BEAZER HOMES USA INC
Form 10-K
December 02, 2008

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

FORM 10-K

(Mark One)

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2008

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 001-12822

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

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

1000 Abernathy Road, Suite 1200, Atlanta, Georgia 30328
(Address of principal executive offices) (Zip code)
(770) 829-3700
(Registrant s telephone number including area code)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the registrant s Common Stock held by non-affiliates of the registrant (39,234,305 shares) as of March 31, 2008, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was $370,764,182.

The number of shares outstanding of the registrant s Common Stock as of November 28, 2008 was 39,269,431.

DOCUMENTS INCORPORATED BY REFERENCE

	Part of 10-K where incorporated
Portions of the registrant s Proxy Statement for the 2009 Annual Meeting of Stockholders	III

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

FORWARD-LOOKING STATEMENTS

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

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

- the timing and final outcome of the United States Attorney 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;
- 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 or reductions in our tangible net worth or liquidity levels;
- potential inability to comply with covenants in our debt agreements;
- 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;
- 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.

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PART I

Item 1. Business

We are a geographically diversified homebuilder with active operations in 17 states. Our homes are designed to appeal to homeowners at various price points across various demographic segments and are generally offered for sale in advance of their construction. Our objective is to provide our customers with homes that incorporate exceptional value and quality while seeking to maximize our return on invested capital over time.

Our principal executive offices are located at 1000 Abernathy Road, Suite 1200, Atlanta, Georgia 30328, telephone (770) 829-3700. We also provide information about our active communities through our Internet website located at http://www.beazer.com. Information on our website is not a part of and shall not be deemed incorporated by reference in this report.

Industry Overview and Current Market Conditions

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

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

The supply of new homes within specific geographic markets consists of both new homes built pursuant to pre-sale arrangements and speculative homes (frequently referred to as spec homes) built by home builders prior to their sale. The ratio of pre-sold to spec homes differs both by geographic market and over time within individual markets based on a wide variety of factors, including the availability of land and lots, access to construction financing, the availability and cost of construction labor and materials, the inventory or existing homes for sale and job growth characteristics. Consumer preferences also play a role. In rapidly growing markets characterized by relatively few available new homes, presale homes are very common. In markets characterized by a significant supply of newly built and existing homes, spec homes tend to represent a larger portion of new home sales as builders attempt to reduce their inventories of completed homes.

In general, high levels of employment, low mortgage interest rates and low new home and resale inventories contribute to a strong and growing homebuilding market environment. Conversely, rising unemployment, higher interest rates and larger new and existing home inventories generally lead to weak industry conditions.

While we believe that long-term fundamentals for new home construction remain intact, beginning in mid-fiscal 2006, accelerating through fiscal 2008 and continuing into fiscal 2009, the homebuilding industry has experienced a significant downturn. Most housing markets across the United States can be characterized as suffering from an oversupply of new and resale home inventory, reduced levels of consumer demand for new homes, high cancellation rates, aggressive price competition among homebuilders including a growing number of foreclosed homes offered at substantially reduced prices, and a continued significant level of incentives for home sales. The effect of the downturn in the homebuilding industry became more severe in 2008 due to market disruptions resulting from the deterioration in the credit quality of loans originated to non-prime and subprime borrowers. This mortgage crisis ultimately led to reduced availability for mortgage products and reduced investor demand for mortgage loans and mortgage-backed securities. These developments have severely impacted consumer confidence and demand for our homes. While the ultimate outcome of these events cannot be predicted, they have made it more difficult for homebuyers to obtain acceptable financing.

In addition, the United States economy has suffered from a significant reduction in consumer confidence amid a severe decline in the availability of credit to all industries. Specifically, in the fourth quarter of our fiscal 2008, the deterioration in the overall economy accelerated, characterized by several bankruptcies, financial institution failures and consolidations, increased stock market volatility, and an unprecedented level of intervention in the capital markets by the United States federal government. This government intervention has included government control of Federal National Mortgage Association, or Fannie Mae , and Federal Home Loan Mortgage Company, or Freddie Mac , as well as the enactment of the $700 billion Emergency Economic Stabilization Act of 2008 (EESA). EESA was enacted into law on October 3, 2008. EESA authorizes up to $700 billion in new spending authority for the United States Secretary of the Treasury (the Secretary) to purchase, manage and ultimately dispose of troubled assets. The provisions of this law include an expansion of the Hope for Homeowners Program. This program allows the Secretary to use loan guarantees and credit enhancements so that loans can be modified to prevent foreclosures. Also, the Secretary can consent to term extensions, rate-reductions and principal write-downs. Federal agencies that own mortgage loans are directed to seek modifications prior to foreclosures. While we expect the impact of this legislation will generally be favorable to the economy, the impact on our operations is not yet determinable.

The Housing and Economic Recovery Act of 2008 (HERA) was enacted into law on July 30, 2008. Among other things, HERA provides for a temporary first-time home buyer tax credit for purchases made through July 1, 2009; reforms of Fannie Mae and Freddie Mac, including adjustments to the conforming loan limits; modernization and expansion of the Federal Housing Administration (FHA), including an increase to 3.5% in the minimum down payment required for FHA loans; and the elimination of seller-funded down payment assistance programs for FHA loans approved after September 30, 2008. Overall, HERA is intended to help stabilize and add consumer confidence to the housing industry. However, certain of the changes, such as the elimination of the down payment assistance programs and the increase in minimum down payments, may adversely impact the ability of potential homebuyers to afford to purchase a new home or obtain financing. The down payment assistance programs were utilized for a number of our home closings in fiscal 2008. We are currently evaluating the impact HERA will have on our business and future results of operations.

As a result of these factors, we, like many other homebuilders, have experienced a material reduction in revenues and margins and we incurred significant net losses in fiscal 2007 and 2008. These net losses were driven primarily by asset impairment and lot option abandonment charges incurred in both fiscal 2007 and 2008. Please see *Management s Discussion and Analysis of Results of Operations and Financial Condition* for additional information.

We have responded to this challenging environment with a disciplined operating approach, responding to what was during fiscal 2007 and 2008 and what we expect will continue to be a challenging environment for the homebuilding industry. We continue to make reductions in direct costs and overhead expenses and remain committed to aligning our land supply and inventory levels to current expectations for lower home closings, exercising caution with respect to further investment in inventory. We have focused on the generation of cash from our existing inventory supply as the timing of a market recovery in housing is currently uncertain.

We have also undertaken a comprehensive review of each of our markets in order to refine our overall investment strategy and to optimize capital and resource allocations in an effort to enhance our financial position and to increase shareholder value. This review entailed an evaluation of both external market factors and our position in each market which has resulted in the decision to discontinue homebuilding operations in Charlotte, NC, Cincinnati/Dayton, OH, Columbia, SC, Columbus, OH and Lexington, KY which was announced on February 1, 2008 and in Colorado and Fresno, CA which were announced during the third quarter of fiscal 2008. We are actively completing an orderly exit from each of these markets and remain committed to our remaining customer care responsibilities. We have committed to complete all homes under construction in these markets and we are in the process of marketing the remaining land positions for sale. While the underlying basis for exiting each market was different, in each instance we concluded we could better serve shareholder interests by re-allocating the capital employed in these markets. As of September 30, 2008, these markets represented approximately 2% of the Company s total assets.

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

Long-Term Business Strategy

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

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

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

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

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

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

Reportable Business Segments

We design, sell and build single-family and multi-family homes in the following geographic regions which are presented as reportable segments. During fiscal 2008, in connection with our realignment of management, operational and financial reporting lines and our decision to exit a number of markets, we have

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correspondingly realigned our reportable segments. Those operations located in markets we have exited or are in the process of exiting are included in the Other Homebuilding segment:

Segment/State	Market(s) / Year Entered
West:	
Arizona	Phoenix (1993)
California	Los Angeles County (1993), Orange County (1993), Riverside and San Bernardino Counties (1993), San Diego County (1992), Ventura County (1993), Sacramento (1993), Kern County (2005)
Nevada	Las Vegas (1993)
New Mexico	Albuquerque (2005)
Texas	Dallas/Ft. Worth (1995), Houston (1995)
East:	
Maryland	Baltimore (1998), Metro-Washington, D.C. (1998)
Delaware	Delaware (2003)
New Jersey/New York/ Pennsylvania	Central and Southern New Jersey (1998), Orange County, NY (2005), Bucks County, PA (1998)
Virginia	Fairfax County (1998), Loudoun County (1998), Prince William County (1998)
North Carolina	Raleigh/Durham (1992)
Indiana	Indianapolis (2002)
Tennessee	Nashville (1987)
Southeast:	
Florida	Jacksonville (1993), Fort Myers/Naples (1996), Tampa/St. Petersburg (1996), Orlando (1997), Sarasota (2005), Tallahassee (2006)
Georgia	Atlanta (1985), Savannah (2005)
South Carolina	Charleston (1987), Myrtle Beach (2002)
Other Homebuilding (Exit Markets):	
California	Fresno (2005)
Colorado	Denver (2001), Colorado Springs (2003)
Kentucky	Lexington (2002)
North Carolina	Charlotte (1987), Greensboro (1999)
Ohio	Columbus (2002), Cincinnati/Dayton (2002)
Tennessee	Memphis (2002)
South Carolina	Columbia (1993)

Our Other Homebuilding segment includes those markets that we have decided to exit. These operations will be reported as discontinued operations upon cessation of all activities in these markets.

Financial Services:
We provide title services to our customers in many of our markets and report these services under our Financial Services reportable segment.

Seasonal and Quarterly Variability

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

Markets and Product Description

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

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

During fiscal year 2008, the average sales price of our homes closed was approximately $248,700. The following table summarizes certain operating information of our reportable homebuilding segments as of and for the years ended September 30, 2008, 2007 and 2006 (dollars in thousands). Please see *Management s Discussion and Analysis of Results of Operations and Financial Condition* for additional information.

	2008		2007		2006	
	Number of Homes Closed	Average Closing Price	Number of Homes Closed	Average Closing Price	Number of Homes Closed	Average Closing Price
West	2,777	$ 240.5	4,369	$ 288.5	6,484	$ 311.4
East	2,405	279.9	2,821	313.2	4,617	306.8
Southeast	1,515	232.0	2,970	258.9	4,483	266.3
Other	995	221.8	1,860	226.6	2,777	221.9
Total Company	7,692	$ 248.7	12,020	$ 277.4	18,361	$ 285.7

	September 30, 2008		September 30, 2007		September 30, 2006	
	Units in Backlog	Dollar Value in Backlog	Units in Backlog	Dollar Value in Backlog	Units in Backlog	Dollar Value in Backlog
West	527	$ 117,721	805	$ 217,122	1,730	$ 558,994
East	485	132,766	1,317	410,659	1,322	464,629
Southeast	306	67,959	490	123,309	1,343	373,484
Other	40	8,153	373	87,716	707	158,349
Total Company	1,358	$ 326,599	2,985	$ 838,806	5,102	$ 1,555,456

Corporate Operations

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

- evaluate and select geographic markets;
- allocate capital resources to particular markets for land acquisitions;
- maintain and develop relationships with lenders and capital markets to create access to financial resources;
- plan and design homes and community projects;
- operate and manage information systems and technology support operations; and
- monitor the operations of our subsidiaries and divisions.

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

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Field Operations

The development and construction of each project is managed by our operating divisions, each of which is generally led by a market leader who, in turn, reports to a regional president and indirectly to our Chief Operating Officer. At the development stage, a manager (who may be assigned to several projects and reports to the market leader of the division) supervises development of buildable lots. During fiscal 2008, we reorganized our field operations into three regions and concentrated certain accounting, accounts payable, billing and purchasing functions in regional accounting centers. Together with our operating divisions, our field teams are equipped with the skills to complete the functions of identification of land acquisition opportunities, land entitlement, land development, construction, marketing, sales and warranty service.

Land Acquisition and Development

Generally, the land we acquire is purchased only after necessary entitlements have been obtained so that we have the right to begin development or construction as market conditions dictate. During the current downturn in the homebuilding industry, we do not expect to make significant land acquisitions but we will continue to consider attractive opportunities as they arise. In certain situations, we will purchase property without all necessary entitlements where we perceive an opportunity to build on such property in a manner consistent with our strategy. The term entitlements refers to subdivision approvals, development agreements, tentative maps or recorded plats, depending on the jurisdiction within which the land is located. Entitlements generally give a developer the right to obtain building permits upon compliance with conditions that are usually within the developer s control. Although entitlements are ordinarily obtained prior to the purchase of land, we are still required to obtain a variety of other governmental approvals and permits during the development process.

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

- internal and external demographic and marketing studies;
- suitability for development during the time period of one to five years from the beginning of the development process to the last closing;
- centralized corporate-level management review of all significant land decisions;
- financial review as to the feasibility of the proposed project, including profit margins and returns on capital employed;
- the ability to secure governmental approvals and entitlements;
- environmental and legal due diligence;
- competition in the area;
- proximity to local traffic corridors and amenities; and
- management s judgment as to the real estate market and economic trends and our experience in a particular market.

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

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

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

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Under option contracts, both with and without specific performance, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our obligations with respect to options with specific performance are included on our consolidated balance sheet in other liabilities at September 30, 2008. At September 30, 2008, we were committed to future amounts under option contracts with specific performance obligations that aggregated $56.0 million, net of cash deposits. 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 $50.8 million at September 30, 2008. This amount includes non-refundable letters of credit of approximately $7.4 million. At September 30, 2008, future amounts under option contracts without specific performance obligations aggregated approximately $508.2 million, net of cash deposits.

The following table sets forth, by reportable segment, land controlled by us as of September 30, 2008:

	Lots Owned							
	Undeveloped Lots (1)	Lots for Current and Future Development	Finished Lots	Land Held for Sale	Homes Under Construction (2)	Total Lots Owned	Total Lots Under Contract	Total Lots Controlled
West								
Arizona	-	680	546	826	150	2,202	792	2,994
California	-	3,931	1,032	238	436	5,637	174	5,811
Nevada	-	895	502	-	124	1,521	1,448	2,969
Texas	85	1,106	1,850	-	360	3,401	528	3,929
New Mexico	-	-	90	-	18	108	162	270
Total West	85	6,612	4,020	1,064	1,088	12,869	3,104	15,973
East								
Virginia	-	-	339	-	134	473	473	946
Maryland	-	573	828	-	176	1,577	509	2,086
Delaware	-	906	157	-	36	1,099	217	1,316
Indiana	294	1,655	1,104	265	237	3,555	162	3,717
North Carolina	-	339	97	190	66	692	107	799
Tennessee	-	1,151	10	-	93	1,254	651	1,905
New Jersey	-	165	292	-	99	556	870	1,426
Total East	294	4,789	2,827	455	841	9,206	2,989	12,195
Southeast								
Georgia	-	88	183	162	86	519	-	519

Florida	-	1,518	856	206	241	2,821	2,907	5,728
South Carolina	-	1,160	548	59	152	1,919	1,504	3,423
Total Southeast	-	2,766	1,587	427	479	5,259	4,411	9,670
Other								
Exit Markets	-	-	35	1,703	51	1,789	-	1,789
Total	379	14,167	8,469	3,649	2,459	29,123	10,504	39,627

(1) Undeveloped Lots consists of raw land that is expected to be developed into the respective number of lots reflected in this table.

(2) The category Homes Under Construction represents lots upon which construction of a home has commenced.

The following table sets forth, by reportable segment, land held for development, land held for future development and land held for sale as of September 30, 2008:

	Land Held for Development	Land Held for Future Development	Land Held for Sale
West	$ 171,293	$ 341,784	$ 26,515
East	239,101	44,387	3,642
Southeast	104,134	21,149	14,841
Other	1,722	-	40,738
Unallocated	102,002	-	-
Total	$ 618,252	$ 407,320	$ 85,736

Joint Ventures. We participate in land development joint ventures in which Beazer Homes has less than a controlling interest. We enter into joint ventures in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. During fiscal 2008 and 2007 respectively, we wrote down our investment in certain of our joint ventures by $68.8 million and $28.6 million as a result of impairments of inventory held within those ventures. In fiscal 2007, we also recorded $3.4 million of contractual obligation abandonments related to those ventures.

Our joint ventures typically obtain secured acquisition, development and construction financing. At September 30, 2008, our unconsolidated joint ventures had borrowings outstanding totaling $524.4 million of which $327.9 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 September 30, 2008, these guarantees included, for certain joint ventures, construction completion guarantees, loan to value maintenance agreements, repayment guarantees and environmental indemnities (see Note 13 to the Consolidated Financial Statements).

Construction

We typically act as the general contractor for the construction of our projects. Our project development operations are controlled by our operating divisions, whose employees supervise the construction of each project, coordinate the activities of subcontractors and suppliers, subject their work to quality and cost controls and assure compliance with zoning and building codes. We specify that quality, durable materials be used in the construction of our homes. Our subcontractors follow design plans prepared by architects and engineers who are retained or directly employed by us and whose designs are geared to the local market. A majority of our home plans are prepared in our corporate office, allowing us to ensure the quality of the plans we build as well as to enable us to reduce direct costs through our value engineering efforts.

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

Construction time for our homes depends on the availability of labor, materials and supplies, product type and location. Homes are designed to promote efficient use of space and materials, and to minimize construction costs and time. In all of our markets, construction of a home is typically completed within three to six months following commencement of construction. At September 30, 2008, excluding models, we had 2,041 homes at various stages of completion of which 1,057 were under contract and included in backlog at such date and 984 homes (408 were completed and 576 under construction) were not under a sales contract, either because the construction of the home was begun without a sales contract or because the original sales contract had been cancelled.

Warranty Program

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

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

In addition, we maintain third-party insurance, subject to applicable self-insured retentions, for most construction defects that we encounter in the normal course of business. We believe that our accruals and third-party insurance are adequate to cover the ultimate resolution of our potential liabilities associated with known and anticipated warranty and construction defect related claims and litigation. Please see *Management s Discussion and Analysis of Results of Operations and Financial Condition* and Note 13, Contingencies to the Consolidated Financial Statements for additional information.

There can be no assurance, however, that the terms and limitations of the limited warranty will be effective against claims made by the homebuyers, that we will be able to renew our insurance coverage or renew it at reasonable rates, that we will not be liable for damages, the cost of repairs, and/or the expense of litigation surrounding possible construction defects, soil subsidence or building related claims or that claims will not arise out of events or circumstances not covered by insurance and/or not subject to effective indemnification agreements with our subcontractors.

Marketing and Sales

We make extensive use of advertising and other promotional activities, including our Internet website (http://*www.beazer.com*), mass-media advertisements, brochures, direct mail, billboards and the placement of strategically located signboards in the immediate areas of our developments.

We normally build, decorate, furnish and landscape model homes for each project and maintain on-site sales offices. At September 30, 2008, we maintained 503 model homes, of which 222 were owned, 196 were financed and 85 were leased from third parties pursuant to sale and leaseback agreements. We believe that model homes play a particularly important role in our marketing efforts.

We generally sell our homes through commissioned employees (who typically work from the sales offices located at the model homes used in the subdivision) as well as through independent brokers. Our personnel are available to assist prospective homebuyers by providing them with floor plans, price information and tours of model homes, and in connection with the selection of options. The selection of interior features is a principal component of our marketing and sales efforts. Sales personnel are trained by us and attend periodic meetings to be updated on sales techniques, competitive products in the area, the availability of financing, construction schedules and marketing and advertising plans, which management believes results in a sales force with extensive knowledge of our operating policies and housing products. Our policy also provides that sales personnel be licensed real estate agents where required by law. Depending on market conditions, we also at times begin construction on a number of homes for which no signed sales contract exists. The use of an inventory of such homes satisfies the requirements of relocated personnel and of independent brokers, who often represent customers who require a completed home within

60 days. We sometimes use various sales incentives in order to attract homebuyers. The use of incentives depends largely on local economic and competitive market conditions.

Customer Financing

Through January 31, 2008, Beazer Mortgage Corporation (Beazer Mortgage) financed certain of our mortgage lending activities with borrowings under its warehouse line of credit or from general corporate funds prior to selling the loans and their servicing rights shortly after origination to third-party investors. Beazer Mortgage provided qualified homebuyers numerous financing options, including a wide variety of conventional, FHA and Veterans Administration (VA) financing programs. 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. The operating results of Beazer Mortgage are reported as discontinued operations in the Consolidated Statements of Operations for all periods presented. See Item 3 Legal Proceedings for discussion of the investigations and litigation related to our mortgage origination business.

We continue to offer title insurance services to our homebuyers in many of our markets.

Competition

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

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

Government Regulation and Environmental Matters

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

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

In order to provide homes to homebuyers qualifying for FHA-insured or VA-guaranteed mortgages, we must construct homes in compliance with FHA and VA regulations. Our title subsidiaries are subject to various licensing requirements and real estate laws and regulations in the states in which they do business. These laws and regulations include provisions regarding operating procedures, investments, lending and privacy disclosures, forms of policies and premiums.

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

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

Bonds and Other Obligations

We are frequently required, in connection with the development of our projects, to provide letters of credit and performance, maintenance and other bonds in support of our related obligations with respect to such developments. The amount of such obligations outstanding at any time varies in accordance with our pending development activities. In the event any such bonds or letters of credit are drawn upon, we would be obligated to reimburse the issuer of such bonds or letters of credit. At September 30, 2008 we had approximately $50.8 million and $384.1 million of outstanding letters of credit and performance bonds, respectively, related to our obligations to local governments to construct roads and other improvements in various developments, which were in addition to outstanding letters of credit of approximately $11.6 million related to our land option contracts.

Employees and Subcontractors

At September 30, 2008, we employed 1,444 persons, of whom 445 were sales and marketing personnel and 331 were involved in construction. Although none of our employees are covered by collective bargaining agreements, certain of the subcontractors engaged by us are represented by labor unions or are subject to collective bargaining arrangements. We believe that our relations with our employees and subcontractors are good. In response to the continued weakness in the homebuilding market and economy in general, in fiscal 2008 we reduced our number of employees by 45% or 1,175 employees as compared to September 30, 2007.

Available Information

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

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

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

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Item 1A. Risk Factors

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

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

In addition, we have been experiencing a significant increase in the number of cancellations by customers. Our backlog reflects the number and value of homes for which we have entered into a sales contract with a customer but have not yet delivered the home. Although these sales contracts typically require a cash deposit and do not make the sale contingent on the sale of the customer s existing home, in some cases a customer may cancel the contract and receive a complete or partial refund of the deposit as a result of local laws or as a matter of our business practices. If the current industry downturn continues, economic conditions continue to deteriorate or if mortgage financing becomes less accessible, more homebuyers may have an incentive to cancel their contracts with us, even where they might be entitled to no refund or only a partial refund, rather than complete the purchase. Significant cancellations have had, and could have, a material adverse effect on our business as a result of lost sales revenue and the accumulation of unsold housing inventory. In particular, our cancellation rates for the fiscal quarter and fiscal year ended September 30, 2008 were 45.7% and 39.9%, respectively. It is important to note that both backlog and cancellation metrics are operational, rather than accounting data, and should be used only as a general gauge to evaluate performance. There is an inherent imprecision in these metrics based on an evaluation of qualitative factors during the transaction cycle.

Based on our impairment tests and consideration of the current and expected future market conditions, we recorded inventory impairment charges of $429.4 million, lot option abandonment charges of $81.2 million and non-cash goodwill impairment charges totaling $52.5 million during fiscal 2008. During fiscal 2008, we also wrote down our investment in certain of our joint ventures reflecting $68.8 million of impairments of inventory held within those ventures. While we believe that no additional goodwill, joint venture investment or inventory impairments existed as of September 30, 2008, future economic or financial developments, including general interest rate increases, poor performance in either the national economy or individual local economies, or our ability to meet our projections could lead to future impairments.

