
Owned inventory	-	2,906,689	-	-	-	2,906,689
Consolidated inventory not owned	-	412,533	-	-	-	412,533
Residential mortgage loans available-for-sale	-	-	24,354	-	-	24,354
Investments in unconsolidated joint ventures	3,093	129,829	-	-	-	132,922
Deferred tax assets	179,272	-	164	-	-	179,436
Property, plant and equipment, net	-	76,318	803	2	-	77,123
Goodwill	-	91,616	-	-	-	91,616
Investments in subsidiaries	1,574,936	-	-	-	(1,574,936)	-
Intercompany	1,267,861	(1,413,918)	50,800	6,645	88,612	-
Other assets	19,901	92,984	854	8,279	-	122,018
Total assets	$ 3,263,322	$ 2,373,428	$ 86,820	$ 15,185	$ (1,547,513)	$ 4,191,242
LIABILITIES AND STOCKHOLDERS' EQUITY						
Trade accounts payable	-	92,016	45	-	-	92,061
Other liabilities	46,191	404,598	5,052	7,949	10,650	474,440
Intercompany	(2,414)	-	-	2,414	-	-
Obligations related to consolidated inventory not owned	-	263,050	-	-	-	263,050
Senior notes (net of discounts of $3,151)	1,521,849	-	-	-	-	1,521,849
Junior subordinated notes	103,093	-	-	-	-	103,093
Warehouse line	-	-	20,774	-	-	20,774
Other notes payable		121,372	-	-	-	121,372
Model home financing obligations	116,522	-	-	-	-	116,522

Total liabilities	1,785,241	881,036	25,871	10,363	10,650	2,713,161
Stockholders' equity	1,478,081	1,492,392	60,949	4,822	(1,558,163)	1,478,081
Total liabilities and stockholders' equity	$ 3,263,322	$ 2,373,428	$ 86,820	$ 15,185	$ (1,547,513)	$ 4,191,242

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Beazer Homes USA, Inc.
Consolidating Balance Sheet Information
September 30, 2006
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp.	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS						
Cash and cash equivalents	$ 254,915	$ -	$ 10,664	$ 829	$ (98,838)	$ 167,570
Restricted cash	-	4,873	-	-	-	4,873
Accounts receivable	-	333,514	4,331	188	-	338,033
Owned inventory	-	3,137,021	-	-	-	3,137,021
Consolidated inventory not owned	-	471,441	-	-	-	471,441
Residential mortgage loans available-for-sale	-	-	92,157	-	-	92,157
Investments in unconsolidated joint ventures	3,093	121,706	-	-	-	124,799
Deferred tax assets	70,847	-	497	-	-	71,344
Property, plant and equipment, net	-	75,498	954	2	-	76,454
Goodwill	-	121,368	-	-	-	121,368
Investments in subsidiaries	1,858,513	-	-	-	(1,858,513)	-
Intercompany	1,365,588	(1,550,974)	52,568	5,792	127,026	-
Other assets	22,751	76,908	2,419	7,533	-	109,611
Total Assets	$ 3,575,707	$ 2,791,355	$ 163,590	$ 14,344	$ (1,830,325)	$ 4,714,671
LIABILITIES AND STOCKHOLDERS' EQUITY						
Trade accounts payable	$ -	$ 139,876	$ 132	$ -	$ -	$ 140,008
Other liabilities	75,407	454,506	9,168	8,310	10,363	557,754
Intercompany	(1,761)	-	-	1,761	-	-
Obligations related to consolidated inventory not owned	-	330,703	-	-	-	330,703
Senior Notes (net of discounts of $3,578)	1,551,422	-	-	-	-	1,551,422
Junior subordinated notes	103,093	-	-	-	-	103,093
Warehouse Line	-	-	94,881	-	-	94,881
Other secured notes payable	-	89,264	-	-	-	89,264
Model home financing obligations	117,079	-	-	-	-	117,079
Total Liabilities	1,845,240	1,014,349	104,181	10,071	10,363	2,984,204

Stockholders’ Equity	1,730,467	1,777,006	59,409	4,273	(1,840,688)	1,730,467
Total Liabilities and Stockholders’ Equity	$ 3,575,707	$ 2,791,355	$ 163,590	$ 14,344	$ (1,830,325)	$ 4,714,671