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

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

We are the subject of ongoing governmental criminal and civil investigations and pending civil litigation which could result in criminal charges and could require us to pay substantial fines, damages or other penalties or could otherwise have a material adverse effect on us. The failure to fulfill our obligations under the consent order with the SEC could have a material adverse effect on our operations.

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 and other federal and state agencies.

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We and certain of our current and former employees, officers and directors have been named as defendants in securities class action lawsuits, lawsuits regarding Employee Retirement Income Security Act (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 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 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 investigation could result in the filing of criminal charges or 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 cash flows. An unfavorable determination in any of the lawsuits could result in the payment by us of substantial monetary damages which may not be covered by insurance. Further, the legal costs associated with the 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. In addition to expenses incurred to defend the Company in these matters, under Delaware law and our bylaws, we may have an obligation to indemnify our current and former officers and directors in relation to these matters. We have obligations to advance legal fees and expenses to certain directors and officers, and we have advanced, and may continue to advance, legal fees and expenses to certain other current and former employees.

In connection with the settlement with the SEC, we consented, without admitting or denying any wrongdoing, to a cease and desist order requiring future compliance with certain provisions of the federal securities laws and regulations. If we are found to be in violation of the order in the future, we may be subject to penalties and other adverse consequences as a result of the prior actions.

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

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

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

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

S&P lowered its rating of the Company s corporate credit and senior unsecured debt from B to B- on November 25, 2008 and maintained its negative outlook. On March 26, 2008, Moody s lowered its rating from B1 to B2 and maintained its negative outlook. On September 4, 2008, Fitch lowered the Company s issuer-default rating from B to B-. The rating agencies announced that these downgrades reflect deterioration in our homebuilding operations, credit metrics and other earnings-based metrics and their outlook for our future earnings, as well as possible distractions resulting from the ongoing investigations described elsewhere herein. These ratings and our current credit condition affect, among other things, our ability to access new capital, especially debt, and may result in more stringent covenants and higher interest rates under the terms of any new debt. Our credit ratings could be further lowered or rating agencies could issue adverse commentaries in the future, which could have a material adverse effect on our business, results of operations, financial condition and liquidity. In particular, a further weakening of our financial condition, including any further increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, result in a credit rating downgrade or change in outlook, or otherwise increase our cost of borrowing.

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

Our revolving credit facility imposes certain restrictions and obligations on us. The facility size is dependent upon certain consolidated tangible net worth qualifications. Availability under the facility is also subject to satisfaction of a secured borrowing base. We are permitted to grow the borrowing base by adding additional cash and/or real estate as collateral securing the revolving credit facility. In addition, we must comply with other covenants which, among other things, require us to maintain minimum tangible net worth and liquidity levels and limit the incurrence of liens, secured debt, investments, transactions with affiliates, asset sales, mergers and other matters. Any failure to comply with any of these covenants could result in an event of default under the revolving credit facility. Any such event of default, any other default or any failure of our representations and warranties in the credit agreement to be correct in all material respects on the date of a proposed borrowing would also prohibit our ability to make borrowings under the revolving credit facility and could negatively impact other covenants or lead to defaults under certain of our other debt. We have in the past needed waivers and amendments under this facility with respect to financial covenants and other matters. There can be no assurance that we will be able to obtain any future waivers or amendments that may become necessary without significant additional cost or at all. The indentures under which our senior notes were issued and certain of our other debt contain similar covenants.

As of September 30, 2008, we had total outstanding indebtedness of approximately $1.75 billion, net of unamortized discount of approximately $2.6 million. Our substantial indebtedness could have important consequences to us and the holders of our securities, including, among other things:

- causing us to be unable to satisfy our obligations under our debt agreements;
- making us more vulnerable to adverse general economic and industry conditions;
- making it difficult to fund future working capital, land purchases, acquisitions, share repurchases, general corporate purposes or other purposes; and
- causing us to be limited in our flexibility in planning for, or reacting to, changes in our business.

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

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

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

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

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

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

We regularly acquire land for replacement and expansion of land inventory within our existing and new markets. The risks inherent in purchasing and developing land increase as consumer demand for housing decreases. The market value of land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions and the measures we employ to manage inventory risk may not be adequate to insulate our operations from a severe drop in inventory values. When market conditions are such that land values are not appreciating, previously entered into option agreements may become less desirable, at which time we may elect to forego deposits and preacquisition costs and terminate the agreements. In fiscal 2008, we recorded $81.2 million of lot option abandonment charges. During fiscal 2008, as a result of the further deterioration of the housing market and our strategic decision related to projects which no longer met our internal investment standards, we determined that the carrying amount of certain of our inventory assets exceeded their estimated fair value. As a result of our analysis, during fiscal 2008, we incurred $429.4 million of non-cash pre-tax charges related to inventory impairments. If these adverse market conditions continue or worsen, we may have to incur additional inventory impairment charges which would adversely affect our financial condition, results of operations and stockholders equity.

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

We participate in land development joint ventures (JVs) in which we have less than a controlling interest. We have entered into JVs in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our JVs are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. As a result of the deterioration of the housing market in fiscal 2008 and 2007, we wrote down our investment in certain of our JVs reflecting $68.8 million and $28.6 million of impairments of inventory held within those JVs, respectively. In fiscal 2007 we also recorded $3.4 million of JV contractual obligation abandonments. If these adverse market conditions continue or worsen, we may have to take further writedowns of our investments in our JVs.

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

Our JVs typically obtain secured acquisition, development and construction financing. At September 30, 2008, our unconsolidated JVs had borrowings totaling $524.4 million, of which $327.9 million related to one joint venture in which we are a 2.58% partner. Generally, we and our joint venture partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated JVs. At September 30, 2008, these guarantees

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included, for certain joint ventures, construction completion guarantees, loan-to-value maintenance agreements, repayment guarantees and environmental indemnities. At September 30, 2008, we had repayment guarantees of $39.2 million and loan-to-value maintenance guarantees of $5.8 million of debt of unconsolidated joint ventures (see Notes 3 and 13 to the Consolidated Financial Statements). As the housing market has deteriorated, many of these joint ventures are in default or are at risk of defaulting under their debt agreements and it has become more likely that our guarantees may be called upon. If one or more of these guarantees were drawn upon or otherwise invoked, our obligations could be significant, individually or in the aggregate, which could have a material adverse effect on our financial position or results of operations. We cannot predict whether such events will occur or whether such obligations will be invoked.

We may not be able to utilize all of our deferred tax assets.

As of September 30, 2008, the Company has determined that it is in a cumulative loss position based on the guidance in Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. Due to this cumulative loss position and the lack of sufficient objective evidence regarding the realization of our deferred tax assets in the foreseeable future, we have recorded a valuation allowance for substantially all of our deferred tax assets. Although we do expect the industry to recover from the current downturn to normal profit levels in the future, it may be necessary for us to record additional valuation allowances in the future related to operating losses. Additional valuation allowances could materially increase our income tax expense, and therefore adversely affect our results of operations and tangible net worth in the period in which such valuation allowance is recorded.

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

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

Our stock price is volatile, has recently declined substantially and could continue to decline.

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

- operating results that vary from the expectations of securities analysts and investors;

factors influencing home purchases, such as availability of home mortgage loans and interest rates, credit criteria applicable to prospective borrowers, ability to sell existing residences, and homebuyer sentiment in general;
the operating and securities price performance of companies that investors consider comparable to us;
announcements of strategic developments, acquisitions and other material events by us or our competitors; and

changes in global financial markets and global economies and general market conditions, such as interest rates, commodity and equity prices and the value of financial assets.

To the extent that the price of our common stock remains low or declines further, our ability to raise funds through the issuance of equity or otherwise use our common stock as consideration will be reduced. This, in turn, may adversely impact our ability to reduce our financial leverage, as measured by the ratio of debt to total capital. As of September 30, 2008, our financial leverage was 82.3%. Continued high levels of leverage or further increases may adversely affect our credit ratings and make it more difficult for us to access additional capital. These factors may limit our ability to implement our operating and growth plans.

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

Based on recent impairments and our current financial performance, we generated net operating losses for fiscal 2008 and expect to generate additional net operating losses in future years. In addition, we believe we have significant built-in losses in our assets (i.e. an excess tax basis over current fair market value) that may result in tax losses as such assets are sold. Net operating losses generally may be carried forward for a 20-year period to offset future earnings and reduce our federal income tax liability. Built-in losses, if and when recognized, generally will result in tax losses that may then be deducted or carried forward. However, because we experienced an ownership change under Section 382 of the Internal Revenue Code as of December 31, 2007, our ability to realize these tax benefits may be significantly limited.

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

As a result of our recent ownership change for purposes of Section 382, our ability to use certain of our pre-ownership change net operating loss carryforwards and recognize certain built-in losses or deductions is limited by Section 382 to a maximum amount of approximately $17 million annually. Based on the resulting limitation, a significant portion of our pre-ownership change net operating loss carryforwards and any future recognized built-in losses or deductions could expire before we would be able to use them. Our inability to utilize our pre-ownership change net operating loss carryforwards and any future recognized built-in losses or deductions could have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

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

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

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

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

We and certain of our subsidiaries have been, and continue to be, named as defendants in various construction defect claims, product liability claims, complaints and other legal actions that include claims related to moisture intrusion. Furthermore, plaintiffs may in certain of these legal proceedings seek class action status with potential class sizes that vary from case to case. Class action lawsuits can be costly to defend, and if we were to lose any certified class action suit, it could result in substantial liability for us.

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

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

The costs of insuring against construction defect, product liability and director and officer claims are high. This coverage may become more costly or more restricted in the future.

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

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

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

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

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

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

Our operating results in a future quarter or quarters may fall below expectations of securities analysts or investors and, as a result, the market value of our common stock will fluctuate. We historically have experienced, and expect to continue to experience, variability in home sales and net earnings on a quarterly basis. As a result of such variability, our historical performance may not be a meaningful indicator of future results. Our quarterly results of operations may continue to fluctuate in the future as a result of a variety of both national and local factors, including, among others:

- the timing of home closings and land sales;
- our ability to continue to acquire additional land or secure option contracts to acquire land on acceptable terms;
- conditions of the real estate market in areas where we operate and of the general economy;
- raw material and labor shortages;
- seasonal home buying patterns; and
- other changes in operating expenses, including the cost of labor and raw materials, personnel and general economic conditions.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

As of September 30, 2008, we lease approximately 57,000 square feet of office space in Atlanta, Georgia to house our corporate headquarters. We also lease an aggregate of approximately 494,000 square feet of office space for our subsidiaries operations at various locations. We own an aggregate of 49,388 square feet of office space in Indianapolis, Indiana. We are actively marketing our Indiana office building for sale.

Item 3. Legal Proceedings

Investigations

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

Securities and Exchange Commission Investigation. On July 20, 2007, Beazer Homes received from the SEC a formal order of private investigation to determine whether Beazer Homes and/or other persons or entities involved with Beazer Homes have violated federal securities laws, including, among others, the anti-fraud, books and records, internal accounting controls, periodic reporting and certification provisions thereof. The SEC had previously initiated an informal investigation in this matter in May 2007. On September 24, 2008, the Company settled with the SEC. Under the terms of the settlement, the Company has consented, without admitting or denying any wrongdoing, to a cease and desist order requiring future compliance with certain provisions of the federal securities laws and regulations. The settlement does not require the Company to pay a monetary penalty and concludes the SEC s investigation into these matters with respect to the Company.

Independent Investigation. The Audit Committee of the Beazer Homes Board of Directors has completed the Investigation of Beazer Homes mortgage origination business, including, among other things, investigating certain evidence that the Company s subsidiary, Beazer Mortgage Corporation, violated U.S. Department of Housing and Urban Development (HUD) regulations and may have violated certain other laws and regulations in connection with certain of its mortgage origination activities. The Investigation also found evidence that employees of the Company s Beazer Mortgage Corporation (Beazer Mortgage) 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 included our former practices in the areas of: down payment assistance program; 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 September 30, 2008. In addition, the Investigation identified accounting and financial reporting errors and irregularities which resulted in the restatement of certain prior period consolidated financial statements. The results of the Investigation and restatement are fully described in Notes 14 and 17 to the consolidated financial statements included in Item 8 of our 2007 Form 10-K.

Litigation

Securities Class Action. Beazer Homes and certain of our current and former officers (the Individual Defendants), as well as our Independent Registered Accounting Firm, are named as defendants in putative class action securities litigation pending in the United States District Court for the Northern District of Georgia. Three separate complaints were initially filed between March 29 and May 21, 2007. The cases were subsequently consolidated by the court and the court appointed Glickenhaus & Co. and Carpenters Pension Trust Fund for Northern California as lead plaintiffs. On June 27, 2008, lead plaintiffs filed an Amended and Consolidated Class Action Complaint for Violation of the Federal Securities Laws (Consolidated Complaint), which purports to assert claims on behalf of a class of persons and entities that purchased or acquired the securities of Beazer Homes during the period January 27, 2005 through May 12, 2008. The Consolidated Complaint asserts a claim against the defendants under Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act) and Rule 10b-5 promulgated thereunder for allegedly making materially false and misleading statements regarding our business and prospects, including, among other things, alleged misrepresentations and omissions related to alleged improper lending practices in our mortgage origination business, alleged misrepresentations and omissions related to improper revenue recognition and other accounting improprieties and alleged misrepresentations and omissions concerning our land investments and inventory. The Consolidated Complaint also asserts claims against the Individual Defendants under Sections 20(a) and 20A of the Exchange Act. Lead plaintiffs seek a determination that the action is properly maintained as a class action, an unspecified amount of compensatory damages and costs and expenses, including attorneys fees. On November 3, 2008, the Company and the other defendants filed motions to dismiss the Consolidated Complaint. Briefing of the motion is expected to be completed in February 2009. The Company intends to vigorously defend against these actions.

Derivative Shareholder Actions. Certain of Beazer Homes current and former officers and directors were named as defendants in a derivative shareholder suit filed on April 16, 2007 in the United States District Court for the Northern District of Georgia. The complaint also names Beazer Homes as a nominal defendant. The complaint, purportedly on behalf of Beazer Homes, alleges that the defendants (i) violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder; (ii) breached their fiduciary duties and misappropriated information; (iii) abused their control; (iv) wasted corporate assets; and (v) were unjustly enriched. Plaintiffs seek an unspecified amount of compensatory damages against the individual defendants and in favor of Beazer Homes. An additional lawsuit was filed subsequently on August 29, 2007 in the United States District Court for the Northern District of Georgia asserting similar factual allegations. The two Georgia derivative actions have been consolidated, and the plaintiffs have filed an amended, consolidated complaint. Additionally, on September 12, 2007, another derivative suit was filed in Delaware Chancery Court, and the plaintiffs filed an amended complaint in that Delaware action on October 26, 2007. The Delaware complaint, which raised similar factual and legal claims as those asserted by the plaintiffs in the Georgia derivative actions, has been dismissed. On November 21, 2008, the Company and the other defendants filed motions to dismiss the amended consolidated complaint. Briefing of the motion is expected to be completed in January 2009. The defendants intend to vigorously defend against these actions.

ERISA Class Actions. On April 30, 2007, a putative class action complaint was filed on behalf of a purported class consisting of present and former participants and beneficiaries of the Beazer Homes USA, Inc. 401(k) Plan. The complaint was filed in the United States District Court for the Northern District of Georgia. The complaint alleges breach of fiduciary duties, including those set forth in the Employee Retirement Income Security Act (ERISA), as a result of the investment of retirement monies held by the 401(k) Plan in common stock of Beazer Homes at a time when participants were allegedly not provided timely, accurate and complete information concerning Beazer Homes. Four additional lawsuits were filed subsequently on May 11, 2007, May 14, 2007, June 15, 2007 and July 27, 2007 in the United States District Court for the Northern District of Georgia making similar allegations. The court consolidated these five lawsuits, and on June 27, 2008, the plaintiffs filed a consolidated amended complaint. The consolidated amended complaint names as defendants Beazer Homes, our chief executive officer, certain current and former directors of the Company, including the members of the Compensation Committee of the Board of Directors, and certain employees of the Company who acted as members of the Company s 401(k) Committee. On October 10, 2008, the Company and the other defendants filed a motion to dismiss the Consolidated Complaint. Briefing of the motion is expected to be completed in January 2009. The Company intends to vigorously defend against these actions.

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

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

An additional putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation. The Complaint alleges that Beazer violated the Real Estate Settlement Practices Act (RESPA) and North Carolina Gen. Stat. § 75-1.1 by (1) improperly requiring homebuyers to use Beazer-owned mortgage and settlement services as part of a down payment assistance program, and (2) illegally increasing the cost of homes and settlement services sold by Beazer Homes Corp. The purported class consists of all residents of North Carolina who purchased a home from Beazer, using mortgage financing provided by and through Beazer that included seller-funded down payment assistance, between January 1, 2000 and October 11, 2007. The Complaint demands an unspecified amount of damages, equitable relief, treble damages, attorneys fees and litigation expenses. The defendants moved to dismiss the Complaint on June 4, 2008. On July 25, 2008, in lieu of a response to the motion to dismiss, plaintiff filed an amended complaint. The Company has moved to dismiss the amended complaint and intends to vigorously defend against this action.

Beazer Homes Corp. and Beazer Mortgage Corporation are also named defendants in a lawsuit filed on July 3, 2007, in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The case was removed to the U.S. District Court for the Western District of North Carolina, Charlotte Division, but remanded on April 23, 2008 to the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina. The complaint was filed on behalf of ten individual homeowners who purchased homes from Beazer in Mecklenburg County. The complaint alleges certain deceptive conduct by the defendants and brings various claims under North Carolina statutory and common law, including a claim for punitive damages. On June 27, 2008 a second amended complaint, which added two plaintiffs to the lawsuit, was filed. The case has been designated as exceptional pursuant to Rule 2.1 of the General Rules of Practice of the North Carolina Superior and District Courts and has been assigned to the docket of the North Carolina Business Court. The Company filed a motion to dismiss on July 30, 2008. On November 18, 2008, the plaintiffs filed a third amended complaint. The Company intends to vigorously defend against this action.

Beazer Homes subsidiaries Beazer Homes Holdings Corp. and Beazer Mortgage Corporation were named as defendants in a putative class action lawsuit originally filed on March 12, 2008, in the Superior Court of the State of California, County of Placer. The lawsuit was amended on June 2, 2008 and named as defendants Beazer Homes Holdings Corp., Beazer Homes USA, Inc., and Security Title Insurance Company. The purported class is defined as all persons who purchased a home from the defendants or their affiliates, with the assistance of a federally related mortgage loan, from March 25, 1999 to the present where Security Title Insurance Company received any money as a reinsurer of the transaction. The complaint alleges that the defendants violated RESPA and asserts claims under a number of state statutes alleging that defendants engaged in a uniform and systematic practice of giving and/or accepting fees and kickbacks to affiliated businesses including affiliated and/or recommended title insurance companies. The complaint also alleges a number of common law claims. Plaintiffs seek an unspecified amount of damages under RESPA, unspecified statutory, compensatory and punitive damages and injunctive and declaratory relief, as well as attorneys fees and costs. Defendants removed the action to federal court. On November 26, 2008, plaintiffs filed a Second Amended Complaint which substituted new named plaintiffs. The Company intends to vigorously defend against the 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 did not constitute a default under the applicable indentures and that the delay would not give rise to any right of acceleration on the part of the holders of the senior and convertible senior notes. On October 29, 2007, we notified the court and the trustees that we had successfully concluded a consent solicitation concerning the notes at issue. The consents provided us with a waiver of any and all defaults under the indentures at issue that may have occurred or may occur prior to May 15, 2008, due to our failure to file or deliver reports or other information we would be required to file with the SEC. On May 15, 2008, we completed the filing of all our previously past due periodic reports with the SEC. We thereafter delivered copies of all such reports to the trustees, pursuant to the applicable indentures. On June 25, 2008, the trustees and we filed a stipulation dismissing the litigation without prejudice. This case is now concluded.

We cannot predict or determine the timing or final outcome of the governmental investigations or the lawsuits or the effect that any adverse findings in the investigations or adverse determinations in the lawsuits may have on us. While we are cooperating with the governmental investigations, developments, including the expansion of the scope of the investigations, could negatively impact us, could divert the efforts and attention of our management team from the operation of our business, and/or result in further departures of executives or other employees. An unfavorable determination resulting from any governmental investigation could result in the filing of criminal charges, 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.

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 September 30, 2008, no monetary penalties had been imposed in connection with such Administrative Orders. The EPA has reserved the right to impose monetary penalties at a later date, the amount of which, if any, cannot currently be estimated. Beazer Homes has taken action to comply with the requirements of each of the Administrative Orders and is working to otherwise maintain compliance with the requirements of the Clean Water Act.

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

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

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

On August 5, 2008, we held our annual meeting of stockholders, at which the following matters were voted upon with the results indicated below. All numbers reported are shares of Beazer Homes common stock (39,240,011 outstanding shares were entitled to vote).

1. The stockholders elected six members to the Board of Directors to serve until the 2009 annual meeting of stockholders. The results of the voting were as follows:

Director	For	Against	Abstain
Laurent Alpert	23,516,413	7,565,117	560,364
Brian C. Beazer	27,036,033	4,056,069	549,792
Peter G. Leemputte	23,512,125	7,572,320	557,449
Ian J. McCarthy	27,114,131	3,976,293	551,470
Larry T. Solari	23,645,131	7,437,409	559,354
Stephen P. Zelnak, Jr.	23,534,376	7,554,755	552,763

2. The stockholders voted to ratify the selection of Deloitte & Touche LLP by the Audit Committee of the Board of Directors as the Company s independent registered public accounting firm for the fiscal year ending September 30, 2008 as follows:

For	Against	Abstain
30,935,978	619,593	86,323

3. The stockholders voted to approve amendments to the Amended and Restated 1999 Stock Incentive Plan to authorize a stock option/stock-settled appreciation right (SSAR) exchange program for eligible employees other than executive officers and directors as follows:

For	Against	Abstain	Broker Non-vote
21,572,347	1,450,611	40,563	8,576,373

4. The stockholders voted to approve amendments to the Amended and Restated 1999 Stock Incentive Plan to treat awards of SSARs under the Plan in the same manner as stock options as follows:

For	Against	Abstain	Broker Non-vote
21,747,365	1,274,359	41,797	8,578,373

PART II

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

Market Information

The Company lists its common shares on the New York Stock Exchange (NYSE) under the symbol BZH. On November 28, 2008, the last reported sales price of the Company s common stock on the NYSE was $1.81. On November 28, 2008, Beazer Homes USA, Inc. had approximately 235 stockholders of record and 39,269,431 shares

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of common stock outstanding. The following table sets forth, for the quarters indicated, the range of high and low trading for the Company s common stock during fiscal 2008 and 2007.

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Fiscal Year 2008:				
High	**$ 12.49**	**$ 11.44**	**$ 12.40**	**$ 9.34**
Low	**$ 7.00**	**$ 4.53**	**$ 5.02**	**$ 3.36**
Fiscal Year 2007:				
High	$ 48.60	$ 47.07	$ 38.76	$ 25.00
Low	$ 38.10	$ 27.71	$ 24.02	$ 8.08

Dividends

Effective November 2, 2007, the Board of Directors suspended the payment of quarterly dividends. The Board concluded that this action, which will allow the Company to conserve approximately $16 million of cash on an annual basis, was a prudent effort in light of the continued deterioration in the housing market. In fiscal 2007, we paid quarterly cash dividends aggregating $0.40 per common share, or a total of approximately $15.6 million. In fiscal 2006, the Company paid quarterly cash dividends aggregating $0.40 per common share, or a total of approximately $16.1 million. The Board of Directors will periodically reconsider the declaration of dividends. The reinstatement of quarterly dividends, the amount of such dividends, and the form in which the dividends are paid (cash or stock) depends upon the results of operations, the financial condition of the Company and other factors which the Board of Directors deems relevant. The indentures under which our senior notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At September 30, 2008, under the most restrictive covenants of each indenture, none of our retained earnings was available for cash dividends or share repurchases.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of September 30, 2008 with respect to our shares of common stock that may be issued under our existing equity compensation plans, all of which have been approved by our stockholders:

Plan Category	Number of Common Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Common Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Common Shares Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by stockholders	1,848,995	$ 45.78	1,088,797

Issuer Purchases of Equity Securities

On November 18, 2005, as part of an acceleration of our comprehensive plan to enhance stockholder value, our Board of Directors authorized an increase of 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. During fiscal 2006, we repurchased 3,648,300 shares for an aggregate purchase price of $205.4 million, or approximately $56 per share. During fiscal 2008 and 2007, we did not repurchase any shares in the open market. 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.

During the quarter ended September 30, 2008, 4,109 shares were surrendered to us by employees in payment of minimum tax obligations upon the vesting of restricted stock units under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of $25,229 or $6.14 per share.

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Performance Graph

The following graph illustrates the cumulative total stockholder return on Beazer Homes common stock for the last five fiscal years through September 30, 2008, compared to the S&P 500 Index and the S&P 500 Homebuilding Index. The comparison assumes an investment in Beazer Homes common stock and in each of the foregoing indices of $100 at September 30, 2003, and assumes that all dividends were reinvested. Stockholder returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns.

	Fiscal Year Ended September 30,					
	2003	2004	2005	2006	2007	2008
Beazer Homes USA, Inc.	$ 100.00	$ 127.13	$ 210.37	$ 141.10	$ 30.34	$ 21.99
S&P 500	100.00	113.87	127.82	141.62	164.90	128.66
S&P Homebuilding	100.00	158.25	226.75	164.23	83.46	70.63

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Item 6. Selected Financial Data

($ in millions, except per share amounts)	Year Ended September 30, 2008	2007	2006	2005	2004
Statement of Operations Data:					
Total revenue	**$ 2,074**	$ 3,467	$ 5,322	$ 4,955	$ 3,876
Gross (loss) profit (i)	**(323)**	(105)	1,197	1,167	803
Operating (loss) income (i)	**(748)**	(605)	569	491	382
Net (loss) income from continuing operations (i)	**(951)**	(410)	362	266	234
EPS from continuing operations -basic (i), (ii)	**(24.68)**	(10.68)	9.10	6.57	5.88
EPS from continuing operations -diluted (i), (ii)	**(24.68)**	(10.68)	8.29	5.95	5.56
Dividends paid per common share	**-**	0.40	0.40	0.33	0.13
Balance Sheet Data (end of year):					
Cash and cash equivalents and restricted cash	**$ 585**	$ 460	$ 172	$ 297	$ 321
Inventory	**1,652**	2,775	3,608	2,934	2,355
Total assets (i)	**2,642**	3,930	4,715	3,829	3,199
Total debt	**1,747**	1,857	1,956	1,322	1,152
Stockholders equity	**375**	1,324	1,730	1,553	1,267
Supplemental Financial Data:					
Cash (used in)/provided by:					
Operating activities	**$ 316**	$ 509	$ (378)	$ (46)	$ (46)
Investing activities	**(18)**	(52)	(105)	(85)	(57)
Financing activities	**(167)**	(171)	353	108	351
Financial Statistics:					
Total debt as a percentage of total debt and stockholders equity	**82.3%**	58.4%	53.1%	46.0%	47.6%
Net debt as a percentage of net debt and stockholders equity (iii)	**75.6%**	51.4%	50.9%	39.7%	39.6%
Gross margin (iii)	**-15.6%**	-3.0%	22.5%	23.5%	20.7%
EBIT margin (iv)	**-33.0%**	-13.9%	12.7%	11.9%	12.0%
Operating Statistics:					
New orders, net	**6,065**	9,903	14,191	18,925	17,483
Closings	**7,692**	12,020	18,361	18,109	16,453
Units in backlog	**1,358**	2,985	5,102	9,272	8,456
Average selling price (in thousands)	**$ 248.7**	$ 277.4	$ 285.7	$ 271.3	$ 232.2

(i) The housing market continued to deteriorate during the fiscal year ended September 30, 2008. This deterioration has resulted in an oversupply of inventory, reduced levels of demand, aggressive price competition, higher than normal cancellation rates and increased incentives for homes sales. As a result, gross profit (loss) includes inventory impairment charges of $429.4 million and lot option abandonment charges of $81.2 million for the fiscal year ended September 30, 2008. Gross profit (loss) for fiscal year 2007 includes inventory impairment charges of $488.9 million and lot option abandonment charges of $122.9 million. Gross profit for fiscal year 2006 includes inventory impairment charges of $6.4 million and lot option abandonment charges of $37.8 million. Gross profit for fiscal year 2005 includes lot option abandonment charges of $5.5 million. Operating losses for fiscal year 2008 and 2007 also include non-cash goodwill impairment charges of $52.5 million and $52.8 million, respectively. Fiscal year 2005 operating profit includes the impact of a non-cash, non-tax deductible goodwill impairment charge of $130.2 million associated with the 2002 acquisition of Crossmann Communities. Fiscal 2008 and 2007 net loss also include charges to write down our investment in certain of our joint ventures which reflect $68.8 million and $28.6 million, respectively, of impairments of inventory held within those ventures. Fiscal 2007 includes a charge of $3.4 million related to joint venture contractual obligation abandonments.

Net loss for fiscal 2008 also includes a $400.3 million charge for our valuation allowance established for substantially all of our deferred tax assets.

(ii) In October 2004, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) ratified the consensus on EITF Issue No. 04-8: The Effect of Contingently Convertible Debt on Diluted Earnings Per Share. EITF 04-8 requires that shares issuable upon conversion of contingently convertible debt instruments (Co-Co s) be included in diluted EPS computations using the if-converted method regardless of whether the issuer s stock price exceeds the contingent conversion price. In fiscal 2005, per share amounts in 2004 were retroactively adjusted to reflect the Company s March 2005 three-for-one stock split and the Company s adoption of EITF 04-8, as applicable.

(iii) Net Debt = Debt less unrestricted cash and cash equivalents; Gross margin = Gross (loss) profit divided by total revenue.

(iv) EBIT margin = EBIT divided by total revenues; EBIT (earnings before interest and taxes) equals net (loss) income before (a) previously capitalized interest amortized to home construction and land sales expenses and interest expense and (b) income taxes. EBITDA (earnings before interest, taxes, depreciation and amortization) is calculated by adding depreciation and amortization for the period to EBIT. EBIT and EBITDA are not GAAP financial measures. EBIT and EBITDA should not be considered alternatives to net income determined in accordance with GAAP as an indicator of operating performance, nor an alternative to cash flows from operating activities determined in accordance with GAAP as a measure of liquidity. Because some analysts and companies may not calculate EBIT and EBITDA in the same manner as Beazer Homes, the EBIT and EBITDA information presented above may not be comparable to similar presentations by others.

EBITDA is a measure commonly used in the homebuilding industry and is presented to assist readers in understanding the ability of our operations to generate cash in addition to the cash needed to service existing interest requirements and ongoing tax obligations. By providing a measure of available cash, management believes that this non-GAAP measure enables holders of our securities to better understand our cash performance and our ability to service our debt obligations as they currently exist and as additional indebtedness is incurred in the future. The measure is useful in budgeting and determining capital expenditure levels because it enables management to evaluate the amount of cash that will be available for discretionary spending.

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A reconciliation of EBITDA and EBIT to cash (used)/provided by operations, the most directly comparable GAAP measure, is provided below for each period presented (in thousands):

	Year Ended September 30,				
	2008	2007	2006	2005	2004
Net cash provided by (used in) operating activities	**$ 315,567**	$ 509,371	$ (377,996)	$ (46,156)	$ (46,339)
(Decrease) increase in inventory	**(572,746)**	(134,953)	486,727	593,521	430,024
Provision (benefit) for income taxes	**84,763**	(222,207)	214,421	237,315	157,050
Deferred income tax (provision) benefit	**(260,410)**	161,605	(25,963)	51,186	25,308
Interest amortized to home construction and land sales expenses and inventory impairments and option contract abandonments	**126,057**	139,880	95,974	80,180	66,528
Interest expense not qualified for capitalization	**55,185**	-	-	-	-
Decrease (increase) in trade accounts payable and other liabilities	**189,029**	130,787	84,685	(227,130)	(128,651)
Goodwill impairment	**(52,470)**	(52,755)	-	(130,235)	-
Inventory impairments and option contract abandonments	**(510,628)**	(611,864)	(44,175)	(5,511)	(3,180)
Increase (decrease) in accounts and income tax receivables and allowance for doubtful accounts	**108,629**	(228,551)	181,639	84,637	2,088
(Decrease) increase in mortgage loans available for sale and other assets	**(49,600)**	(100,556)	112,893	16,780	16,499
Equity in (loss) earnings in joint ventures, net of income distributions	**(83,753)**	(40,439)	991	(823)	(554)
Tax (benefit) deficiency from stock transactions	**(1,158)**	2,635	8,205	(11,551)	(9,077)
Other	**5,901**	(1,610)	8	(806)	(1,837)
EBITDA	**(645,634)**	(448,657)	737,409	641,407	507,859
Less depreciation and amortization and stock compensation amortization	**40,273**	44,743	58,178	48,013	38,105
EBIT	**$ (685,907)**	$ (493,400)	$ 679,231	$ 593,394	$ 469,754

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

Executive Overview

Throughout fiscal 2007 and 2008, the homebuilding environment continued to deteriorate as consumer confidence declined, the availability of home mortgage credit tightened significantly and the economy continued to slow down. Specifically, the credit markets and the mortgage industry have been experiencing a period of unparalleled turmoil and disruption characterized by bankruptcy, financial institution failure, consolidation and an unprecedented level of intervention by the United States federal government. While the ultimate outcome of these events cannot be predicted, it has made it more difficult for homebuyers to obtain acceptable financing. In addition, the supply of new and resale homes in the marketplace remained excessive for the levels of consumer demand, further challenged by an increased number of foreclosed homes offered at substantially reduced prices. These pressures in the marketplace resulted in the use of increased sales incentives and price reductions in an effort to generate sales and reduce inventory levels.

We have responded to this challenging environment with a disciplined approach to the business with continued reductions in direct costs, overhead expenses and land spending. We have limited our supply of unsold homes under construction and have focused on the generation of cash from our existing inventory supply as we strive to align our land supply and inventory levels to current expectations for home closings.

We have also completed a comprehensive review of each of our markets in order to refine our overall investment strategy and to optimize capital and resource allocations in an effort to enhance our financial position and to increase shareholder value. This review, which was concluded during the first quarter of fiscal 2008, entailed an evaluation of both external market factors and our position in each market and has resulted in the decision formalized and announced on February 1, 2008, to discontinue homebuilding operations in Charlotte, NC,

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Cincinnati/Dayton, OH, Columbia, SC, Columbus, OH and Lexington, KY. During the third quarter of fiscal 2008, we announced our decision to discontinue homebuilding operations in Colorado and Fresno, CA. We are actively completing an orderly exit from each of these markets and remain committed to our remaining customer care responsibilities. We have committed to complete all homes under construction in these markets and are in the process of marketing the remaining land positions for sale. While the underlying basis for exiting each market was different, in each instance we concluded we could better serve shareholder interests by re-allocating the capital employed in these markets. As of September 30, 2008, these markets represented approximately 2% of the Company s total assets.

In addition, as disclosed in our 2007 Form 10-K, the independent investigation, initiated in April 2007 by the Audit Committee of the Board of Directors (the Investigation) and concluded in May 2008, identified accounting and financial reporting errors and irregularities which resulted in the restatement of certain of our prior period consolidated financial statements. We have implemented additional internal controls over the selection, application and monitoring of appropriate accounting policies. See Item 9A Controls and Procedures for additional information. The Investigation also found evidence that employees of the Company s Beazer Mortgage Corporation (Beazer Mortgage) 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 included our former practices in the areas of: down payment assistance program; 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. See Item 3 Legal Proceedings for additional discussion of this matter. At this time, we believe that although it is probable that a liability exists related to this exposure, it is not reasonably estimable and would be inappropriate to record a liability as of September 30, 2008.

The Housing and Economic Recovery Act of 2008 (HERA) was enacted into law on July 30, 2008. Among other things, HERA provides for a temporary first-time home buyer tax credit for purchases made through July 1, 2009; reforms of Fannie Mae and Freddie Mac, including adjustments to the conforming loan limits; modernization and expansion of the FHA, including an increase to 3.5% in the minimum down payment required for FHA loans; and the elimination of seller-funded down payment assistance programs for FHA loans approved after September 30, 2008. Overall, HERA is intended to help stabilize and add consumer confidence to the housing industry. However, certain of the changes, such as the elimination of the down payment assistance programs and the increase in minimum down payments, may adversely impact the ability of potential homebuyers to afford to purchase a new home or obtain financing. The down payment assistance programs were utilized for a number of our home closings in fiscal 2008. We are currently evaluating the impact HERA will have on our business and future results of operations.

The Emergency Economic Stabilization Act of 2008 (EESA) was enacted into law on October 3, 2008. EESA authorizes up to $700 billion in new spending authority for the United States Secretary of the Treasury (the Secretary) to purchase, manage and ultimately dispose of troubled assets. The provisions of this law include an expansion of the Hope for Homeowners Program. This program allows the Secretary to use loan guarantees and credit enhancements so that loans can be modified to prevent foreclosures. Also, the Secretary can consent to term extensions, rate-reductions and principal write-downs. Federal agencies that own mortgage loans are directed to seek modifications prior to foreclosures. While we expect the impact of this legislation will generally be favorable to the economy, the impact on our operations is not yet determinable.

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Outlook

We expect that fiscal 2009 will pose significant challenges for us. Like many other homebuilders, we have experienced a material reduction in revenues and margins and we incurred significant net losses in fiscal 2008 and 2007. These net losses were driven primarily by asset impairment and lot option abandonment charges incurred in both fiscal 2008 and 2007. This has resulted in a decrease in our stockholders equity from $1.7 billion at September 30, 2006 to $375 million at September 30, 2008. We believe that the homebuilding market will remain challenging throughout fiscal 2009 and, as a result, it is likely that we will also incur net losses in 2009, which will further reduce our stockholders equity.

Certain of our property-specific secured notes payable agreements contain covenants that require us to maintain minimum levels of stockholders equity (or some variation, such as tangible net worth) or maximum levels of debt to stockholders equity. Although the specific covenants and related definitions vary among the agreements, further reductions in our stockholders equity, absent the receipt of waivers, may cause breaches of some or all of these covenants. Breaches of certain of these covenants, to the extent they lead to an acceleration, may result in cross defaults under our senior notes. The dollar value of property-specific secured notes payable agreements containing stockholders equity-related covenants totaled $39.0 million at September 30, 2008. There can be no assurance that we will be able to obtain any future waivers or amendments that may become necessary without significant additional cost or at all. In each instance, however, a covenant default can be cured by repayment of the indebtedness.

In addition, the size of our Secured Revolving Credit Facility, which has recently been reduced to $250 million, is subject to further reduction to $100 million if our consolidated tangible net worth (defined in the agreement as stockholders equity less intangible assets) falls below $250 million. At September 30, 2008 our consolidated tangible net worth for purposes of this covenant was $314.4 million. If our consolidated tangible net worth falls below $100 million, we would be in default of the Secured Revolving Credit Facility. Under such circumstances, the lenders could terminate the facility, accelerate our obligations thereunder or require us to post cash collateral to support our existing letters of credit. At September 30, 2008, we had letters of credit outstanding of $61.2 million under the Secured Revolving Credit Facility. An acceleration of this facility may also result in cross defaults under our senior notes.

Decreased levels of stockholders equity may also trigger our obligations to consummate offers to purchase 10% of our non-convertible senior notes at par if our consolidated tangible net worth is less than $85 million at the end of any two consecutive fiscal quarters. If triggered and fully subscribed, this could result in our having to purchase $134.5 million of notes, based on amounts outstanding at September 30, 2008.

Further, several of our joint ventures are in default under their debt agreements at September 30, 2008 or are at risk of defaulting. Although neither the Company nor any of its subsidiaries is the borrower of any of this joint venture debt, we have issued guarantees of various types with respect to many of these joint ventures. To the extent that we are unable to reach satisfactory resolutions, we may be called upon to perform under our applicable guarantees. The total dollar value of our repayment and loan-to-value maintenance guarantees was $45.0 million at September 30, 2008. See Notes 3 and 13 to the Consolidated Financial Statements.

As noted above in Item 3 Legal Proceedings, we are under criminal and civil investigations by the United States Attorney s office in the Western District of North Carolina and other federal and state agencies. The investigations could result in, among other consequences, the payment of substantial criminal or civil fines or penalties. As of September 30, 2008, we are not able to estimate the potential magnitude of such potential fines or penalties.

Our cash balance at September 30, 2008 was $584.3 million. Although we expect to incur a net loss during fiscal 2009, we expect to receive a cash tax refund during fiscal 2009 of approximately $150 million which, we believe together with our cash as of September 30, 2008, cash generated from our operations during fiscal 2009 and availability, if any, under our Secured Revolving Credit Facility will be adequate to meet our liquidity needs during fiscal 2009. Additionally, we may be able to reduce our investment in land and homes to generate further liquidity. However, if we are required to fund all of the potential obligations associated with lower levels of stockholders equity and joint venture defaults, we would have cash requirements, not including any fines or penalties associated with the government investigations, totaling approximately $280 million which would significantly reduce our overall liquidity.

As a result of these issues, in addition to our continued focus on generation and preservation of cash, we are also focused on increasing our stockholders equity and reducing our leverage. In order to accomplish this goal, we will likely need to issue new common or preferred equity. Any new issuance may take the form of public or private offerings for cash, equity issued to consummate acquisitions of assets or equity issued in exchange for a portion of our outstanding debt. In addition, we may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity or other debt securities, in open market purchases, privately negotiated transactions or otherwise. There can be no assurance that we will be able to complete any of these transactions on favorable terms or at all. We currently intend to attempt to resolve our issues with regulatory authorities before pursuing any specific changes in the capital structure.

Critical Accounting Policies

Some of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters. Although our accounting policies are in compliance with accounting principles generally accepted in the United States of America, a change in the facts and circumstances of the underlying transactions could significantly change the application of the accounting policies and the resulting financial statement impact. Listed below are those policies that we believe are critical and require the use of complex judgment in their application.

Inventory Valuation Held for Development

Our homebuilding inventories that are accounted for as held for development include land and home construction assets grouped together as communities. Land held for future development is stated at cost. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We assess these assets no less than quarterly for recoverability in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon the commencement of land development activities, it may take three to five years (depending on, among other things, the size of the community and its sales pace) to fully develop, sell, construct and close all the homes in a typical community. The impact of the downturn in our business has significantly lengthened the estimated life of many communities. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If the expected undiscounted cash flows generated are expected to be less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its estimated fair value based on discounted cash flows.

We conduct a review of the recoverability of our homebuilding inventories held for development at the community level as factors indicate that an impairment may exist. Events and circumstances that might indicate impairment include, but are not limited to, (1) adverse trends in new orders, (2) higher than anticipated cancellations, (3) declining margins, which might result from the need to offer incentives to new homebuyers to drive sales or price reductions to respond to actions taken by our competitors, (4) economic factors specific to the markets in which we operate, including fluctuations in employment levels, population growth, or levels of new and resale homes for sale in the marketplace and (5) a decline in the availability of credit across all industries.

As a result, we evaluate, among other things, the following information for each community:

Actual Net Contribution Margin (defined as homebuilding revenues less homebuilding costs and direct selling expenses) for homes closed in the current fiscal quarter, fiscal year to date and prior two fiscal quarters. Homebuilding costs include land and land development costs (based upon an allocation of such costs, including costs to complete the development, or specific lot costs), home construction costs (including an estimate of costs, if any, to complete home construction), previously capitalized indirect costs (principally for construction supervision), capitalized interest and estimated warranty costs;

- Projected Net Contribution Margin for homes in backlog;
- 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 of assets in communities that were previously impaired and continue to be classified as held for development is not written up for future estimates of increases in fair value in future reporting periods. Market deterioration that exceeds our estimates may lead us to incur additional impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if the market continues to deteriorate.

The fair value of the homebuilding inventory 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. The assumptions used in our discounted cash flow models are specific to each community tested for impairment and typically do not include market improvements except in limited circumstances in the latter years of long-lived communities.

For the fiscal year ended September 30, 2008, we used discount rates of 16% to 23% in our estimated discounted cash flow impairment calculations. During fiscal 2008, 2007 and 2006, we recorded impairments of our inventory of approximately $312.6 million, $440.9 million and $6.4 million, respectively, for land under development and homes under construction.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in our 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 our 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 property has been initiated;
- the sale of the land is probable within one year;
- the property is being actively marketed at a reasonable sale price relative to its current fair value; and
- it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

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

In determining the fair value of the assets less cost to sell, we 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 fiscal 2008 and 2007, we recorded inventory impairments on land held for sale of approximately $116.8 million and $48.0 million, respectively. No land held for sale inventory impairments were recorded in fiscal 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

We test goodwill for impairment annually as of April 30 or more frequently if an event occurs or circumstances change that more likely than not reduce the value of a reporting unit below its carrying value. 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, goodwill is considered impaired. If goodwill is considered impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the goodwill exceeds implied fair value of that goodwill.

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 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.

Our goodwill has been assigned to reporting units in different geographic locations. Therefore, potential goodwill impairment charges resulting from changes in local market and/or local economic conditions or changes in our strategic plans may be isolated to one or a few of our reporting units. However, our business is concentrated in the homebuilding industry and, as such, a widespread decline in the homebuilding industry or a significant deterioration of economic conditions could have a negative impact on the estimated fair value of a larger number of our reporting units.

The housing market continued to deteriorate during fiscal 2008 and 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 impairment tests and consideration of the current and expected future market conditions, we determined that goodwill for our reporting units in Arizona, Colorado, New Jersey, Southern California and Virginia was impaired and recorded non-cash goodwill impairment charges totaling $52.5 million in fiscal 2008. In fiscal 2007, we recorded non-cash goodwill impairment charges of $52.8 million related to our Florida, Nevada, Northern California, North Carolina and South Carolina reporting units. While we believe that no additional goodwill impairment existed as of September 30, 2008, future economic or financial developments, including general interest rate increases, poor performance in either the national economy or individual local economies, or our ability to meet our projections could result in a revised analysis of fair value in the future and lead to impairment of goodwill related to reporting units which are not currently impaired. As of September 30, 2008, remaining goodwill totaled $16.1 million.

Homebuilding Revenues and Costs

Revenue from the sale of a home is generally recognized when the closing has occurred and the risk of ownership is transferred to the buyer. As appropriate, revenue for condominiums under construction is recognized based on the percentage-of-completion method in accordance with SFAS 66, *Accounting for Sales of Real Estate*, when certain criteria are met. All associated homebuilding costs are charged to cost of sales in the period when the revenues from home closings are recognized. Homebuilding costs include land and land development costs (based upon an allocation of such costs, including costs to complete the development, or specific lot costs), home construction costs (including an estimate of costs, if any, to complete home construction), previously capitalized indirect costs (principally for construction supervision), capitalized interest and estimated warranty costs. Sales commissions are included in selling, general and administrative expense when the closing has occurred. All other costs are expensed as incurred.

Warranty Reserves

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

Warranty reserves are included in other liabilities in the consolidated balance sheets. We record reserves covering our anticipated warranty expense for each home closed. Management reviews the adequacy of warranty reserves each reporting period, based on historical experience and management s estimate of the costs to remediate the claims, and adjusts these provisions accordingly. Our review includes a quarterly analysis of the historical data and trends in warranty expense by operating segment. An analysis by operating segment allows us to consider market specific factors such as our warranty experience, the number of home closings, the prices of homes, product mix and other data in estimating our warranty reserves. In addition, our analysis also contemplates the existence of any non-recurring or community-specific warranty related matters that might not be contemplated in our historical data and trends. As a result of our analyses, we adjust our estimated warranty liabilities. Based on historical results, we believe that our existing estimation process is accurate and do not anticipate the process to materially change in the future. Our estimation process for such accruals is discussed in Note 13 to the Consolidated Financial Statements. While we believe that our warranty reserves at September 30, 2008 are adequate, there can be no assurances that historical data and trends will accurately predict our actual warranty costs or that future developments might not lead to a significant change in the reserve.