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

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp. (a)	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	$ -	$ 752,968	$ 8,225	$ 488	$ (3,535)	$ 758,146
Home construction and land sales expenses	37,394	617,449	-	-	(10,889)	643,954
Inventory impairments and option contract abandonments	-	154,244	-	-	-	154,244
Gross (loss) profit	(37,394)	(18,725)	8,225	488	7,354	(40,052)
Selling, general and administrative expenses	-	96,181	7,761	189	-	104,131
Depreciation and amortization	-	7,773	107	-	-	7,880
Goodwill impairment	-	29,752	-	-	-	29,752
Operating (loss) income	(37,394)	(152,431)	357	299	7,354	(181,815)
Equity in (loss) of unconsolidated joint ventures	-	(939)	-	-	-	(939)
Royalty and management fee expense	-	469	(469)	-	-	-
Other income, net	-	2,617	67	47	-	2,731
(Loss) income before income taxes	(37,394)	(150,284)	(45)	346	7,354	(180,023)
(Benefit from) provision for income taxes	(15,516)	(49,041)	17	141	3,123	(61,276)
Equity in income of subsidiaries	(96,869)	-	-	-	96,869	-
Net (loss) income	$ (118,747)	$ (101,243)	$ (62)	$ 205	$ 101,100	$ (118,747)

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

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp. (a)	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	$ -	$ 2,371,672	$ 27,503	$ 1,376	$ (10,537)	$ 2,390,014
	112,102	1,938,008	-	-	(37,960)	2,012,150

Home construction and land sales expenses						
Inventory impairments and option contract abandonments	-	399,856	-	-	-	399,856
Gross (loss) profit	(112,102)	33,808	27,503	1,376	27,423	(21,992)
Selling, general and administrative expenses	-	301,633	23,271	611	-	325,515
Depreciation and amortization		22,838	331	-	-	23,169
Goodwill impairment	-	29,752	-	-	-	29,752
Operating (loss) income	(112,102)	(320,415)	3,901	765	27,423	(400,428)
Equity in (loss) of unconsolidated joint ventures	-	(7,012)	-	-	-	(7,012)
Royalty and management fee expense	-	1,568	(1,568)	-	-	-
Other income, net	-	7,738	185	132	-	8,055
(Loss) income before income taxes	(112,102)	(318,121)	2,518	897	27,423	(399,385)
(Benefit from) provision for income taxes	(43,534)	(111,986)	978	348	10,650	(143,544)
Equity in income of subsidiaries	(187,273)	-	-	-	187,273	-
Net (loss) income	$ (255,841)	$ (206,135)	$ 1,540	$ 549	$ 204,046	$ (255,841)

(a) Effective January 2006, Beazer Mortgage Corp. is no longer a guarantor of the Senior Notes.

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Beazer Homes USA, Inc.
Condensed Consolidating Statement of Operations Information
Three Months Ended June 30, 2006
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp. (a)	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	$ -	$ 3,504,056	$ 12,392	$ 80	$ (4,576)	$ 1,191,952
Home construction and land sales expenses	32,877	878,381	-	-	(15,693)	895,565
Inventory impairments and option contract abandonments	-	10,721	-	-	-	10,721
Gross (loss) profit	(32,877)	294,954	12,392	80	11,117	285,666
Selling, general and administrative expenses	-	140,662	10,056	309	-	151,027
Depreciation and amortization		9,813	106	-	-	9,919
Operating (loss) income	(32,877)	144,479	2,230	(229)	11,117	124,720
Equity in (loss) of unconsolidated joint ventures	-	1,127	-	-	-	1,127
Royalty and management fee expense	-	706	(706)	-	-	-
Other income, net	-	(480)	-	407	-	(73)
(Loss) income before income taxes	(32,877)	145,832	1,524	178	11,117	125,774
(Benefit from) provision for income taxes	(11,758)	51,320	549	62	3,992	44,165
Equity in income of subsidiaries	102,728	-	-	-	(102,728)	-
Net (loss) income	$ 81,609	$ 94,512	$ 975	$ 116	$ (95,603)	$ 81,609

Beazer Homes USA, Inc.
Condensed Consolidating Statement of Operations Information
Nine Months Ended June 30, 2006
(in thousands)

	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Beazer Mortgage Corp. (a)	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Total revenue	$ -	$ 3,504,597	$ 36,644	$ 284	$ (12,890)	$ 3,528,635

Home construction and land sales expenses	86,771	2,555,150	-	-	(39,912)	2,602,009
Inventory impairments and option contract abandonments	-	20,352	-	-	-	20,352
Gross (loss) profit	(86,771)	929,095	36,644	284	27,022	906,274