Investments in Unconsolidated Joint Ventures

We periodically enter into joint ventures with unrelated developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. We have determined that our interest in these joint ventures should be accounted for under the equity method as prescribed by SOP 78-9, Accounting for Investments in Real Estate Ventures. We recognize our share of profits and losses from the sale of lots to other buyers. Our share of profits from lots purchased by Beazer Homes from the joint ventures are deferred and treated as a reduction of the cost of the land purchased from the joint venture. Such profits are subsequently recognized at the time the home closes and title passes to the homebuyer.

We evaluate our investments in unconsolidated entities for impairment during each reporting period in accordance with APB 18, *The Equity Method of Accounting for Investments in Common Stock*. A series of operating losses of an investee or other factors may indicate that a decrease in the value of our investment in the unconsolidated entity has occurred which is other-than-temporary. The amount of impairment recognized is the excess of the investment s carrying value over its estimated fair value.

Our assumptions of the joint venture s estimated fair value is dependent on market conditions. Inventory in the joint venture is also reviewed for potential impairment by the unconsolidated entities in accordance with SFAS 144. If a valuation adjustment is recorded by an unconsolidated entity in accordance with SFAS 144, our proportionate share of it is reflected in our equity in income (loss) from unconsolidated joint ventures with a corresponding decrease to our investment in unconsolidated entities. The operating results of the unconsolidated joint ventures are dependent on the status of the homebuilding industry, which has historically been cyclical and sensitive to changes in economic conditions such as interest rates, credit availability, unemployment levels and consumer sentiment. Changes in these economic conditions could materially affect the projected operational results of the unconsolidated entities. Because of these changes in economic conditions, actual results could differ materially from management s assumptions and may require material valuation adjustments to our investments in unconsolidated entities to be recorded in the future.

During fiscal 2008 and 2007, we wrote down our investment in certain of our joint ventures reflecting $68.8 million and $28.6 million, respectively, of impairments of inventory held within those ventures. These charges are included in equity in loss of unconsolidated joint ventures in the accompanying Statement of Operations for the fiscal years ended September 30, 2008 and 2007, respectively. While we believe that no additional impairment of our joint venture investments existed as of September 30, 2008, market deterioration that exceeds our estimates may lead us to incur additional impairment charges. As of September 30, 2008, our remaining investments in unconsolidated joint ventures totaled $33.1 million.

Income Taxes Valuation Allowance

Judgment is required in estimating valuation allowances for deferred tax assets. In accordance with SFAS 109, Accounting for Income Taxes, a valuation allowance is established against a deferred tax asset if, based on the available evidence, it is not more likely than not that such assets will be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under tax law. We periodically assess the need for valuation allowances for deferred tax assets based on the SFAS 109 more-likely-than-not realization threshold criterion. In our assessment, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards not expiring unused, the Section 382 limitation on our ability to carryforward pre-ownership change net operating losses and recognized built-in losses or deductions, and tax planning alternatives.

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

SFAS 109 provides that a cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable and also restricts the amount of reliance a company may place on projections of future taxable income to support recovery of such deferred tax assets. In making the determination of whether we are in a cumulative loss position under SFAS 109, we use a measurement period which corresponds to the historical four-year business cycle of the homebuilding industry and which mirrors our expected building and profitability cycles. The homebuilding industry has recently suffered from several temporary factors that have negatively impacted our profitability such as the excess supply of new and used homes for sale and the lack of available credit. As these factors are resolved it would be expected for the industry to recover to normal profit levels. However, as we are in a cumulative loss position, as analyzed under SFAS 109, and based on the lack of sufficient objective evidence regarding the realization of our deferred tax assets in the foreseeable future, during fiscal 2008, we recorded a valuation allowance of $400.3 million for substantially all of our deferred tax assets (see Note 8 to the Consolidated Financial Statements).

We will continue to assess the need for additional valuation allowances in the future. Our estimates of the recoverability of deferred tax assets are dependent upon future taxable income which requires significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods (carryforward period assumptions), it is reasonably possible that we may be required to record additional valuation allowances on deferred tax assets and such amounts could be material.

In addition, as a result of our ownership change for purposes of Section 382, as of December 31, 2007 our ability to use certain of our pre-ownership change net operating loss carryforwards and recognize certain built-in losses or deductions is limited by Section 382 to a maximum amount of approximately $17 million annually. Based on the resulting limitation, a significant portion of our pre-ownership change net operating loss carryforwards and any future recognized built-in losses or deductions could expire before we would be able to use them. Our inability to utilize our pre-ownership change net operating loss carryforwards or certain built-in losses or deductions could have a material adverse effect on our financial condition, results of operations and cash flows.

Seasonal and Quarterly Variability: Our homebuilding operating cycle generally reflects escalating new order activity in the second and third fiscal quarters and increased closings in the third and fourth fiscal quarters. However, beginning in the second half of fiscal 2006 and continuing throughout fiscal 2007 and 2008, we continued to experience challenging conditions in most of our markets which contributed to decreased revenues and closings as compared to prior periods including prior quarters, thereby reducing typical seasonal variations. The following chart presents certain quarterly operating data for our last twelve fiscal quarters.

	New Orders (net of cancellations)				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2008	**1,252**	**1,956**	**1,774**	**1,083**	**6,065**
2007	1,783	4,090	3,048	982	9,903
2006	3,782	4,145	4,343	1,921	14,191

	Closings				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2008	**2,006**	**1,568**	**1,677**	**2,441**	**7,692**
2007	2,664	2,748	2,659	3,949	12,020
2006	3,755	4,217	4,121	6,268	18,361

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RESULTS OF OPERATIONS:

	Fiscal Year Ended September 30,		
($ in thousands)	**2008**	2007	2006
Revenues:			
Homebuilding	**$ 1,914,304**	$ 3,359,594	$ 5,220,021
Land and lot sales	**155,801**	99,063	90,217
Financial Services	**4,193**	8,068	11,464
Total	**$ 2,074,298**	$ 3,466,725	$ 5,321,702
Gross (loss) profit			
Homebuilding	**$ (334,711)**	$ (116,290)	$ 1,186,378
Land and lot sales	**7,677**	3,423	(1,114)
Financial Services	**4,193**	8,068	11,464
Total	**$ (322,841)**	$ (104,799)	$ 1,196,728
Selling, general and administrative (SG&A) expenses:			
Homebuilding	**$ 342,440**	$ 410,432	$ 581,203
Financial Services	**2,483**	3,342	4,453
Total	**$ 344,923**	$ 413,774	$ 585,656
Depreciation and amortization	**27,544**	33,176	41,999
As a percentage of total revenue:			
Gross Margin	**-15.6%**	-3.0%	22.5%
SG&A - homebuilding	**16.5%**	11.8%	10.9%
SG&A - Financial Services	**0.1%**	0.1%	0.1%
Goodwill impairment	**52,470**	52,755	-
Equity in (loss) income of unconsolidated joint ventures from:			
Joint venture activities	**$ (12,523)**	$ (3,215)	$ 1,343
Impairments	**(68,791)**	(28,553)	-
Abandonments	**-**	(3,386)	-
Equity in (loss) income of unconsolidated joint ventures	**$ (81,314)**	$ (35,154)	$ 1,343
Effective tax rate	**-9.8%**	35.1%	36.8%

Fiscal Year Ended September 30, 2008 Compared to Fiscal Year Ended September 30, 2007

Revenues. The continued deterioration of the housing industry contributed to a 40.5% decrease in revenues from fiscal 2008 compared to fiscal 2007. Homes closed decreased by 36.0% to 7,692 in fiscal 2008 compared to 12,020 in fiscal 2007 as excessive levels of new and resale home supplies, tightening of mortgage credit availability and other economic factors impacted consumer homebuyers. This decline was especially pronounced in our California, Nevada, Arizona, New Jersey, South Carolina and Florida markets. The average sales price of homes closed decreased by 10.3% to $248,700 from $277,400 for the fiscal years ended September 30, 2008 and 2007, respectively. Average sales price decreased most significantly in our Florida, Nevada and California markets, due primarily to increased price competition and subsequent price discounting and increasing sales incentives related to the challenging market conditions, including the increased number of foreclosed homes on the market at below average sales prices.

In addition, we had $155.8 million and $99.1 million of land sales for the fiscal years ended September 30, 2008 and 2007 respectively. The increase in land sales in fiscal 2008 primarily resulted from our sale of two condominium projects in Virginia to third parties for approximately $85 million.

Gross Profit (Loss). Gross margin for fiscal 2008 was -15.6% compared to a gross margin of -3.0% for fiscal 2007 driven by continued market weakness resulting in lower revenues. Gross margins for both periods were significantly impacted by non-cash pre-tax inventory impairments and option contract abandonments of $510.6 million in fiscal 2008 compared to $611.9 million recognized in fiscal 2007. Gross margins for fiscal 2008 continued to be negatively impacted by both higher levels of price discounting and sales incentives as compared to the same period a year ago. In response to these market conditions and based on our internal analyses and business decisions, we incurred non-cash, pretax charges of $429.4 million for inventory impairments and $81.2 million for the abandonment of certain land option contracts during fiscal 2008. During fiscal 2007, we recorded $488.9 million of inventory impairments and $122.9 million for the abandonment of land option contracts. Gross profit also includes a reduction in the accrual and costs related to the Trinity class action litigation settlement of $2.5 million in 2008 and $23.8 million in 2007 (see Note 13 to the Consolidated Financial Statements).

In an effort to redeploy assets to more profitable endeavors, we executed several land sales during the past two fiscal years. We realized a gain on land sales of $7.7 million in fiscal 2008 and $3.4 million in fiscal 2007.

Selling, General and Administrative Expense. Selling, general and administrative expense (SG&A) totaled $344.9 million in fiscal 2008 and $413.8 million in fiscal 2007. The 16.6% decrease in SG&A expense during the periods presented is primarily related to cost reductions realized as a result of our comprehensive review and realignment of our overhead structure in light of our reduced volume expectations and lower sales commissions related to decreased revenues, offset by increased costs related to investigation related costs and severance costs. Fiscal 2008 and 2007 SG&A expense included $5.7 million and $4.5 million in severance costs related to employees who had been severed as of September 30 of the respective year. In addition, fiscal 2008 and 2007 SG&A expense included $31.8 million and $10.8 million, respectively of investigation related costs (an additional $6.4 million was incurred in fiscal 2007 related to and is recorded in our discontinued operations). As of September 30, 2008, we had reduced our overall number of employees by 1,175 or 45% as compared to September 30, 2007, or a cumulative reduction of 66% since September 30, 2006. As a percentage of total revenue, SG&A expenses were 16.6% in fiscal 2008 (15.1% excluding the investigation related costs) and 11.9% in fiscal 2007 (11.6% excluding the investigation related costs). The increase in SG&A costs as a percentage of total revenue is primarily related to the aforementioned investigative and severance costs and the impact of fixed overhead expenses on reduced revenues.

Depreciation and Amortization. Depreciation and amortization (D&A) totaled $27.5 million in fiscal 2008 and $33.2 million in fiscal 2007. The decrease in D&A during the periods presented is primarily related to reduced spending on model furnishings and sales office improvements as a result of our strategic review of our communities.

Goodwill Impairment Charges. In light of continuing market weakness, significantly reduced new orders, additional pricing pressures and additional incentives provided to homebuyers, our reforecasting of expected future results of operations and increasing inventory charges, and in connection with goodwill impairment tests in accordance with SFAS 142, we recorded pretax, non-cash goodwill impairment charges of $52.5 million in fiscal 2008 related to our reporting units in Arizona, Colorado, New Jersey, Southern California and Virginia. In fiscal 2007, we recorded pretax, non-cash goodwill impairment charges of $52.8 million related to our reporting units in Nevada, Northern California, Florida and certain of our reporting units in South Carolina and North Carolina. The goodwill impairment charges were based on estimates of the fair value of the underlying assets of the reporting units. These charges are reported in Corporate and unallocated and are not allocated to our homebuilding segments. To the extent that there is further deterioration in market conditions or overall economic conditions or our strategic plans change, it is possible that our conclusion regarding fair value of reporting units which are currently not impaired could change, which could result in future goodwill impairments that have a material adverse effect on our financial position and results of operations.

Joint Venture Impairment Charges. As of September 30, 2008, we participated in 19 land development joint ventures in which we had less than a controlling interest. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. As a result of the deterioration of the housing market in fiscal 2008, we wrote down our investment in certain of our joint ventures reflecting $68.8 million of impairments of inventory held within those joint ventures.

Joint venture impairments of $28.6 million and $3.4 million of contractual obligation abandonments were recorded in fiscal 2007. If these adverse market conditions continue or worsen, we may have to take further writedowns of our investments in these joint ventures that may have a material adverse effect on our financial position and results of operations.

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Income Taxes. Our effective tax rate for continuing operations was -9.8% for fiscal 2008 and 35.1% for fiscal 2007. The effective tax rates for fiscal 2008 and 2007, respectively, were impacted by $52.5 million and $52.8 million of non-cash goodwill impairment charges discussed above.

The decrease in our effective tax rate between years is primarily due to the valuation allowance recorded in fiscal 2008. As we are in a cumulative loss position, as analyzed under SFAS 109, and based on the lack of sufficient objective evidence regarding the realization of our deferred tax assets in the foreseeable future, during fiscal 2008, we recorded an additional valuation allowance of $400.3 million for substantially all of our deferred tax assets (see Note 8 to the Consolidated Financial Statements for additional information). We recorded tax benefits related to certain discrete items totaling $3.1 million in fiscal 2007. The principal difference between our effective rate and the U.S. federal statutory rate in fiscal 2008 is due to our valuation allowance, state income taxes incurred and certain non-deductible goodwill impairment charges ($51.4 million of the $52.5 million was non-tax deductible). The principal difference between our effective rate and the U.S. federal statutory rate in fiscal 2007 is due to state income taxes incurred and certain non-deductible goodwill impairment charges ($47.5 million of the $52.8 million was non-tax deductible).

Segment Results for Fiscal 2008 Compared to Fiscal 2007:

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

	Homebuilding Revenues			Average Selling Price		
	2008	2007	Change	**2008**	2007	Change
West	**$ 668,900**	$ 1,276,480	-47.6%	**$ 240.5**	$ 288.5	-16.6%
East	**673,251**	877,705	-23.3%	**279.9**	313.2	-10.6%
Southeast	**351,432**	781,715	-55.0%	**232.0**	258.9	-10.4%
Other	**220,721**	423,694	-47.9%	**221.8**	226.6	-2.1%
Total	**$ 1,914,304**	$ 3,359,594	-43.0%	**$ 248.7**	$ 277.4	-10.3%

Homebuilding revenues decreased for the fiscal year ended September 30, 2008 compared to fiscal 2007 due to decreased closings in the majority of our markets, related to reduced demand, a continued high rate of cancellations, excess capacity in both new and resale markets (including increased foreclosures available at lower prices) and the mortgage credit tightening as investors continued to divest of prior home purchases and potential homebuyers have difficulty selling their homes and/or obtaining financing. Specifically, homebuilding revenues in the West segment decreased for fiscal 2008 compared to fiscal 2007 due to reduced average sales prices and reduced demand in the majority of the markets in this segment due to deteriorating market conditions and excess capacity in both the new home and resale markets. In addition, credit tightening in the mortgage markets and a decline in consumer confidence in all of our markets further compounded the market deterioration in our Nevada, California, Texas and Arizona markets in our West segment.

For the fiscal year ended September 30, 2008, our East segment homebuilding revenues decreased by 23.3% driven by a 14.7% decline in closings and a 10.6% decline in average sales prices. These declines reflect the impact of excess capacity in the resale markets and competitive pricing pressures.

Our Southeast segment continued to be challenged by significant declines in demand, high cancellations and excess capacity in both the new home and resale markets, driving decreases in homebuilding revenues of 55.0% for fiscal 2008 as compared to fiscal 2007. Home closings in the Southeast segment decreased by 49.0% from the prior year due to deteriorating market conditions and competitive pressures. The decrease in closings was driven by higher cancellations, lower demand, higher available supply or new and resale inventory, increased competition and the tightening of credit requirements and decreased availability of mortgage options for potential homebuyers.

Homebuilding revenues in our Other Homebuilding markets decreased 47.9% in fiscal 2008 due to decreased closings of 46.5% as a result of our strategic decision to exit these markets and optimize our capital and resource allocation in markets better suited to enhance our long-term financial position. As of September 30, 2008, we had 40 homes in backlog related to these communities and 1,749 lots held for sale.

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Land and Lot Sales Revenues. The table below summarizes land and lot sales revenues by reportable segment ($ in thousands):

	Land and Lot Sales Revenues		
	2008	2007	Change
West	**$ 5,203**	$ 45,390	-88.5%
East	**107,129**	11,892	800.8%
Southeast	**3,405**	35,738	-90.5%
Other	**40,064**	6,043	563.0%
Total	**$ 155,801**	$ 99,063	57.3%

The increase in land and lot sales revenues in fiscal 2008 primarily resulted from our sale of two condominium projects in Virginia to third parties for approximately $85 million and from land and lots sold in our exit markets. Fiscal 2007 land and lot sales revenues related to land and lots sold in our West and Southeast segments that did not fit within our homebuilding programs in those segments.

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

	2008		2007	
	Gross (Loss) Profit	**Gross Margin**	Gross (Loss) Profit	Gross Margin
West	**$ (57,471)**	**-8.6%**	$ (95,309)	-7.5%
East	**11,563**	**1.7%**	41,545	4.7%
Southeast	**(57,338)**	**-16.3%**	66,644	8.5%
Other	**(87,023)**	**-39.4%**	6,029	1.4%
Corporate & unallocated	**(144,442)**		(135,199)	
Total homebuilding	**(334,711)**	**-17.5%**	(116,290)	-3.5%
Land and lot sales	**7,677**		3,423	
Financial services	**4,193**		8,068	
Total	**$ (322,841)**	**-15.6%**	$ (104,799)	-3.0%

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

Corporate and unallocated. Corporate and unallocated costs include the amortization of capitalized interest and indirect construction costs. The increase in corporate and unallocated costs relates primarily to a reduction in capitalized inventory costs due to lower inventories and costs incurred. Corporate and unallocated costs for fiscal 2008 include increased amortization of capitalized interest and indirect costs due to a lower capitalizable inventory base and the impairment of capitalized interest and indirect costs in connection with our impairment of inventory held for development. Costs for fiscal 2008 and fiscal 2007 are offset by $2.5 million and $23.8 million, respectively, of reductions in accruals associated with construction defect claims from water intrusion in Indiana related to a prior acquisition (Trinity Moisture Intrusion).

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Land and Lot Sales Gross Profit (Loss). The table below summarizes land and lot sales gross profit (loss) by reportable segment ($ in thousands):

	Land and Lot Sales Gross Profit (Loss)		
	2008	2007	Change
West	**$ 2,139**	$ 2,957	-27.7%
East	**7,454**	2,374	214.0%
Southeast	**(23)**	(221)	89.6%
Other	**(1,893)**	(1,687)	-12.2%
Total	**$ 7,677**	$ 3,423	124.3%

The increase in land and lot sales gross profit from fiscal 2007 is primarily related to the 2008 sale of two condominium projects in Virginia in our East segment.

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

	Fiscal Year Ended September 30,	
	2008	2007
Development projects and homes in process (Held for Development)		
West	**$ 147,278**	$ 224,782
East	**72,040**	95,734
Southeast	**51,663**	68,220
Other	**19,872**	28,326
Unallocated	**21,769**	23,853
Subtotal	**$ 312,622**	$ 440,915
Land Held for Sale		
West	**$ 8,505**	$ 46,138
East	**18,068**	798
Southeast	**34,608**	500
Other	**55,593**	588
Subtotal	**$ 116,774**	$ 48,024
Lot Option Abandonments		
West	**$ 15,356**	$ 54,703
East	**10,362**	23,979

Southeast		**26,519**		33,332
Other		**28,995**		10,911
Subtotal	**$**	**81,232**	$	122,925
Total	**$**	**510,628**	$	611,864

The inventory held for development that was impaired during fiscal 2008 represented 10,753 lots in 221 communities with an estimated fair value of $579.2 million. The inventory held for development that was impaired during fiscal 2007 represented 12,409 lots in 168 communities with an estimated fair value of $897.1 million. The impairments recorded on our held for development inventory, for all segments, primarily resulted from the continued significant decline in the homebuilding environment that negatively impacted the sales prices of homes and increased the sales incentives offered to potential homebuyers in our efforts to increase home sales absorptions. In fiscal 2008, our West and East segments experienced the most significant amount of inventory impairments as compared to our other homebuilding segments due to the fact that the number of owned land and lots in the West and East segments comprise approximately 44% and 32%, respectively, of our total land and lots owned as of September 30, 2008 and approximately 47% and 30%, respectively, of the dollar value of our held for development inventory as of September 30, 2008. In addition, the 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 significantly less available in the marketplace. The decline in the availability of mortgage loan products and the exit of speculators from the market, among other factors, contributed to the significant increase in the supply of new and used homes on the market for sale. The impairments recorded in our other homebuilding segment are primarily as a result of our decision to exit these markets and relate to closing out certain communities and selling off remaining land positions.

We have also recorded $116.8 million and $48.0 million of impairments on land during fiscal 2008 and 2007, respectively that we have determined does not fit within our homebuilding needs in the current environment and have thus classified as held for sale. The impairments recorded on our land held for sale, for all segments, primarily resulted from the continued significant decline in the homebuilding environment as discussed above. The inventory classified as held for sale is primarily located in our West and Other segments.

In addition, based on the significant decline in the homebuilding market, 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 fiscal 2008 were $81.2 million representing 72 communities, with the Southeast and Other Homebuilding segments representing 32.6% and 35.7%, respectively, of fiscal 2008 abandonments as we made decisions to abandon certain option contracts that no longer fit in our long-term strategic plan and also related to our decision to exit our Colorado, Charlotte, North Carolina, Columbia, South Carolina, Fresno, California and Kentucky markets. Fiscal 2007 abandonments were $122.9 million, representing 118 communities and were concentrated in our West and Southeast segments, generally among markets with the highest levels of new and resale home supply.

Inventory impairments recorded on a quarterly basis during fiscal 2008, the estimated fair value of impaired inventory at period end, the number of lots and number of communities impaired are set forth in the table below as follows ($ in thousands):

	Inventory Impairments			Estimated Fair Value of Impaired Inventory at Period End		
Quarter Ended	Held for Development	Held for Sale	Total		Lots Impaired	Communities Impaired
December 31, 2007	$ 108,071	$ 33,440	$ 141,511	$ 186,490	2,886	62
March 31, 2008	119,038	55,653	174,691	205,482	3,534	85
June 30, 2008	46,760	20,966	67,726	110,509	2,430	44
September 30, 2008	38,753	6,715	45,468	76,718	1,903	30
Fiscal 2008	$ 312,622	$ 116,774	$ 429,396		10,753	221

Unit Data by Segment

	New Orders, net			Cancellation Rates		Closings		
	2008	2007	Change	**2008**	2007	**2008**	2007	Change
West	**2,499**	3,444	-27.4%	**41.1%**	46.4%	**2,777**	4,369	-36.4%
East	**1,573**	2,816	-44.1%	**45.2%**	34.3%	**2,405**	2,821	-14.7%
Southeast	**1,331**	2,117	-37.1%	**27.4%**	40.4%	**1,515**	2,970	-49.0%
Other	**662**	1,526	-56.6%	**42.4%**	39.3%	**995**	1,860	-46.5%
Total	**6,065**	9,903	-38.8%	**39.9%**	40.9%	**7,692**	12,020	-36.0%

New Orders and Backlog: New orders, net of cancellations, decreased 38.8% to 6,065 units during fiscal 2008 compared to 9,903 units for the same period in the prior year driven by weaker market conditions resulting in reduced demand compared to the number of new orders received in fiscal 2007. For fiscal 2008, we experienced cancellation rates of 39.9% compared to 40.9% for fiscal 2007. These cancellation rates in both fiscal 2008 and 2007 reflect the continued challenging market environment which includes the inability of many potential homebuyers to sell their existing homes and obtain affordable financing. In addition, on July 1, 2008, we completed the sale of two large condominium projects in Virginia, which resulted in the cancellation of 215 orders for fiscal 2008, and the significant increase in the cancellation rate for our East segment. The increase in cancellation rates in our Other Homebuilding segment primarily relates to our decision to exit all of the markets in this segment and our related decision to curtail production in certain communities and cease production in others.

Backlog reflects the number and value of homes for which the Company has entered into a sales contract with a customer but has not yet delivered the home. The aggregate dollar value of homes in backlog at September 30, 2008 of $326.6 million decreased 61.1% from $838.8 million at September 30, 2007, related to a decrease in the number of homes in backlog from 2,985 units at September 30, 2007 to 1,358 units at September 30, 2008. The decrease in the number of homes in backlog across all of our markets is driven primarily by the aforementioned market weakness and lower new orders.

	Backlog at September 30,		
	2008	2007	Change
West	**527**	805	-34.5%
East	**485**	1,317	-63.2%
Southeast	**306**	490	-37.6%
Other	**40**	373	-89.3%
Total	**1,358**	2,985	-54.5%

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

Fiscal Year Ended September 30, 2007 Compared to Fiscal Year Ended September 30, 2006

Revenues. Revenues decreased by 34.9% for fiscal 2007 compared to fiscal 2006. Homes closed decreased by 34.5% to 12,020 in fiscal 2007 compared to 18,361 in fiscal 2006 driven by the continued deterioration in the majority of our housing markets. This decline was especially pronounced in our California, Nevada, Arizona, New Jersey, Virginia and Florida markets. The average sales price of homes closed decreased by 2.9% to $277,400 from $285,700 for the fiscal years ended September 30, 2007 and 2006, respectively. Average sales price decreased most significantly in our Florida, Virginia and Southern California markets, due primarily to increased price competition and subsequent price discounting and increasing sales incentives related to the challenging market conditions.

In addition, we had $99.1 million and $90.2 million of land sales for the fiscal years ended September 30, 2007 and 2006 respectively. The increase in land sales in fiscal 2007 primarily resulted from our continued review of opportunities to minimize underperforming investments and exit a number of less profitable positions, reallocating funds to investments intended to optimize overall returns in the future.

Gross Profit (Loss). Gross margin for fiscal 2007 was -3.0% compared to a gross margin of 22.5% for fiscal 2006, with the decline driven by continued market weakness and non-cash pre-tax inventory impairments and option contract abandonments of $611.9 million recognized in fiscal 2007. Gross margins for fiscal 2007 continued to be negatively impacted by both higher levels of price discounting and sales incentives as compared to the same period a year ago. In response to these market conditions and based on our internal analyses and business decisions, we incurred non-cash, pretax charges of $488.9 million for inventory impairments and $122.9 million for the abandonment of certain land option contracts during fiscal 2007. During fiscal 2006, we recorded $6.4 million of inventory impairments and $37.8 million for the abandonment of land option contracts. Gross profit also includes a reduction in the accrual and costs related to the Trinity class action litigation settlement of $23.8 million in 2007 and $21.7 million in 2006 (see Note 13 to the Consolidated Financial Statements).

In an effort to redeploy assets to more profitable endeavors, we executed several land sales during fiscal 2007 and 2006. We realized a gain of $3.4 million on land sales in fiscal 2007 and a loss of $1.1 million on land sales in fiscal 2006.

Selling, General and Administrative Expense. Selling, general and administrative expense (SG&A) totaled $413.8 million in fiscal 2007 and $585.7 million in fiscal 2006. The decrease in SG&A expense during the periods presented is primarily related to cost reductions realized as a result of our comprehensive review and realignment of our overhead structure in light of our reduced volume expectations and lower sales commissions related to decreased revenues, offset slightly by increased marketing costs related to promotional campaigns. As of September 30, 2007, we had reduced our overall number of employees by 1,615 or 38% as compared to September 30, 2006. Fiscal 2007 and 2006 SG&A expense included $4.5 million and $1.1 million in severance costs related to employees who had been severed as of September 30 of the respective year. In addition, fiscal 2007 SG&A expense included $10.8 million of investigation related expenses (an additional $6.4 million was related to Beazer Mortgage and is recorded in our discontinued operations). As a percentage of total revenue, SG&A expenses were 11.9% in fiscal 2007 and 11.0% in fiscal 2006. The increase in SG&A costs as a percentage of total revenue is primarily related to the aforementioned legal, consulting, investigating and severance costs.

Depreciation and Amortization. Depreciation and amortization (D&A) totaled $33.2 million in fiscal 2007 and $42.0 million in fiscal 2006. The decrease in D&A during the periods presented is primarily related to reduced spending on model furnishings and sales office improvements as a result of our strategic review of our communities.

Goodwill Impairment Charges. In light of continuing market weakness, impacted by both recent higher levels of price discounting and reduced revenue volume, and in connection with goodwill impairment tests in accordance with SFAS 142, we recorded pretax, non-cash goodwill impairment charges of $29.8 million during the quarter ended June 30, 2007 related to our reporting units in Nevada, Northern California and Tampa, Florida. During the quarter ended September 30, 2007, we recorded additional goodwill impairment charges of $23.0 million related to certain of our reporting units in South Carolina, Florida, and North Carolina. The goodwill impairment charges are reported in Corporate and unallocated and are not allocated to our homebuilding segments. To the extent that there is further deterioration in market conditions or overall economic conditions or our strategic plans change, it is possible that our conclusion regarding fair value of reporting units which are currently not impaired could change, which could result in future goodwill impairments that have a material adverse effect on our financial position and results of operations.

Joint Venture Impairment Charges. As of September 30, 2007, we participated in 24 land development joint ventures in which we had less than a controlling interest. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. As a result of the deterioration of the housing market in fiscal 2007, we wrote down our investment in certain of our joint ventures reflecting $28.6 million of impairments of inventory held within those joint ventures and $3.4 million of contractual obligation abandonments. If these adverse market conditions continue or worsen, we may have to take further writedowns of our investments in these joint ventures.

Income Taxes. Our effective tax rate was 35.1% for fiscal 2007 and 36.8% for fiscal 2006. The effective tax rate for 2007 was impacted by the $52.8 million non-cash goodwill impairment charge discussed above.

The decrease in our effective tax rate between years is primarily due to the 2007 goodwill impairment charges ($47.5 million of which is non-tax deductible), changes in income concentrations in the various states, the timing of certain state tax initiatives and the expiration of statute of limitations for certain tax contingencies. As a result, we recorded tax benefits related to certain discrete items totaling $3.1 million in fiscal 2007 and $7.5 million in fiscal 2006. In addition, in fiscal 2006, we recognized a $5.2 million tax benefit related to new provisions under the

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American Jobs Creation Act of 2004 (Jobs Act). We did not receive a similar deduction related to the Jobs Act in fiscal 2007 due to a net loss. The principal difference between our effective rate and the U.S. federal statutory rate is due to state income taxes incurred and certain non-deductible goodwill impairment charges in fiscal 2007.

Segment Results for Fiscal 2007 Compared to Fiscal 2006:

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

	Homebuilding Revenues			Average Selling Price		
	2007	2006	Change	2007	2006	Change
West	$ 1,276,480	$ 2,009,982	-36.5%	$ 288.5	$ 311.4	-7.4%
East	877,705	1,422,467	-38.3%	313.2	306.8	2.1%
Southeast	781,715	1,181,192	-33.8%	258.9	266.3	-2.8%
Other	423,694	606,380	-30.1%	226.6	221.9	2.1%
Total	$ 3,359,594	$ 5,220,021	-35.6%	$ 277.4	$ 285.7	-2.9%

Homebuilding revenues in the West segment decreased for fiscal 2007 compared to fiscal 2006 due to reduced average sales prices and reduced demand in all of the markets in this segment. Closings across all markets decreased driven by deteriorating market conditions and excess capacity in both the new home and resale markets. In addition, credit tightening in the mortgage markets and a decline in consumer confidence in all of our markets further compounded the market deterioration in our Nevada, California and Arizona markets.

The year over year change in homebuilding revenues in the East segment reflects the impact of decreased closings driven by excess capacity in the resale markets as investors continued to divest of prior home purchases and potential homebuyers continue to experience difficulty selling their existing homes. The decrease in closings was offset slightly by an increased average selling price related to a change in product mix and closing concentrations across our Eastern markets.

Homebuilding revenues in our Southeast segment decreased 33.8% in fiscal 2007 compared to fiscal 2006, due to deteriorating market conditions resulting in decreased closings and excess supply of new and resale homes and increased competition across all of our Florida markets. Closings decreased by 33.7% in fiscal 2007 compared to fiscal 2006. The decrease in closings was driven by higher cancellations, lower demand, increased competition and the tightening of credit requirements and decreased availability of mortgage options for potential homebuyers.

Homebuilding revenues in our Other Homebuilding markets decreased 30.1% in fiscal 2007 due to a decrease in closings of 33.0% as a result of our 2006 decision to exit our Memphis, Tennessee, and Ft. Wayne and Lafayette, Indiana markets, deteriorating market conditions and excess capacity in both new home and resale inventories in most of our other homebuilding markets. Our Colorado and Charlotte, North Carolina markets were especially impacted by pricing pressures, reduced demand and higher cancellation rates.

Land and Lot Sales Revenues. The table below summarizes land and lot sales revenues by reportable segment ($ in thousands):

	Land and Lot Sales Revenues		
	2007	2006	Change
West	$ 45,390	$ 39,601	14.6%
East	11,892	21,734	-45.3%
Southeast	35,738	-	n/a
Other	6,043	28,882	-79.1%
Total	$ 99,063	$ 90,217	9.8%

The increase in land and lot sales revenues is due primarily to identifying additional parcels of land and lots for sale in our West and Southeast segments in fiscal 2007 that did not fit within our homebuilding programs in those segments. These increases were offset in part by the 79% decline in land and lot sales in our Other Homebuilding segment.

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

	2007		2006	
	Gross (Loss) Profit	Gross Margin	Gross (Loss) Profit	Gross Margin
West	$ (95,309)	-7.5%	$ 453,879	22.6%
East	41,545	4.7%	363,264	25.5%
Southeast	66,644	8.5%	318,195	26.9%
Other	6,029	1.4%	73,053	12.0%
Corporate & unallocated	(135,199)		(22,013)	
Total homebuilding	(116,290)	-3.5%	1,186,378	22.7%
Land and lot sales	3,423		(1,114)	
Financial services	8,068		11,464	
Total	$ (104,799)	-3.0%	$ 1,196,728	22.5%

The decrease in gross margins in our West segment is primarily due to the impact of inventory impairments and abandonment of certain option contracts, significant deterioration in market conditions, decreased contribution from lower average sales prices, and increased sales incentives. Total charges for inventory impairments and abandonment of lot option contracts in the West segment were $270.9 million and $54.7 million, respectively, during fiscal 2007. These charges were primarily related to the impairment of certain communities in Las Vegas, Nevada and Sacramento, California due to the continued deterioration of sales trends and increased competitive pricing environments and to the abandonment of certain large option contracts in Phoenix, Arizona. Fiscal 2006 included $16.1 million of lot option abandonment charges primarily related to the cancellation of projects in Arizona and Southern California.

Gross margins for the East segment decreased primarily due to the impact of inventory impairments and abandonment of lot option contracts, deteriorating market conditions and increased incentives offered in response to the softer market conditions. Total charges for inventory impairments and abandonments, which related to the majority of our markets in the East segment, were $96.5 million and $24.0 million, respectively, during fiscal 2007 compared to $0.7 million and $7.3 million, respectively, for fiscal 2006.

The decrease in gross margins in the Southeast segment is also due to the impact of inventory impairments and abandonment of lot option contracts, significantly deteriorating market conditions, decreased contribution from lower average sales prices, and increased sales incentives. Total charges for inventory impairments and abandonments in the Southeast segment were $68.7 million and $33.3 million, respectively, in fiscal 2007 compared to $0.3 million of inventory impairments and $4.1 million of lot option abandonments in fiscal 2006.

Fiscal 2007 homebuilding gross margins for the other homebuilding markets were 1.4% compared to 12.0% for fiscal 2006. The decrease in homebuilding revenues and gross margins is primarily due to the impact of softer market conditions and increased sales incentives across all of our markets. Gross margins were further impacted by inventory impairments and abandonment of lot option contracts primarily in our Ohio and Colorado markets. During fiscal 2007, in the Other Homebuilding segment, total charges for inventory impairments were $28.9 million and lot option abandonments were $10.9 million compared to $5.2 million for inventory impairments and $10.3 million for lot option abandonments in fiscal 2006.

Corporate and unallocated. Corporate and unallocated costs include the amortization of capitalized interest and indirect construction costs. Fiscal 2007 and 2006 costs are offset by $23.8 million and $21.7 million, respectively, of reductions in accruals associated with construction defect claims from water intrusion in Indiana related to a prior acquisition (Trinity Moisture Intrusion). The increase in corporate and unallocated costs between years is due primarily to increased expense related to interest and indirect costs due to a lower capitalizable inventory base and the impairment of capitalized interest and indirect costs in connection with our impairment of inventory held for development in fiscal 2007.

Land and Lot Sales Gross Profit (Loss). The table below summarizes land and lot sales gross profit (loss) by reportable segment ($ in thousands):

	Land and Lot Sales Gross Profit (Loss)		
	2007	2006	Change
West	$ 2,957	$ 1,971	50.0%
East	2,374	3,057	-22.3%
Southeast	(221)	-	n/a
Other	(1,687)	(6,142)	72.5%
Total	$ 3,423	$ (1,114)	407.3%

The increase in land and lot sales gross profit from fiscal 2006 is primarily related to the 2006 loss on sale of land in our Other Homebuilding segment in connection with our decision to exit certain markets in Indiana.

Inventory Impairments. The following tables set forth, by reportable segment, the inventory impairments and lot option abandonment charges recorded for the fiscal years ended September 30, 2007 and 2006 (in thousands):

	Fiscal Year Ended September 30,	
	2007	2006
Development projects and homes in process (Held for Development)		
West	$ 224,782	$ 230
East	95,734	667
Southeast	68,220	302
Other	28,326	5,224
Unallocated	23,853	-
Subtotal	$ 440,915	$ 6,423
Land Held for Sale		
West	$ 46,138	$ -
East	798	-
Southeast	500	-
Other	588	-
Subtotal	$ 48,024	$ -
Lot Option Abandonments		

West	$	54,703	$	16,076
East		23,979		7,328
Southeast		33,332		4,060
Other		10,911		10,288
Subtotal	$	122,925	$	37,752
Total	$	611,864	$	44,175

Impairments recorded during fiscal 2007 increased significantly in each of our reportable segments and most prominently in our West segment. 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. The West segment experienced the most significant amount of inventory impairments as compared to our other homebuilding segments due to the fact that the number of owned land and lots in the West segment comprises approximately 39% of our total land and lots owned as of September 30, 2007 and the value of the inventory held for development in the West segment represents approximately 38% of the dollar value our land held for development inventory as of September 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 homebuilding segments are primarily as a result of continued price competition brought on by the significant increase in new and resale home inventory during fiscal 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.

We have also recorded $48.0 million in impairments on land inventory during fiscal 2007 that we have determined does not fit within our homebuilding needs in the current environment and have thus classified as held for sale. The impairments recorded on our land held for sale, for all segments, primarily resulted from the continued significant decline in the homebuilding environment as discussed above. The inventory classified as land held for sale as of September 30, 2007 is primarily located in our West segment representing nine communities and approximately 600 lots.

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 fiscal 2007 were $122.9 million which represented 118 communities. The West and Southeast segments accounted for 44.5% and 27.1%, respectively, of the abandonments as the markets in those segments were among the markets with the highest levels of new and resale home supply.

Inventory impairments recorded on a quarterly basis during fiscal 2007 and their estimated fair value, number of lots and number of communities are set forth in the table below as follows (in thousands):

	Inventory Impairments			Estimated Fair Value of Impaired Inventory at Period End		
Quarter Ended	Held for Development	Held for Sale	Total		Lots Impaired	Communities Impaired
December 31, 2006	$ 115,192	$ -	$ 115,192	$ 265,804	3,069	44
March 31, 2007	82,225	3,955	86,180	170,881	2,564	40
June 30, 2007	109,428	-	109,428	236,023	3,498	45
September 30, 2007	134,070	44,069	178,139	224,428	3,278	39
Fiscal 2007	$ 440,915	$ 48,024	$ 488,939		12,409	168

We recorded inventory impairments during fiscal 2006 totaling $6.4 million of which $0.8 million was recorded in the quarter ended March 31, 2006 and $5.6 million in the quarter ended September 30, 2006. The inventory impaired 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.

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Unit Data by Segment

	New Orders, net			Cancellation Rates		Closings		
	2007	2006	Change	2007	2006	2007	2006	Change
West	3,444	4,779	-27.9%	46.4%	45.8%	4,369	6,484	-32.6%
East	2,816	3,440	-18.1%	34.3%	32.3%	2,821	4,617	-38.9%
Southeast	2,117	3,492	-39.4%	40.4%	31.4%	2,970	4,483	-33.7%
Other	1,526	2,480	-38.5%	39.3%	31.6%	1,860	2,777	-33.0%
Total	9,903	14,191	-30.2%	40.9%	37.2%	12,020	18,361	-34.5%

New Orders, net and backlog. New orders, net of cancellations, decreased to 9,903, or 30% during fiscal 2007 compared to 14,191 during fiscal 2006 as new orders decreased across most of our markets. The decrease was due primarily to lower levels of demand for new homes, an increase in resale home inventory, a decrease in the availability of mortgage financing for many potential homebuyers and significant increases in cancellation rates due partially to a decline in homebuyer confidence in the homebuilding market. Specifically, cancellation rates increased from 37% in fiscal 2006 to 41% in fiscal 2007. This higher cancellation rate in fiscal 2007 also reflects the challenging market environment including the inability of many potential homebuyers to sell their existing homes, the increased price competition and incentives offered and the tightening of credit markets.

The number of homes in backlog decreased 41.5% from September 30, 2006 to September 30, 2007 driving a 46.1% decrease in the aggregate dollar value of homes in backlog from $1.6 billion at September 30, 2006 to $838.8 million at September 30, 2007. The decrease in aggregate dollar value also reflects a 7.8% decline in the average price of homes in backlog from $304,900 at September 30, 2006 to $281,000 at September 30, 2007. This decrease in average sale price was most pronounced in the markets in our West and Southeast segments. The decrease in the number of homes in backlog across most of our markets is driven primarily by the aforementioned market weakness, lower new orders and higher rate of cancellations.

	Backlog at September 30,		
	2007	2006	Change
West	**805**	1,730	-53.5%
East	**1,317**	1,322	-0.4%
Southeast	**490**	1,343	-63.5%
Other	**373**	707	-47.2%
Total	**2,985**	5,102	-41.5%

Derivative Instruments and Hedging Activities. We are exposed to fluctuations in interest rates. From time to time, we enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates. As of September 30, 2008, we were not a party to any such derivative agreements. We do not enter into or hold derivatives for trading or speculative purposes.

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

We generated $130 million in cash during fiscal 2008 through a combination of our homebuilding operational activities, the sale of non-core assets in all of our markets, including the markets which we are exiting, and from a significant reduction in fixed costs, land acquisition and land development spending. In addition, we paid off $100.7 million of our secured notes payable during fiscal 2008. Our liquidity position consisted of $584.3 million in cash and cash equivalents as of September 30, 2008.

Our increase in cash as of September 30, 2008 as compared to cash of $454.3 million at September 30, 2007, was due primarily to cash provided by operating activities of $315.6 million relating primarily to the significant reductions in inventory and the increase in income tax receivable offset by the repayment of certain secured notes payable, model home financing and debt issuance costs. Our net cash provided by operating activities for fiscal 2008 was $315.6 million compared to cash provided by operations of $509.4 million in the prior year. Based on the applicable year s closings, as of September 30, 2008, our land bank includes a 4.68 year supply of owned and optioned land/lots for current and future development. The years supply in land bank declined as of September 30, 2008 when compared to September 30, 2007 primarily due to the 36% decrease in the number of lots in the ending land bank as of September 30, 2008 as compared to September 30, 2007. As the homebuilding market declined, we were successful in significantly reducing our land bank through the abandonment of lot option contracts, the sale of land assets not required in our homebuilding program and through the sale of new homes with only 3.8 years of owned land and lots as of September 30, 2008. The decrease in the number of owned lots in our land bank from September 30, 2007 to September 30, 2008 related to our decision to eliminate non-strategic positions to align our land supply with our expectations for future home closings.

Net cash used in investing activities was $18.4 million for fiscal 2008 compared to $52.0 million for the comparable period of fiscal 2007, as we invested less in unconsolidated joint ventures and capital expenditures for model and sales office improvements as part of our strategic efforts to control spending in light of the current market conditions.

Net cash used in financing activities was $167.2 million for fiscal 2008 related primarily to the repayment of certain secured notes payable and model home financing obligations and the payment of debt issuance costs. Net cash used in financing activities was $170.6 million for fiscal 2007 and consisted primarily of net borrowings under credit facilities and warehouse line of $94.9 million, repurchase of Senior Notes and other secured notes payable of $61.6 million and dividends paid of $15.6 million.

In response to the reduced size of our homebuilding operations, which resulted from the deterioration in the homebuilding market, our projected future liquidity requirements and anticipated covenant breaches, we agreed to reduce our Secured Revolving Credit Facility during fiscal 2008 from $500 million at September 30, 2007 to a maximum of $400 million, subject to additional reductions as more fully described below. Our facility is collateralized with real estate assets used in our homebuilding operations and is subject to a borrowing base calculation which limits the availability under the facility.

As the homebuilding markets have contracted, we have continued to decrease the size of our business through a reduction in personnel and additional non-core markets, such as Colorado and Fresno, California during fiscal 2008. We have continued our focus on cash generation and preservation to ensure we have the required liquidity to fund our operations as we build availability under our Secured Revolving Credit Facility.

We fulfill our short-term cash requirements with cash generated from our operations and funds available from our Secured Revolving Credit Facility. There were no amounts outstanding under the Secured Revolving Credit Facility at September 30, 2008 or September 30, 2007; however, we had $61.2 million and $133.3 million of letters of credit outstanding under the Secured Revolving Credit Facility at September 30, 2008 and September 30, 2007, respectively. We believe that the cash and cash equivalents at September 30, 2008 of $584.3 million, the receipt of our income tax refund of approximately $150 million, which we expect to receive in the first half of fiscal 2009, cash generated from our operations and availability, if any, under our Secured Revolving Credit Facility will be adequate to meet our liquidity needs during fiscal 2009. However, if we are required to fund all of the potential obligations associated with lower levels of stockholders equity and joint venture defaults, as more fully discussed below, we would have cash requirements, not including any fines or penalties associated with the government investigations, totaling approximately $280 million which would significantly reduce our overall liquidity.

As a result of these issues, in addition to our continued focus on generation and preservation of cash, we are also focused on increasing our stockholders equity and reducing our leverage. In order to accomplish this goal, we will likely need to issue new common or preferred equity. Any new issuance may take the form of public or private offerings for cash, equity issued to consummate acquisitions of assets or equity issued in exchange for a portion of our outstanding debt. We may also from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity or other debt securities, in open market purchases, privately negotiated transactions or otherwise. In addition, any material variance from our projected operating results or land investments, or investments in or acquisitions of businesses, payment of regulatory and/or criminal fines or our inability to increase our availability under our Secured Revolving Credit Facility, as described in more detail below, could require us to obtain additional equity or debt financing. Any such equity transactions or debt financing may be on terms less favorable or at higher costs than our current financing sources, depending on future market conditions and other factors including any possible downgrades in our credit ratings or adverse commentaries issued by rating agencies in the future. Also, there can be no assurance that we will be able to complete any of these transactions on favorable terms or at all. We currently intend to attempt to resolve our issues with regulatory authorities before pursuing any specific changes in the capital structure.

Borrowings

At September 30, 2008 and 2007 we had the following long-term debt *(in thousands):*

	Maturity Date	**September 30, 2008**	September 30, 2007
Secured Revolving Credit Facility	July 2011	$ **-**	$ -
8 5/8% Senior Notes*	May 2011	**180,000**	180,000
8 3/8% Senior Notes*	April 2012	**340,000**	340,000
6 1/2% Senior Notes*	November 2013	**200,000**	200,000
6 7/8% Senior Notes*	July 2015	**350,000**	350,000
8 1/8% Senior Notes*	June 2016	**275,000**	275,000
4 5/8% Convertible Senior Notes*	June 2024	**180,000**	180,000
Junior subordinated notes	July 2036	**103,093**	103,093
Other secured notes payable	Various Dates	**50,618**	118,073
Model home financing obligations	Various Dates	**71,231**	114,116
Unamortized debt discounts		**(2,565)**	(3,033)
Total		**$ 1,747,377**	$ 1,857,249

* Collectively, the Senior Notes

Secured Revolving Credit Facility In July 2007, we replaced our former credit facility with a new $500 million, four-year unsecured revolving credit facility with a group of banks, which matures in 2011. As a result of a series of amendments, as more fully described below, the revolving credit facility became a $400 million secured revolving credit facility. The former credit facility included a $1 billion four-year revolving credit facility which would have matured in August 2009. The Secured Revolving Credit Facility has a $350 million sublimit for the issuance of standby letters of credit. We have the option to elect two types of loans under the Secured Revolving Credit Facility which incur interest as applicable based on either the Alternative Base Rate or the Applicable Eurodollar Margin (both defined in the Secured Revolving Credit Facility). The Secured Revolving Credit Facility contains various operating and financial covenants. Substantially all of our significant subsidiaries are guarantors of the obligations under the Secured Revolving Credit Facility (see Note 16 to the Consolidated Financial Statements).

On October 10, 2007, we entered into a waiver and amendment of our Secured 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 prior to May 15, 2008. Under this and the October 26, 2007 amendments, all obligations under the Secured Revolving Credit Facility are secured by certain assets and our ability to borrow under this facility is subject to satisfaction of a secured borrowing base. We are permitted to grow the borrowing base by adding additional cash and/or real estate as collateral securing the Secured Revolving Credit Facility. In addition, we obtained additional flexibility with respect to our financial covenants in the Secured Revolving Credit Facility.

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

On August 7, 2008, we entered into an amendment to our Secured Revolving Credit Facility which changed the size, covenants and pricing for the facility. The size of the Secured Revolving Credit Facility was reduced from $500 million to $400 million and is subject to further reductions to $250 million and $100 million if our consolidated tangible net worth (defined in the agreement as stockholders equity less intangible assets) falls below $350 million and $250 million, respectively. As of September 30, 2008, our consolidated tangible net worth was $314.4 million. As a result, the facility size has now been reduced to $250 million. Further, the facility size is subject to reduction to $200 million if our interest coverage ratio for the quarter ending June 30, 2010 is less than 1.0x. We expect that fiscal 2009 will pose significant challenges for us. Like many other homebuilders, we have experienced a material reduction in revenues and margins and we incurred significant net losses in fiscal 2008 and 2007. These net losses were driven primarily by asset impairment and lot option abandonment charges incurred in both fiscal 2008 and 2007. This has resulted in a decrease in our stockholders equity from $1.7 billion at September 30, 2006 to $375 million at September 30, 2008. We believe that the homebuilding market will remain challenging throughout fiscal 2009 and, as a result, it is likely that we will also incur net losses in 2009, which will further reduce our stockholders equity and consolidated tangible net worth. If our consolidated tangible net worth falls below $100 million, we would be in default of the Secured Revolving Credit Facility. Under such circumstances, the lenders could terminate the facility, accelerate our obligations thereunder or require us to post cash collateral to support our existing letters of credit. At September 30, 2008, we had letters of credit outstanding of $61.2 million under the Secured Revolving Credit Facility.

Availability under the facility continues to be subject to satisfaction of a secured borrowing base. The amendment provided that the book value of the assets securing the facility must exceed 3.0x the outstanding loans and letters of credit. Such coverage level increases to 4.5x and 6.0x to the extent the facility size is reduced to $250 million or $100 million, respectively. As of September 30, 2008, and prior to the submittal of fiscal 2008 financial reports, we were in compliance with the collateral coverage requirements, but had no additional availability. Concurrent with the filing of our fiscal 2008 financial reports, our facility size will decrease to $250 million and our collateral coverage level will increase to 4.5x the amount of outstanding loans and letters of credit. As a result of the increase in collateral coverage to 4.5x we will be required to provide a total of $19.5 million in cash to fully collateralize our outstanding letters of credit. We intend to add approximately $250 million of additional real estate assets to the borrowing base over the next twelve months, which will provide up to $35 million in additional borrowing base availability after providing for the return of the $19.5 million in restricted cash. Assets in the borrowing base, and therefore any further availability, are subject to required appraisals and other bank review procedures. The availability under our facility is not impacted by any actions of the respective credit rating agencies. The value of the real estate assets securing our borrowing base could decline should the downturn in our industry worsen. Any reduction in value could result in a reduction in available borrowing capacity under the Secured Revolving Credit Facility.

The interest margins under the Secured Revolving Credit Facility were increased and are now based on the facility size. Following the amendment, the Eurodollar Margin under the facility was set at 4.5%. To the extent the facility size is reduced to $250 million or $100 million, the Eurodollar Margin will increase to 5.0% and 5.5%, respectively. As a result of the reduction in facility size to $250 million, the current Eurodollar Margin is now 5.0%.

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

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1.75x. The following table sets forth our financial covenant requirements under our Secured Revolving Credit Facility and our compliance with such covenants as of September 30, 2008:

Financial Covenant	Covenant Requirement	Actual
Consolidated Tangible Net Worth	> $100 million	$314.4 million
Minimum Liquidity	> $120 million of unrestricted cash and borrowing base availability OR Adjusted Coverage Ratio > 1.75x	$584.3 million of unrestricted cash and borrowing base availability and Adjusted Coverage Ratio of 3.5x

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

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

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At September 30, 2008, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. The indentures provide that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes. Specifically, each indenture (other than the indenture governing the convertible Senior Notes) requires us to offer to purchase 10% of each series of Senior Notes at par if our consolidated tangible net worth (defined as stockholders equity less intangible assets) is less than $85 million at the end of any two consecutive fiscal quarters. If triggered and fully subscribed, this could result in our having to purchase $134.5 million of notes, based on amounts outstanding at September 30, 2008.

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

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

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

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

Other Secured Notes Payable We periodically acquire land through the issuance of notes payable. As of September 30, 2008 and September 30, 2007, we had outstanding notes payable of $50.6 million and $118.1 million, respectively, primarily related to land acquisitions. These notes payable expire at various times through 2010 and had fixed and variable rates ranging from 5.2% to 8.0% at September 30, 2008. These notes are secured by the real estate to which they relate. During fiscal 2008, we repaid $100.7 million of these secured notes payable. In connection with the sale of our interest in two joint ventures to our joint venture partner, we also acquired that partner s interest in two separate joint ventures. In connection with the acquisition of one of these ventures, we assumed the joint venture s debt of approximately $22.7 million which is included in other secured notes payable as of September 30, 2008.

The agreements governing these secured notes payable contain various affirmative and negative covenants. Certain of these secured notes payable agreements contain covenants that require us to maintain minimum levels of stockholders equity (or some variation, such as tangible net worth) or maximum levels of debt to stockholders equity. Although the specific covenants and related definitions vary among the agreements, further reductions in our stockholders equity, absent the receipt of waivers, may cause breaches of some or all of these covenants. Breaches of certain of these covenants, to the extent they lead to an acceleration, may result in cross defaults under our senior notes. The dollar value of these secured notes payable agreements containing stockholders equity-related covenants totaled $39.0 million at September 30, 2008. There can be no assurance that we will be able to obtain any future waivers or amendments that may become necessary without significant additional cost or at all. In each instance, however, a covenant default can be cured by repayment of the indebtedness.

Model Home Financing Obligations - Due to a continuing interest in certain model home sale-leaseback transactions, we have recorded $71.2 million and $114.1 million of debt as of September 30, 2008 and September 30, 2007, respectively, related to these financing transactions in accordance with SFAS 98 (As amended), *Accounting for Leases.* These model home transactions incur interest at a variable rate of one-month LIBOR plus 450 basis points, 7.0% as of September 30, 2008, and expire at various times through 2015.

Stock Repurchases and Dividends Paid On November 18, 2005, as part of an acceleration of Beazer Homes comprehensive plan to enhance stockholder value, our Board of Directors authorized an increase in our stock repurchase plan to ten million shares of our common stock. The plan provides that 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 fiscal 2008 and 2007. At September 30, 2008, there are approximately 5.4 million additional shares available for purchase pursuant to the plan. However, in December 2007, we suspended our repurchase program and any resumption of such program will be at the discretion of the Board of Directors and as allowed by our debt covenants and is unlikely in the foreseeable future. In addition, the indentures under which our senior notes were issued contain certain restrictive covenants, including limitations on share repurchases and the payment of dividends. At September 30, 2008, under the most restrictive covenants of each indenture, none of our retained earnings was available for cash dividends or share repurchases.

For fiscal 2007, we paid quarterly cash dividends of $0.10 per common share, or a total of approximately $15.6 million. For fiscal 2006, we paid quarterly cash dividends of $0.10 per common share, or a total of approximately $16.1 million. On November 2, 2007, our Board of Directors suspended our dividend payments. The Board concluded that suspending dividends, which will allow us to conserve approximately $16 million of cash annually, was a prudent effort in light of the continued deterioration of the housing market. We did not pay any dividends in fiscal 2008.

In addition, during fiscal 2008, 2007 and fiscal 2006, 7,255 shares, 13,946 shares and 47,544 shares, respectively, were surrendered to us by employees in payment of minimum tax obligations upon the vesting of restricted stock and restricted stock units under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of approximately $52,000, or approximately $7 per share for fiscal 2008, $348,000, or approximately $25 per share, for fiscal 2007 and $2.6 million, or approximately $55 per share, for fiscal 2006.

Off-Balance Sheet Arrangements and Aggregate Contractual Commitments. At September 30, 2008, we controlled 39,627 lots (a 5-year supply based on fiscal 2008 closings). We owned 73.5%, or 29,123 lots, and 10,504 lots, 26.5%, were under option contracts which generally require the payment of cash or the posting of a letter of credit for the right to acquire lots during a specified period of time at a certain price. We historically have attempted to control a portion of our land supply through options. As a result of the flexibility that these options provide us, upon a change in market conditions we may renegotiate the terms of the options prior to exercise or terminate the agreement. Under option contracts, 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 $50.8 million at September 30, 2008. This amount includes non-refundable letters of credit of approximately $7.4 million. The total remaining purchase price, net of cash deposits, committed under all options was $508.2 million as of September 30, 2008. Only $56.0 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.

We expect to exercise substantially all of our remaining 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.

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

Certain of our option contracts are with sellers who are deemed to be Variable Interest Entities (VIEs) under FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (FIN 46R). We have determined that we are the primary beneficiary of certain of these option contracts. Our risk is generally limited to the option deposits that we pay, and creditors of the sellers generally have no recourse to the general credit of the Company. Although we do not have legal title to the optioned land, for those option contracts for which we are the primary beneficiary, we are required to consolidate the land under option at fair value. We believe that the exercise prices of our option contracts approximate their fair value. Our consolidated balance sheets at September 30, 2008 and 2007 reflect consolidated inventory not owned of $106.7 million and $237.4 million, respectively. We consolidated $46.9 million and $92.3 million of lot option agreements as consolidated inventory not owned pursuant to FIN 46R as of September 30, 2008 and September 30, 2007, respectively. In addition, as of September 30, 2008 and September 30, 2007, we recorded $59.8 million and $145.1 million, respectively, of land under the caption consolidated inventory not owned related to lot option agreements in accordance with SFAS 49, *Product Financing Arrangements.* Obligations related to consolidated inventory not owned totaled $70.6 million at September 30, 2008 and $177.9 million at September 30, 2007. The difference between the balances of consolidated inventory not owned and obligations related to consolidated inventory not owned represents cash deposits paid under the option agreements.

We participate in a number of land development joint ventures in which we have less than a controlling interest. We enter into joint ventures in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. We account for our interest in these joint ventures under the equity method. Our consolidated balance sheets include investments in joint ventures totaling $33.1 million and $109.1 million at September 30, 2008 and 2007, respectively.

Our joint ventures typically obtain secured acquisition and development financing. At September 30, 2008, our unconsolidated joint ventures had borrowings outstanding totaling $524.4 million, of which $327.9 million related to one joint venture in which we are a 2.58% partner. Generally, we and our joint venture partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated joint ventures. At September 30, 2008, we had repayment guarantees of $39.2 million and loan-to-value maintenance guarantees of $5.8 million of debt of unconsolidated joint ventures. Several of our joint ventures are in default under their debt agreements at September 30, 2008 or are at risk of defaulting. To the extent that we are unable to reach satisfactory resolutions, we may be called upon to perform under our applicable guarantees. See Notes 3 and 13 to the Consolidated Financial Statements. The following summarizes our aggregate contractual commitments at September 30, 2008 (in thousands):

	Payments Due by Period				
Contractual obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Senior Notes and other notes payable	$ 1,749,942	$ 24,340	$ 252,936	$ 364,573	$ 1,108,093
Interest commitments under Senior Notes and other notes payable (1)	872,905	128,863	221,973	147,077	374,992
Operating leases	38,282	11,517	15,204	9,510	2,051
Uncertain tax positions (2)	-	-	-	-	-
Purchase obligations (3)	56,025	46,025	10,000	-	-
Total	$ 2,717,154	$ 210,745	$ 500,113	$ 521,160	$ 1,485,136

(1) Interest on variable rate obligations is based on rates effective as of September 30, 2008.
(2) Due to the uncertainty of the timing of settlement with taxing authorities, the Company is unable to make reasonably reliable estimates of the period of cash settlement of unrecognized tax benefits for the remaining tax liabilities. Therefore, $57.9 million of unrecognized tax benefits as of September 30, 2008 have been excluded from the Contractual Obligations table above. See Note 8 to Consolidated Financial Statements for additional information regarding the Company s unrecognized tax benefits as of September 30, 2008.

(3) Represents obligations under option contracts with specific performance provisions, net of cash deposits.

We had outstanding letters of credit and performance bonds of approximately $50.8 million and $384.1 million, respectively, at September 30, 2008 related principally to our obligations to local governments to construct roads and other improvements in various developments in addition to the letters of credit of approximately $11.6 million relating to our land option contracts discussed above.

Recent Accounting Pronouncements. On October 1, 2007, the Company adopted the provisions of EITF Issue No. 06-8, *Applicability of the Assessment of a Buyer s Continuing Investment Under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums.* EITF 06-08 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 did 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.

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a number of market risks in the ordinary course of business. Our primary market risk exposure relates to fluctuations in interest rates. We do not believe that our exposure in this area is material to cash flows or earnings. As of September 30, 2008, we had $110.2 million of variable rate debt outstanding. Based on our fiscal 2008 average outstanding borrowings under our variable rate debt, a one-percentage point increase in interest rates would negatively impact our annual pre-tax earnings by approximately $1.1 million.

The estimated fair value of our fixed rate debt at September 30, 2008 was $1.13 billion, compared to a carrying value of $1.64 billion, due primarily to increases in our estimated discount rates for similar financial instruments. In addition, the effect of a hypothetical one-percentage point decrease in our estimated discount rates would increase the estimated fair value of the fixed rate debt instruments from $1.13 billion to $1.19 billion at September 30, 2008.

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Item 8. Financial Statements and Supplementary Data

Beazer Homes USA, Inc.
Consolidated Statements of Operations
(in thousands, except share and per share amounts)

	Fiscal Year Ended September 30,		
	2008	2007	2006
Total revenue	**$ 2,074,298**	$ 3,466,725	$5,321,702
Home construction and land sales expenses	**1,886,511**	2,959,660	4,080,799
Inventory impairments and option contract abandonments	**510,628**	611,864	44,175
Gross (loss) income	**(322,841)**	(104,799)	1,196,728
Selling, general and administrative expenses	**344,923**	413,774	585,656
Depreciation and amortization	**27,544**	33,176	41,999
Goodwill impairment	**52,470**	52,755	-
Operating (loss) income	**(747,778)**	(604,504)	569,073
Equity in (loss) income of unconsolidated joint ventures	**(81,314)**	(35,154)	1,343
Other (expense) income, net	**(36,992)**	7,499	2,450
(Loss) income from continuing operations before income taxes	**(866,084)**	(632,159)	572,866
Provision for (benefit from) income taxes	**85,164**	(221,778)	210,601
(Loss) income from continuing operations	**(951,248)**	(410,381)	362,265
(Loss) income from discontinued operations, net of tax	**(664)**	(692)	6,571
Net (loss) income	**$ (951,912)**	$(411,073)	$368,836
Weighted average number of shares:			
Basic	**38,549**	38,410	39,812
Diluted	**38,549**	38,410	44,345
Earnings (loss) per share:			
Basic (loss) earnings per share from continuing operations	**$ (24.68)**	$(10.68)	$9.10
Basic (loss) earnings per share from discontinued operations	**$ (0.01)**	$(0.02)	$0.16
Basic (loss) earnings per share	**$(24.69)**	$(10.70)	$9.26
Diluted (loss) earnings per share from continuing operations	**$(24.68)**	$(10.68)	$8.29
Diluted (loss) earnings per share from discontinued operations	**$(0.01)**	$(0.02)	$0.15
Diluted (loss) earnings per share	**$(24.69)**	$(10.70)	$8.44
Cash dividends per share	**$-**	$0.40	$0.40

See Notes to Consolidated Financial Statements.

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Beazer Homes USA, Inc.
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	September 30, 2008	September 30, 2007
ASSETS		
Cash and cash equivalents	**$584,334**	$454,337
Restricted cash	**297**	5,171
Accounts receivable, net	**46,555**	45,501
Income tax receivable	**173,500**	63,981
Inventory		
Owned inventory	**1,545,006**	2,537,791
Consolidated inventory not owned	**106,655**	237,382
Total inventory	**1,651,661**	2,775,173
Residential mortgage loans available-for-sale	**94**	781
Investments in unconsolidated joint ventures	**33,065**	109,143
Deferred tax assets, net	**20,216**	232,949
Property, plant and equipment, net	**39,822**	71,682
Goodwill	**16,143**	68,613
Other assets	**76,112**	102,690
Total assets	**$2,641,799**	$3,930,021
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	**$90,371**	$118,030
Other liabilities	**358,592**	453,089
Obligations related to consolidated inventory not owned	**70,608**	177,931
Senior Notes (net of discounts of $2,565 and $3,033, respectively)	**1,522,435**	1,521,967
Junior subordinated notes	**103,093**	103,093
Other secured notes payable	**50,618**	118,073
Model home financing obligations	**71,231**	114,116
Total liabilities	**2,266,948**	2,606,299
Stockholders equity:		
Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued)	**-**	-
Common stock (par value $0.001 per share, 80,000,000 shares authorized, 42,612,801 and 42,597,229 issued and 39,270,038 and 39,261,721 outstanding, respectively)	**43**	43
Paid-in capital	**556,910**	543,705
Retained earnings	**1,845**	963,869
Treasury stock, at cost (3,342,763 and 3,335,508 shares, respectively)	**(183,947)**	(183,895)

Total stockholders equity	**374,851**	1,323,722
Total liabilities and stockholders equity	**$2,641,799**	$3,930,021

See Notes to Consolidated Financial Statements.

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Beazer Homes USA, Inc.
Consolidated Statement of Stockholders Equity
($ in thousands)

	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Treasury Stock	Unearned Compensation	Total
Balance, September 30, 2005	$-	$ 42	$535,473	$1,037,860	$(8,092)	$ (12,126)	$1,553,157
Net income and comprehensive income	-	-	-	368,836	-	-	368,836
Dividends paid	-	-	-	(16,144)	-	-	(16,144)
Purchase of treasury stock (3,648,300 shares)	-	-	-	-	(205,416)	-	(205,416)
Transfer of unearned compensation to paid in capital	-	-	(12,126)	-	-	12,126	-
Amortization of nonvested stock awards	-	-	8,669	-	-	-	8,669
Amortization of stock option awards	-	-	7,084	-	-	-	7,084
Exercises of stock options (415,938 shares)	-	-	7,298	-	-	-	7,298
Tax benefit from stock transactions	-	-	8,205	-	-	-	8,205
Issuance of bonus stock (62,121 shares)	-	-	1,402	-	-	-	1,402
Issuance of restricted stock (409,759 shares)	-	-	(26,679)	-	26,679	-	-
Common stock redeemed (47,544 shares)	-	-	-	-	(2,624)	-	(2,624)
Balance, September 30, 2006	-	42	529,326	1,390,552	(189,453)	-	1,730,467
Net loss and comprehensive loss	-	-	-	(411,073)	-	-	(411,073)

Dividends paid	-	-	-	(15,610)	-	-	(15,610)
Amortization of nonvested stock awards	-	-	5,318	-	-	-	5,318
Amortization of stock option awards	-	-	5,831	-	-	-	5,831
Exercises of stock options (312,501 shares)	-	1	4,421	-	-	-	4,422
Tax benefit from stock transactions	-	-	2,635	-	-	-	2,635
Issuance of bonus stock (71,429 shares)	-	-	2,080	-	-	-	2,080
Issuance of restricted stock (159,378 shares)	-	-	(5,906)	-	5,906	-	-
Common stock redeemed (13,946 shares)	-	-	-	-	(348)	-	(348)
Balance, September 30, 2007	-	43	543,705	963,869	(183,895)	-	1,323,722
Net loss and comprehensive loss	-	-	-	(951,912)	-	-	(951,912)
Amortization of nonvested stock awards	-	-	6,160	-	-	-	6,160
Amortization of stock option awards	-	-	6,404	-	-	-	6,404
Tax benefit from stock transactions	-	-	(1,158)	-	-	-	(1,158)
Issuance of bonus stock (43,075 shares)	-	-	1,799	-	-	-	1,799
Adoption of FIN 48	-	-	-	(10,112)	-	-	(10,112)
Common stock redeemed (7,255 shares)	-	-	-	-	(52)	-	(52)
Balance, September 30, 2008	$ -	$ 43	$ 556,910	$ 1,845	$ (183,947)	$-	$ 374,851

See Notes to Consolidated Financial Statements.

Beazer Homes USA, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended September 30,		
	2008	2007	2006
Cash flows from operating activities:			
Net (loss) income	**$ (951,912)**	$ (411,073)	$ 368,836
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**27,709**	33,594	42,425
Stock-based compensation expense	**12,564**	11,149	15,753
Inventory impairments and option contract abandonments	**510,628**	611,864	44,175
Goodwill impairment charge	**52,470**	52,755	-
Deferred income tax provision (benefit)	**260,410**	(161,605)	25,963
Provision for doubtful accounts	**8,710**	(862)	563
Excess tax (benefit) deficiency from equity-based compensation	**1,158**	(2,635)	(8,205)
Equity in loss (income) of unconsolidated joint ventures	**81,314**	35,154	(1,343)
Cash distributions of income from unconsolidated joint ventures	**2,439**	5,285	352
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	**(7,820)**	293,394	(182,202)
Increase in income tax receivable	**(109,519)**	(63,981)	-
Decrease (increase) in inventory	**572,746**	134,953	(486,727)
Decrease (increase) in residential mortgage loans available-for-sale	**687**	91,376	(92,157)
Decrease (increase) in other assets	**48,913**	9,180	(20,736)
Decrease in trade accounts payable	**(27,916)**	(21,978)	(1,641)
Decrease in other liabilities	**(161,113)**	(108,809)	(83,044)
Other changes	**(5,901)**	1,610	(8)
Net cash provided by (used in) operating activities	**315,567**	509,371	(377,996)
Cash flows from investing activities:			
Capital expenditures	**(10,566)**	(29,474)	(55,088)
Investments in unconsolidated joint ventures	**(13,758)**	(24,505)	(49,458)
Changes in restricted cash	**4,874**	(298)	(4,873)
Distributions from unconsolidated joint ventures	**1,050**	2,229	4,655
Net cash used in investing activities	**(18,400)**	(52,048)	(104,764)
Cash flows from financing activities:			
Borrowings under credit facilities and warehouse line	**-**	169,888	1,937,528
Repayment of credit facilities and warehouse line	**-**	(264,769)	(1,842,647)
Repayment of other secured notes payable	**(100,740)**	(31,139)	(20,934)
Borrowings under senior notes	**-**	-	275,000

Borrowings under junior notes	**-**	-	103,093
Repurchase of senior notes	**-**	(30,413)	-
Borrowings under model home financing obligations	**-**	5,919	117,365
Repayment of model home financing obligations	**(42,885)**	(8,882)	(286)
Debt issuance costs	**(22,335)**	(2,259)	(7,206)
Proceeds from stock option exercises	**-**	4,422	7,298
Common stock redeemed	**(52)**	(348)	(2,624)
Treasury stock purchases	**-**	-	(205,416)
Excess tax (benefit) deficiency from equity-based compensation	**(1,158)**	2,635	8,205
Dividends paid	**-**	(15,610)	(16,144)
Net cash (used in) provided by financing activities	**(167,170)**	(170,556)	353,232
Increase (decrease) in cash and cash equivalents	**129,997**	286,767	(129,528)
Cash and cash equivalents at beginning of period	**454,337**	167,570	297,098
Cash and cash equivalents at end of period	**$ 584,334**	$ 454,337	$ 167,570

See Notes to Consolidated Financial Statements.

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Beazer Homes USA, Inc.
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Organization. Beazer Homes USA, Inc. is one of the ten largest homebuilders in the United States, based on number of homes closed. We are a geographically diversified homebuilder with active operations in 17 states: Arizona, California, Delaware, Florida, Georgia, Indiana, Maryland, Nevada, New Jersey, New Mexico, New York, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia. Through Beazer Mortgage Corporation, or Beazer Mortgage, we historically offered mortgage origination services to our homebuyers. Through January 31, 2008, Beazer Mortgage financed certain of our mortgage lending activities with borrowings under a warehouse line of credit or from general corporate funds prior to selling the loans and their servicing rights shortly after origination to third-party investors. In addition, we offer title insurance services to our homebuyers in many of our markets. Effective February 1, 2008, we exited the mortgage origination business. Results from our mortgage origination business are reported as discontinued operations in the accompanying Consolidated Statements of Operations for all periods presented.

Presentation. The accompanying consolidated financial statements include the accounts of Beazer Homes USA, Inc. and our subsidiaries. Intercompany balances have been eliminated in consolidation. Our historical segment information has been recast to reflect the change in reporting segments which occurred during fiscal 2008 (see Note 14).

Cash and Cash Equivalents and Restricted Cash. We consider investments with maturities of three months or less when purchased to be cash equivalents. At September 30, 2008, the majority of our cash and cash equivalents were invested in high-quality money market mutual funds, which were valued at par with no withdrawal restrictions. The underlying investments of these funds were predominately U.S. Government and U.S. Government Agency obligations. Additionally, the majority of the invested balances were further protected under the U.S. Treasury Guaranty Program. Restricted cash includes cash restricted by state law or a contractual requirement.

Accounts Receivable. Accounts receivable primarily consist of escrow deposits to be received from title companies associated with closed homes. Generally, we receive cash from title companies within a few days of the home being closed. As of September 30, 2008 and 2007, our accounts receivable was net of an allowance for doubtful accounts of $8.9 million and $0.2 million, respectively.

Inventory. Owned inventory consists solely of residential real estate developments. Interest, real estate taxes and development costs are capitalized in inventory during the development and construction period. Construction and land costs are comprised of direct and allocated costs, including estimated future costs for warranties and amenities. Land, land improvements and other common costs are typically allocated to individual residential lots on a pro-rata basis, and the costs of residential lots are transferred to construction in progress when home construction begins. Consolidated inventory not owned represents the fair value of land under option agreements consolidated pursuant to Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities* , an Interpretation of ARB No. 51 (FIN 46R). FIN 46R requires us to consolidate the financial results of a variable interest entity (VIE) if the Company is the primary beneficiary of the VIE. VIEs are entities in which 1) equity investors do not have a controlling financial interest and/or 2) the entity is unable to finance its activities without additional subordinated financial support from other parties. In addition to lot options recorded in accordance with FIN 46R, we evaluate lot options in accordance with the provisions of Statement of Financial Accounting Standards, (SFAS) No. 49, *Product Financing Arrangements*. When our deposits and pre-acquisition development costs exceed certain thresholds, we record the remaining purchase price of the lots as consolidated inventory not owned and obligations related to consolidated inventory not owned in the Consolidated Balance Sheets.

Residential Mortgage Loans Available-for-Sale. Residential mortgage loans available-for-sale are stated at the lower of aggregate cost or market value. Gains and losses from sales of mortgage loans are recognized when the loans are sold.

Investments in Unconsolidated Joint Ventures. We participate in a number of land development joint ventures in which we have less than a controlling interest. Our joint ventures are typically entered into with unrelated developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. We have determined that our interest in these joint ventures should be accounted for under the equity method as prescribed by SOP 78-9, *Accounting for Investments in Real Estate Ventures* . We recognize our share of profits from the sale of lots to other buyers. Our share of profits from lots we purchase from the joint ventures is deferred and treated as a reduction of the cost of the land purchased from the joint venture. Such profits are subsequently recognized at the time the home closes and title passes to the homebuyer. Our joint ventures typically obtain secured acquisition and development financing. See Note 3, Investments in Unconsolidated Joint Ventures.

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

Buildings	15 30 years
Machinery and equipment	3 10 years
Information systems	5 years
Furniture and fixtures	3 7 years
Model and sales office improvements	Estimated useful life of community
Leasehold improvements	Lesser of the lease term or the estimated useful life of the asset

Inventory Valuation Held for Development. Our homebuilding inventories that are accounted for as held for development include land and home construction assets grouped together as communities. Land held for future development is stated at cost. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We assess these assets no less than quarterly for recoverability in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon the commencement of land development activities, it may take three to five years (depending on, among other things, the size of the community and its sales pace) to fully develop, sell, construct and close all the homes in a typical community. The impact of the downturn in our business has significantly lengthened the estimated life of many communities. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If the expected undiscounted cash flows generated are expected to be less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its estimated fair value based on discounted cash flows.

We conduct a review of the recoverability of our homebuilding inventories held for development at the community level as factors indicate that an impairment may exist. Events and circumstances that might indicate impairment include, but are not limited to, (1) adverse trends in new orders, (2) higher than anticipated cancellations, (3) declining margins which might result from the need to offer incentives to new homebuyers to drive sales or price reductions in response to actions taken by our competitors, (4) economic factors specific to the markets in which we operate, including fluctuations in employment levels, population growth, or levels of new and resale homes for sale in the marketplace and (5) a decline in the availability of credit across all industries

As a result, we evaluate, among other things, the following information for each community:

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

construction costs (including an estimate of costs, if any, to complete home construction), previously capitalized indirect costs (principally for construction supervision), capitalized interest and estimated warranty costs;
Projected Net Contribution Margin for homes in backlog;
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 of assets in communities that were previously impaired and continue to be classified as held for development is not written up for future estimates of increases in fair value in future reporting periods. Market deterioration that exceeds our estimates may lead us to incur additional impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if the market continues to deteriorate.

The fair value of the homebuilding inventory 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. The assumptions used in our discounted cash flow models are specific to each community tested for impairment and typically do not include market improvements except in limited circumstances in the latter years of long-lived communities.

For the fiscal year ended September 30, 2008, we used discount rates of 16% to 23% in our estimated discounted cash flow impairment calculations. During fiscal 2008, 2007 and 2006, we recorded impairments of our inventory of approximately $312.6 million, $440.9 million and $6.4 million, respectively, for land under development and homes under construction.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in our 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 our projected cash flows are significantly

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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 property has been initiated;
- the sale of the land is probable within one year;
- the property is being actively marketed at a reasonable sale price relative to its current fair value; and
- it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

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

In determining the fair value of the assets less cost to sell, we 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 fiscal 2008 and 2007, we recorded inventory impairments on land held for sale of approximately $116.8 million and $48.0 million, respectively. No land held for sale inventory impairments were recorded in fiscal 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.

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Inventory Impairments. The following tables set forth, by reportable homebuilding segment, the inventory impairments and lot option abandonment charges recorded for the fiscal years ended September 30, 2008, 2007 and 2006 *(in thousands)* :

	Fiscal Year Ended September 30,		
	2008	2007	2006
Development projects and homes in process (Held for Development)			
West	**$ 147,278**	$ 224,782	$ 230
East	**72,040**	95,734	667
Southeast	**51,663**	68,220	302
Other	**19,872**	28,326	5,224
Unallocated	**21,769**	23,853	-
Subtotal	**$ 312,622**	$ 440,915	$ 6,423
Land Held for Sale			
West	**$ 8,505**	$ 46,138	$ -
East	**18,068**	798	-
Southeast	**34,608**	500	-
Other	**55,593**	588	-
Subtotal	**$ 116,774**	$ 48,024	$ -
Lot Option Abandonments			
West	**$ 15,356**	$ 54,703	$ 16,076
East	**10,362**	23,979	7,328
Southeast	**26,519**	33,332	4,060
Other	**28,995**	10,911	10,288
Subtotal	**$ 81,232**	$ 122,925	$ 37,752
Total	**$ 510,628**	$ 611,864	$ 44,175

The inventory held for development that was impaired during fiscal 2008 represented 10,753 lots in 221 communities with an estimated fair value of $579.2 million. The inventory held for development that was impaired during fiscal 2007 represented 12,409 lots in 168 communities with an estimated fair value of $897.1 million. The impairments recorded on our held for development inventory, for all segments, primarily resulted from the continued significant decline in the homebuilding environment that negatively impacted the sales prices of homes and increased the sales incentives offered to potential homebuyers in our efforts to increase home sales absorptions. In fiscal 2008, our West and East segments experienced the most significant amount of inventory impairments as compared to our other homebuilding segments due to the fact that the number of owned land and lots in the West and East segments comprise approximately 44% and 32%, respectively, of our total land and lots owned as of September 30, 2008 and approximately 47% and 30%, respectively, of the dollar value of our held for development inventory as of September 30, 2008. In addition, the 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 significantly less available in the marketplace. The decline in the availability of mortgage loan products and the exit of speculators from the market, among other factors, contributed to the significant increase in the supply of new and used homes on the market for sale. The impairments recorded in our other homebuilding segment are primarily as a result of our decision to exit these markets and relate to closing out certain communities and selling off remaining land positions.

We have also recorded $116.8 million and $48.0 million of impairments on land during fiscal 2008 and 2007, respectively that we have determined does not fit within our homebuilding needs in the current environment and have thus classified as held for sale. The impairments recorded on our land held for sale, for all segments, primarily resulted from the continued significant decline in the homebuilding environment as discussed above. The inventory classified as held for sale is primarily located in our West and Other segments.

In addition, based on the significant decline in the homebuilding market, 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 fiscal 2008 were $81.2 million representing 72 communities with the Southeast and Other Homebuilding segments representing 32.6% and 35.7%, respectively, of fiscal 2008 abandonments as we made decisions to abandon certain option contracts that no longer fit in our long-term strategic plan and also related to our decision to exit our Colorado, Charlotte, North Carolina, Columbia, South Carolina, Fresno, California and Kentucky markets. Fiscal 2007 abandonments were $122.9 million, representing 118 communities and were concentrated in our West and Southeast segments, generally among markets with the highest levels of new and resale home supply.

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 throughout fiscal 2008. 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 impairment tests and consideration of the current and expected future market conditions, we determined that goodwill for our Southern California, Arizona, Colorado, New Jersey and Virginia reporting units was impaired in accordance with SFAS 142, *Goodwill and Other Intangible Assets* and recorded non-cash, pre-tax goodwill impairment charges totaling $52.5 million during the fiscal year ended September 30, 2008. In fiscal 2007, we recorded goodwill impairments totaling $52.8 million related to our South Carolina, Northern California, Nevada, Florida and North Carolina reporting units. Based on our annual goodwill impairment test as of April 30, 2006, we had no impairment of goodwill during fiscal 2006.

Goodwill impairment charges are reported in Corporate and Unallocated and are not allocated to our homebuilding segments. Goodwill balances by reporting segment as of September 30, 2006, 2007 and 2008 were as follows.

(In thousands)	2006	Fiscal 2007 Impairments	2007	**Fiscal 2008 Impairments**	**2008**
West	$ 62,337	$ (26,418)	$ 35,919	**$ (29,034)**	**$ 6,885**
East	28,330	-	28,330	**(19,072)**	**9,258**
Southeast	25,207	(25,207)	-	**-**	**-**
Other	5,494	(1,130)	4,364	**(4,364)**	**-**
Total	$ 121,368	$ (52,755)	$ 68,613	**$ (52,470)**	**$ 16,143**

Inherent in our fair value determinations are certain judgments and estimates, including projections of future cash flows, the discount rate reflecting the risk inherent in future cash flows, 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.

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

Income Taxes. Income taxes are accounted for in accordance with SFAS 109, *Accounting for Income Taxes and* FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48). Under SFAS 109, the provision for income taxes is comprised of taxes that are currently payable and deferred taxes that relate to temporary differences between financial reporting carrying values and tax bases of assets and liabilities. Deferred tax assets and liabilities result from deductible or taxable amounts in future years when such assets and liabilities are recovered or settled and are measured using the enacted tax rates and laws that are expected to be in effect when the assets and liabilities are recovered or settled.

On October 1, 2007, the Company adopted FIN 48 which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 defines the threshold for recognizing the benefits of tax return positions as well as guidance regarding the measurement of the resulting tax benefits. FIN 48 requires a company to recognize for financial statement purposes the impact of a tax position, if a tax return position is more likely than not to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of the adoption of FIN 48 was recorded as a $10.1 million reduction to retained earnings as of October 1, 2007. See Note 8, Income Taxes, for the additional disclosure required by FIN 48.

Other Liabilities. Other liabilities include homebuyer deposits, land purchase obligations, accrued compensation, accrued warranty costs and various other accrued expenses.

Income Recognition and Classification of Costs. Revenue and related profit are generally recognized at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer. As appropriate, revenue for condominiums under construction is recognized based on the percentage-of-completion method in accordance with SFAS 66, *Accounting for Sales of Real-Estate and* Emerging Issues Task Force (EITF) Issue No. 06-8, *Applicability of the Assessment of a Buyer s Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums,* when certain criteria are met.

We recognized loan origination fees and expenses and gains and losses on mortgage loans when the related loans were sold to third-party investors. Beazer s policy was to sell all mortgage loans it originates and these sales usually occur within 15 to 30 days of the closing of the home sale. Effective February 1, 2008, Beazer exited the mortgage origination business. The results of Beazer Mortgage have been reported as discontinued operations for all periods presented (see Note 15, Discontinued Operations).

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

Sales commissions are included in selling, general and administrative expenses.

Estimated future warranty costs are charged to cost of sales in the period when the revenues from home closings are recognized. Such estimated warranty costs generally range from 0.5% to 1.5% of total revenue. Additional warranty costs are charged to cost of sales as necessary based on management s estimate of the costs to remediate existing claims. See Note 13 for a more detailed discussion of warranty costs and related reserves.

Advertising costs of $25.4 million, $39.0 million and $59.4 million for fiscal years 2008, 2007 and 2006, respectively, were expensed as incurred and are included in selling, general and administrative expenses. The decrease in advertising costs relates primarily to the reduced number of communities being marketed and our more efficient use of advertising dollars in connection with our cost control initiatives.

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

Fair Value of Financial Instruments. The fair value of our cash and cash equivalents, accounts receivable, residential mortgage loans available-for-sale, trade accounts payable, other liabilities and other notes payable approximate their carrying amounts due to the short maturity of these assets and liabilities and the variable interest rates on such obligations. Obligations related to consolidated inventory not owned are recorded at estimated fair value. The fair value of our model home financing obligations approximate their carrying amounts due to the variable interest rates associated with those obligations. The fair value of our publicly held junior subordinated notes is estimated by discounting scheduled cash flows through maturity and was approximately $69 million at September 30, 2008 and $82 million at September 30, 2007. The discount rate is estimated using market rates currently being offered on loans with similar terms and credit quality. The fair value of our publicly held senior notes is estimated based on the quoted bid prices for these debt instruments and was approximately $1.1 billion at September 30, 2008 and $1.2 billion at September 30, 2007.

Stock-Based Compensation. In the first quarter of fiscal 2006, we adopted SFAS 123R, *Share-Based Payment*. SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after October 1, 2005, as well as to the unvested portion of awards outstanding as of October 1, 2005. We use the Black-Scholes model to value stock-settled appreciation rights (SSARs) and stock option grants under SFAS 123R and applied the modified prospective method for existing grants which required us to value the 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. We account for cash-settled, stock-based awards issued to employees under the recognition and measurement principles of SFAS 123R. Cash-settled, stock-based awards granted to employees are initially valued based on the market price of the underlying common stock on the date of the grant and are adjusted to fair value until vested. We account for stock awards issued to non-employees and under the recognition and measurement principles of SFAS 123R and Emerging Issues Task Force Issue No. 96-18: *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. Stock options issued to non-employees are valued using the Black-Scholes option pricing model. Nonvested stock granted to non-employees is initially valued based on the market price of the common stock on the date of the grant and is adjusted to fair value until vested.

Compensation cost arising from nonvested stock granted to employees, from cash-settled, stock-based employee awards and from non-employee stock awards is recognized as expense using the straight-line method over the vesting period. Unearned compensation is included in paid in capital in accordance with SFAS 123R. As of September 30, 2008 and 2007, there was $13.5 million and $21.6 million, respectively, of total unrecognized compensation cost related to nonvested stock. The cost remaining at September 30, 2008 is expected to be recognized over a weighted average period of 3.2 years. For the years ended September 30, 2008, 2007 and 2006, total non-cash stock-based compensation expense, included in SG&A expenses, was $12.6 million ($8.8 million net of tax), $11.1 million ($7.6 million net of tax) and $15.8 million ($10.7 million net of tax), respectively.

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

Recently Adopted Accounting Pronouncements. On October 1, 2007, the Company adopted the provisions EITF 06-8 which states that the adequacy of the buyer s continuing investment under SFAS 66 should be assessed in determining whether to recognize profit under the percentage-of-completion method on the sale of individual units in a condominium project. This consensus requires that additional deposits be collected by developers of condominium projects that wish to recognize profit during the construction period under the percentage-of-completion method. EITF 06-8 is effective for fiscal years beginning after March 15, 2007. The adoption of EITF 06-8 did not have a material impact on our consolidated financial position, results of operations or cash flows.

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

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

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

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

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

(2) Supplemental Cash Flow Information

During the fiscal years ended September 30, we paid interest of $133.5 million in fiscal 2008, $148.0 million in fiscal 2007 and $114.7 million in fiscal 2006. In addition, we paid income taxes of $2.9 million in fiscal 2008, $15.8 million in fiscal 2007 and $228.2 million in fiscal 2006 and received tax refunds of $59.2 million in fiscal 2008 related to the carryback of tax losses. We also had the following non-cash activity *(in thousands)*:

	2008	2007	2007
Supplemental disclosure of non-cash activity:			
(Decrease) increase in consolidated inventory not owned	**$ (107,323)**	$ (152,772)	$ 164,540
Land acquired through issuance of notes payable	**33,285**	59,948	64,144

Issuance of stock under deferred bonus stock plans	**1,799**	2,080	1,402
FIN 48 adoption	**(10,112)**	-	-

(3) Investments in Unconsolidated Joint Ventures

As of September 30, 2008, we participated in 19 land development joint ventures in which Beazer Homes had less than a controlling interest. Equity in (loss) income of unconsolidated joint ventures was $(81.3) million, $(35.2) million and $1.3 million for the fiscal years ended September 30, 2008, 2007 and 2006, respectively. Equity in loss of unconsolidated joint ventures for fiscal 2008 and 2007 includes the writedown of our investment in certain of our joint ventures, specifically $68.8 million and $28.6 million of impairments of inventory held within those ventures in accordance with APB 18, *The Equity Method of Accounting for Investments in Common Stock.* Fiscal 2007 equity in loss of unconsolidated joint ventures also includes $3.4 million of contractual obligation abandonments. Our joint ventures typically obtain secured acquisition, development and construction financing. Generally, Beazer Homes and our joint venture partners have provided varying levels of guarantees of debt and other obligations of our unconsolidated joint ventures. At September 30, 2008, these guarantees included, for certain joint ventures, construction completion guarantees, loan to value maintenance agreements, repayment guarantees and environmental indemnities. See Note 13 for further discussion of these guarantees.

The following table presents our investment in our unconsolidated joint ventures, the total equity and outstanding borrowings of these joint ventures and our guarantees of these borrowings as of September 30, 2008 and September 30, 2007:

(in thousands)	2008	2007
Beazer s investment in joint ventures	**$ 33,065**	$ 109,143
Total equity of joint ventures	**340,674**	523,597
Total outstanding borrowings of joint ventures	**524,431**	785,437
Beazer s portion of loan to maintenance guarantees	**5,839**	7,717
Beazer s portion of repayment guarantees	**39,166**	42,307

The decrease in our investment in these joint ventures from September 30, 2007 to September 30, 2008 relates primarily to $68.8 million of impairments of inventory held within the joint ventures. In connection with the exchange of our interest in two joint ventures with our joint venture partner during the second quarter of fiscal 2008, we also acquired that partner s interest in two separate joint ventures. In connection with the acquisition of one of these joint ventures, we assumed and consolidated the joint venture s debt of approximately $22.7 million.

At September 30, 2008 and September 30, 2007, total borrowings outstanding above, include $327.9 million and $450.6 million related to one joint venture in which we are a 2.58% partner. During fiscal 2008, the lender to this joint venture notified the joint venture partners that it believes the joint venture is in default of certain joint venture loan agreements as a result of certain of the Company s joint venture partners not complying with all aspects of the joint ventures loan agreements. The lender has not taken any action against the joint venture or the Company at this time. The joint venture partners are currently in discussions with the lender. The Company s share of the debt is approximately $14.5 million at September 30, 2008; however, due to the terms of our agreement, our total maximum repayment guarantee is $15.1 million, which is only triggered in the event of bankruptcy. Our equity interest at September 30, 2008 was $8.4 million in this joint venture.

As of September 30, 2008, the debt related to two of our other unconsolidated joint ventures has matured. Total borrowings outstanding related to these two joint ventures, in each of which we are a 50% partner, was $33.2 million. These joint ventures have received notice from the lender demanding payment in full. The Company and its joint venture partners are currently in discussions with the lenders under these various debt agreements. Both of these loans have repayment guarantees that are triggered in the event of bankruptcy. Our share related to these two repayment guarantees would be $16.6 million. See Note 13 for further discussion of repayment guarantees related to our unconsolidated joint ventures.

In addition, several of our other joint ventures were in default under their debt agreements at September 30, 2008 or were at risk of defaulting. The Company and its joint venture partners are currently in discussions with the lenders under these various debt agreements. In addition, certain of our joint venture partners have curtailed their funding of their allocable joint venture obligations.

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

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(4) Inventory

Inventory consists of *(in thousands)*:

	September 30, 2008	September 30, 2007
Homes under construction	**$ 338,971**	$ 787,102
Development projects in progress	**618,252**	1,233,140
Land held for future development	**407,320**	324,350
Land held for sale	**85,736**	49,473
Model homes	**94,727**	143,726
Total owned inventory	**$ 1,545,006**	$ 2,537,791

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 408 ($76.2 million) and 862 ($179.4 million) completed homes that were not subject to a sales contract at September 30, 2008 and 2007, respectively. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a deposit or sales contract. Land held for sale as of September 30, 2008 principally included land held for sale in the markets we have decided to exit including Colorado, Columbus and Cincinnati, Ohio, Lexington, Kentucky and Charlotte, North Carolina.

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

	September 30, 2008				September 30, 2007			
	Projects in Progress	**Held for Future Development**	**Land Held for Sale**	**Total Owned Inventory**	Projects in Progress	Held for Future Development	Land Held for Sale	Total Ow Invento
Segment	**$ 348,475**	**$ 341,784**	**$ 26,515**	**$ 716,774**	$ 662,674	$ 291,215	$ 35,578	$ 989
egment	**394,643**	**44,387**	**3,642**	**442,672**	624,423	16,432	4,221	645
east Segment	**165,231**	**21,149**	**14,841**	**201,221**	386,428	16,703	-	403
	15,302	**-**	**40,738**	**56,040**	294,234	-	9,674	303
ocated	**128,299**	**-**	**-**	**128,299**	196,209	-	-	196
	$ 1,051,950	**$ 407,320**	**$ 85,736**	**$ 1,545,006**	$ 2,163,968	$ 324,350	$ 49,473	$ 2,537

Inventory located in California, the state with our largest concentration of inventory, was $431.1 million and $622.9 million at September 30, 2008 and 2007, respectively.

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 $50.8 million at September 30, 2008. This amount includes non-refundable letters of credit of approximately $7.4 million. The total remaining purchase price, net of cash deposits, committed under all options was $508.2 million as of September 30, 2008. Only $56.0 million of the total remaining purchase price contains specific performance clauses which may require us to purchase the land or lots upon the land seller meeting certain obligations.

In addition, we have also completed a strategic review of all of the markets within our homebuilding segments and the communities within each of those markets with an initial focus on the communities for which land has been secured with option purchase contracts. As a result of this review, we have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as preacquisition costs. In determining whether to abandon a lot option contract, we evaluate the lot option primarily based upon the expected cash flows from the property that is the subject of the option. If we intend to abandon or walk-away from a lot option contract, we record a charge to earnings in the period such decision is made for the deposit amount and any related capitalized costs associated with the lot option contract. We recorded lot option abandonment charges during fiscal 2008, 2007 and 2006 of $81.2 million, $122.9 million and $37.8 million, respectively. Other Homebuilding abandonments represented 35.7% of the fiscal 2008 abandonments, primarily related to our decision to exit our Colorado, Columbia, South Carolina and Charlotte, North Carolina markets.

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

Certain of our option contracts are with sellers who are deemed to be VIEs under 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 September 30, 2008 and 2007 reflect consolidated inventory not owned of $106.7 million and $237.4 million, respectively. We consolidated $46.9 million and $92.3 million of lot option agreements as consolidated inventory not owned pursuant to FIN 46R as of September 30, 2008 and 2007, respectively. In addition, as of September 30, 2008 and 2007, we recorded $59.8 million and $145.1 million, respectively, of land under the caption consolidated inventory not owned related to lot option agreements in accordance with SFAS 49. Obligations related to consolidated inventory not owned totaled $70.6 million at September 30, 2008 and $177.9 million at September 30, 2007. The difference between the balances of consolidated inventory not owned and obligations related to consolidated inventory not owned represents cash deposits paid under the option agreements.

(5) Interest

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

	Fiscal Year Ended September 30,		
	2008	2007	2006
Capitalized interest in inventory, beginning of period	**$ 87,560**	$ 78,996	$ 50,808
Interest incurred	**139,659**	148,444	124,162
Capitalized interest impaired	**(13,795)**	(12,350)	-
Interest expense not qualified for capitalization and included as other expense	**(55,185)**	-	-
Capitalized interest amortized to house construction and land sales expenses	**(112,262)**	(127,530)	(95,974)

Capitalized interest in inventory, end of period	**$ 45,977**	$ 87,560	$ 78,996

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(6) Property, Plant and Equipment

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

	September 30, 2008		September 30, 2007	
Building	**$**	**2,391**	$	2,462
Model and sales office improvements		**65,040**		120,275
Leasehold improvements		**8,809**		11,168
Machinery and equipment		**19,354**		26,245
Information systems		**22,625**		22,806
Furniture and fixtures		**8,696**		13,400
		126,915		196,356
Less: Accumulated depreciation		**(87,093)**		(124,674)
	$	**39,822**	$	71,682

(7) Borrowings

At September 30, 2008 and 2007 we had the following long-term debt *(in thousands)*:

	Maturity Date	**September 30, 2008**		September 30, 2007	
Secured Revolving Credit Facility	July 2011	**$**	**-**	$	-
8 5/8% Senior Notes*	May 2011		**180,000**		180,000
8 3/8% Senior Notes*	April 2012		**340,000**		340,000
6 1/2% Senior Notes*	November 2013		**200,000**		200,000
6 7/8% Senior Notes*	July 2015		**350,000**		350,000
8 1/8% Senior Notes*	June 2016		**275,000**		275,000
4 5/8% Convertible Senior Notes*	June 2024		**180,000**		180,000
Junior subordinated notes	July 2036		**103,093**		103,093
Other secured notes payable	Various Dates		**50,618**		118,073
Model home financing obligations	Various Dates		**71,231**		114,116
Unamortized debt discounts			**(2,565)**		(3,033)
Total		**$**	**1,747,377**	$	1,857,249

* Collectively, the Senior Notes

Warehouse Line Effective February 7, 2007, Beazer Mortgage amended its 364-day credit agreement (the Warehouse Line) to extend its maturity date to February 8, 2008 and modify the maximum available borrowing capacity to $100 million, subject to compliance with the mortgage loan eligibility requirements as defined in the Warehouse Line. The Warehouse Line was secured by certain mortgage loan sales and related property. The Warehouse Line was entered into with a number of banks to fund the origination of residential mortgage loans. The maximum available borrowing capacity was subsequently reduced through amendments down to $17 million as of September 30, 2007. We had no borrowings outstanding under the Warehouse Line as of September 30, 2007. Effective November 14, 2007, we terminated the Warehouse Line, at which time there were no borrowings outstanding.

Secured Revolving Credit Facility In July 2007, we replaced our former credit facility with a new $500 million, four-year unsecured revolving credit facility with a group of banks, which matures in 2011. As a result of a series of amendments, as more fully described below, the revolving credit facility became a $400 million secured revolving credit facility (the Secured Revolving Credit Facility). The former credit facility included a

$1 billion four-year revolving credit facility which would have matured in August 2009. The Secured Revolving Credit Facility has a $350 million sublimit for the issuance of standby letters of credit. We have the option to elect two types of loans under the Secured Revolving Credit Facility which incur interest as applicable based on either the Alternative Base Rate or the Applicable Eurodollar Margin (both defined in the Secured Revolving Credit Facility). The Secured Revolving Credit Facility contains various operating and financial covenants. Substantially all of our significant subsidiaries are guarantors of the obligations under the Secured Revolving Credit Facility (see Note 16 to the Consolidated Financial Statements).

On October 10, 2007, we entered into a waiver and amendment of our Secured 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 prior to May 15, 2008. Under this and the October 26, 2007 amendments, all obligations under the Secured Revolving Credit Facility are secured by certain assets and our ability to borrow under this facility is subject to satisfaction of a secured borrowing base. We are permitted to grow the borrowing base by adding additional cash and/or real estate as collateral securing the Secured Revolving Credit Facility. In addition, we obtained additional flexibility with respect to our financial covenants in the Secured Revolving Credit Facility.

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

On August 7, 2008, we entered into an amendment to our Secured Revolving Credit Facility which changed the size, covenants and pricing for the facility. The size of the Secured Revolving Credit Facility was reduced from $500 million to $400 million and is subject to further reductions to $250 million and $100 million if our consolidated tangible net worth (defined in the agreement as stockholders equity less intangible assets) falls below $350 million and $250 million, respectively. As of September 30, 2008, our consolidated tangible net worth was $314.4 million. As a result, the facility size has now been reduced to $250 million. Further, the facility size is subject to reduction to $200 million if our interest coverage ratio for the quarter ending June 30, 2010 is less than 1.0x.

There were no amounts outstanding under the Secured Revolving Credit Facility at September 30, 2008 or September 30, 2007; however, we had $61.2 million and $133.3 million of letters of credit outstanding under the Secured Revolving Credit Facility at September 30, 2008 and September 30, 2007, respectively.

Availability under the facility continues to be subject to satisfaction of a secured borrowing base. The amendment provided that the book value of the assets securing the facility must exceed 3.0x the outstanding loans and letters of credit. Such coverage level increases to 4.5x and 6.0x to the extent the facility size is reduced to $250 million or $100 million, respectively. As of September 30, 2008, and prior to the submittal of fiscal 2008 financial reports, we were in compliance with the collateral coverage requirements, but had no additional availability. Concurrent with the filling of our fiscal 2008 financial reports, our facility size will decrease to $250 million and our collateral coverage level will increase to 4.5x the amount of outstanding loans and letters of credit. As a result of the increase in collateral coverage to 4.5x, we will be required to provide a total of $19.5 million in cash to fully collateralize our outstanding letters of credit. We intend to add approximately $250 million of additional real estate assets to the borrowing base over the next twelve months, which will provide up to $35 million in additional borrowing base availability after providing for the return of the $19.5 million in restricted cash. Assets in the borrowing base, and therefore any future availability are subject to required appraisals and other bank review procedures. The availability under our facility is not impacted by any actions of the respective credit rating agencies. The value of the real estate assets securing our borrowing base could decline should the downturn in our industry worsen. Any reduction in value could result in a reduction in available borrowing capacity under the Secured Revolving Credit Facility.

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

5.5%, respectively. As a result of the reduction in facility size to $250 million, the current Eurodollar Margin is now 5.0%.

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

Financial Covenant	Covenant Requirement	Actual
Consolidated Tangible Net Worth	> $100 million	$314.4 million
Minimum Liquidity	> $120 million of unrestricted cash and borrowing base availability OR Adjusted Coverage Ratio > 1.75x	$584.3 million of unrestricted cash and borrowing base availability and Adjusted Coverage Ratio of 3.5x

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

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

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At September 30, 2008, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. The indentures provide that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes. Specifically, each indenture (other than the indenture governing the convertible Senior Notes) requires us to offer to purchase 10% of each series of Senior Notes at par if our consolidated tangible net worth (defined as stockholders equity less intangible assets) is less than $85 million at the end of any two consecutive fiscal quarters. If triggered and fully subscribed, this could result in our having to purchase $134.5 million of notes, based on amounts outstanding at September 30, 2008.

In June 2004, we issued $180 million aggregate principal amount of 4 5/8% Convertible Senior Notes due 2024 (the Convertible Senior Notes). In August 2004, we filed a registration statement on Form S-3 with the SEC covering resales of the Convertible Senior Notes and the common stock issuable upon conversion. During the fourth quarter of fiscal 2007, the cumulative dividends declared to date caused a change in the conversion rate per $1,000 principal amount to an adjusted conversion rate of 20.1441 shares of common stock, representing a current conversion price of $49.64 per share. We may, at our option, redeem for cash the Convertible Senior Notes in whole or in part at any time on or after June 15, 2009 at specified redemption prices. Holders have the right to require us to purchase all or any portion of the Convertible Senior Notes for cash on June 15, 2011, June 15, 2014 and June 15, 2019. In each case, we will pay a purchase price equal to 100% of the principal amount of the Convertible Senior Notes to be purchased plus any accrued and unpaid interest, if any, and any additional amounts owed, if any to such purchase date.

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

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

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

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

Other Secured Notes Payable We periodically acquire land through the issuance of notes payable. As of September 30, 2008 and September 30, 2007, we had outstanding notes payable of $50.6 million and $118.1 million, respectively, primarily related to land acquisitions. These notes payable expire at various times through 2010 and had fixed and variable rates ranging from 5.2% to 8.0% at September 30, 2008. These notes are secured by the real estate to which they relate. During fiscal 2008, we repaid $100.7 million of these secured notes payable. In connection with the sale of our interest in two joint ventures to our joint venture partner, we also acquired that partner s interest in two separate joint ventures. In connection with the acquisition of one of these ventures, we assumed the joint venture s debt of approximately $22.7 million which is included in other secured notes payable as of September 30, 2008.

The agreements governing these secured notes payable contain various affirmative and negative covenants. Certain of these secured notes payable agreements contain covenants that require us to maintain minimum levels of stockholders equity (or some variation, such as tangible net worth) or maximum levels of debt to stockholders equity. Although the specific covenants and related definitions vary among the agreements, further reductions in our stockholders equity, absent the receipt of waivers, may cause breaches of some or all of these covenants. Breaches of certain of these covenants, to the extent they lead to an acceleration, may result in cross defaults under our senior notes. The dollar value of these secured notes payable agreements containing stockholders equity-related covenants totaled $39.0 million at September 30, 2008. There can be no assurance that we will be able to obtain any future waivers or amendments that may become necessary without significant additional cost or at all. In each instance, however, a covenant default can be cured by repayment of the indebtedness.

Model Home Financing Obligations - Due to a continuing interest in certain model home sale-leaseback transactions, we have recorded $71.2 million and $114.1 million of debt as of September 30, 2008 and September 30, 2007, respectively, related to these financing transactions in accordance with SFAS 98 (As amended), *Accounting for Leases.* These model home transactions incur interest at a variable rate of one-month LIBOR plus 450 basis points, 7.0% as of September 30, 2008, and expire at various times through 2015.

As of September 30, 2008, future maturities of our borrowings are as follows *(in thousands)*:

Year Ending September 30,	
2009	$24,340
2010	65,576
2011	187,360
2012	364,573
2013	-
Thereafter	1,018,093
Total	$1,749,942

(8) Income Taxes

The (benefit) provision for income taxes from continuing operations consists of *(in thousands)*:

	Fiscal Year Ended September 30,		
	2008	2007	2006
Current federal	**$ (171,561)**	$(61,513)	$ 165,733
Current state	**(3,685)**	1,340	18,905
Deferred federal	**251,520**	(143,544)	21,885
Deferred state	**8,890**	(18,061)	4,078
Total	**$85,164**	$ (221,778)	$210,601

The (benefit) provision for income taxes from continuing operations differs from the amount computed by applying the federal income tax statutory rate as follows *(in thousands)*:

	Fiscal Year Ended September 30,		
	2008	2007	2006
Income tax computed at statutory rate	**$(303,129)**	$(221,255)	$201,991
State income taxes, net of federal benefit(1)	**8,068**	(18,474)	13,521

Impairment of non-deductible goodwill	**17,973**	16,634	-
Valuation allowance	**366,332**	-	-
Section 199 tax benefit (2)	-	-	(5,240)
Other, net	**(4,080)**	1,317	329
Total	**$85,164**	$(221,778)	$210,601

(1) Includes a deferred tax valuation allowance of $34.0 million related to substantially all of our state deferred tax assets.

(2) The American Jobs Creation Act of 2004 (the AJCA) introduced a special tax deduction on qualified production activities. FASB Staff Position 109-1 clarifies that this tax deduction should be accounted for as a special

tax deduction in accordance with SFAS 109, *Accounting for Income Taxes.* The provisions of AJCA were applicable to us beginning in fiscal 2006. The initial deduction was 3% of qualified production activity income in fiscal 2006. We did not qualify for this deduction in fiscal 2008 or fiscal 2007 due to our net loss.

Deferred tax assets and liabilities are composed of the following *(in thousands)*:

	September 30,	
	2008	2007
Deferred tax assets:		
Warranty and other reserves	**$24,927**	$29,172
Incentive compensation	**20,854**	30,855
Property, equipment and other assets	**4,320**	2,968
Federal and state tax carryforwards	**85,711**	7,030
Inventory adjustments	**237,487**	173,559
FIN 48	**47,677**	-
Other	**3,505**	5,220
Total deferred tax assets	**424,481**	248,804
Deferred tax liabilities:		
Inventory adjustments	-	(15,599)
Other	**(3,686)**	-
Total deferred tax liabilities	**(3,686)**	(15,599)
Valuation allowance	**(400,579)**	(256)
Net deferred tax assets	**$20,216**	$232,949

Our assessment of the need for the valuation of deferred tax assets includes assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. Changes in existing tax laws or rates could affect actual tax results and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. Our accounting for deferred tax consequences represents our best estimate of future events. Although it is possible there will be changes that are not anticipated in our current estimates, we believe it is unlikely such changes would have a material period-to-period impact on our financial position or results of operations. SFAS 109 provides that a cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable and also restricts the amount of reliance a company may place on projections of future taxable income to support recovery of such deferred tax assets. In making the determination of whether we are in a cumulative loss position under SFAS 109, we use a four-year measurement period and base the determination on income before income taxes (adjusted by permanent book/tax differences) for the current and prior three years. We believe our cumulative loss measurement period corresponds to the historical homebuilding industry cycle, which has traditionally averaged four-to-six years between upward and downward cycles, and which mirrors our expected building and profitability cycles.

In assessing the recoverability of deferred tax assets, we analyze all evidence, both positive and negative. The positive evidence we considered included (1) the cyclical nature of the homebuilding industry; (2) our long history of profitability; (3) our experience that no net operating losses (NOLs) have expired unutilized; (4) our ability to carryback NOLs; and (5) the steps we are taking to improve our future profitability. As of September 30, 2008, we considered the negative evidence including (1) our fiscal 2008 loss and the expectation of losses in fiscal 2009, (2) the uncertainty as to the timing of when the homebuilding industry will rebound, (3) the determination that we are in a cumulative loss position and (4) the Section 382 limitation on our ability to utilize certain NOL carryforwards and built-in losses or deductions.

At September 30, 2008, we had U.S. federal and state NOL carryforwards of $754.5 million that will expire between 2009 and 2028 and alternative minimum tax credit carryforwards of $9.8 million, which do not expire. Certain of our net operating loss carryforwards and built-in losses or deductions may be substantially limited as we experienced an ownership change as defined in Section 382 of the Internal Revenue Code as of December 31, 2007. Section 382 of the Internal Revenue Code contains rules that limit the ability of a company that undergoes an ownership change, which is generally defined as any change in ownership of more than 50% of its common stock over a three-year period, to utilize its net operating loss carryforwards and certain built-in losses or deductions recognized the five-year period after the ownership change. These rules generally operate by focusing on changes in the ownership among shareholders owning, directly or indirectly, 5% or more of the company s common stock (including changes involving a shareholder becoming a 5% shareholder) or any change in ownership arising from a new issuance of stock or share repurchases by the company.

Based on recent impairments and our current financial performance, we generated net operating loss carryforwards for fiscal 2008 and expect to generate additional NOL carryforwards in future years. Under the Internal Revenue Code, we may use these NOL carryforwards to offset future earnings and reduce our federal income tax liability. As a result, we believe these NOL carryforwards could be a substantial asset for us. However, our ability to utilize our pre-ownership change NOL carryforwards and recognize certain built-in losses or deductions is limited by Section 382 to a maximum amount of approximately $17 million annually. As a result of this limitation, a significant portion of our pre-ownership change NOL carryforwards or built in losses or deductions could expire before we would be able to use them.

In addition, the homebuilding industry has recently suffered from several temporary factors that have negatively impacted our profitability such as the excess supply of new and used homes for sale and the lack of available credit. As these factors are resolved it would be expected for the industry to recover to normal profit levels. However, based on an analysis of the positive and negative evidence, we determined that it was not more likely than not that substantially all of our deferred tax assets will be realized. As a result, during fiscal 2008, we established a valuation allowance for substantially all of our deferred tax assets totaling $400.3 million.

We will continue to assess the need for additional valuation allowances in the future. Our estimates of the recoverability of deferred tax assets are dependent upon future taxable income which requires significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods (carryforward period assumptions), it is reasonably possible that we may be required to record additional valuation allowances on deferred tax assets and that such amounts could be material.

The cumulative effect of the adoption of FIN 48 was recorded as a $10.1 million reduction to retained earnings as of October 1, 2007. The total amount of gross unrecognized tax benefits as of October 1, 2007 was $72.5 million (which excludes $19.3 million of interest, penalties, and the tax benefit relating to the deductibility of interest and state income tax). The adoption of FIN 48 also increased our gross deferred tax assets by approximately $65 million. The total amount of unrecognized tax benefits that, if recognized, would affect the Company s effective tax rate was $26.5 million, as of October 1, 2007.

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

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision, consistent with the Company s historical accounting policy. After the adoption of FIN 48, the total amount of gross accrued interest and penalties was $19.3 million. The Company recorded a $6.5 million reduction in gross interest and penalties during fiscal 2008 in accordance with FIN 48, resulting in $12.8 million of accrued interest and penalties at September 30, 2008. The Company s liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of other liabilities.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits at the beginning and end of fiscal 2008 is as follows ($ in thousands):

Balance at October 1, 2007	$72,500
Additions for tax positions related to current year	891
Additions for tax positions related to prior years	12,232
Reductions for tax positions of prior years	(22,440)
Settlements with taxing authorities	(3,767)
Lapse of statute of limitations	(1,500)
Balance at September 30, 2008	$57,916

Our income tax receivable was $173.5 million and $64.0 million as of September 30, 2008 and 2007, respectively. This receivable relates primarily to the carryback of losses incurred in fiscal 2008 and 2007 to open tax years in which we previously paid significant income taxes. During fiscal 2008, we received $59.2 million of federal and state income tax refunds related to prior tax years in which we previously paid taxes.

In accordance with SFAS 109 and SFAS 5, *Accounting for Contingencies*, and prior to our adoption of FIN 48 we established reserves for tax contingencies that reflected our best estimate of the deductions and credits that we may have been unable to sustain, or that we would have been willing to concede as a part of a broader tax settlement. As of September 30, 2007, we had recorded tax contingency reserves of $17.5 million.

We are currently under examination by the Internal Revenue Service (IRS) for fiscal 2003 and 2004. We are also subject to various income tax examinations in the states in which we do business. During fiscal 2008, we completed a number of state examinations without any material effect on our fiscal 2008 net loss.

(9) Leases

We are obligated under various noncancelable operating leases for office facilities, model homes and equipment. Rental expense under these agreements, which is included in selling, general and administrative expenses, amounted to approximately $22.4 million, $23.2 million and $22.9 million for the years ended September 30, 2008, 2007 and 2006, respectively. This rental expense excludes model home transactions accounted for as financing arrangements in accordance with SFAS 98 as discussed in Note 7 and expense related to our discontinued operations. As of September 30, 2008, future minimum lease payments under noncancelable operating lease agreements are as follows *(in thousands)*:

Year Ending September 30,	
2009	$11,517
2010	8,441
2011	6,763
2012	5,071
2013	4,439
Thereafter	2,051

Total	$ 38,282