

BEAZER HOMES USA INC
Form 10-K
November 08, 2013

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

FORM 10-K

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

For the fiscal year ended September 30, 2013
or

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

Commission File Number 001-12822

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

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

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

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
Series A Junior Participating Preferred Stock Purchase Rights	New York Stock Exchange
7.50% Tangible Equity Units	New York Stock Exchange

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

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 NO

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

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

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.

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant (25,092,502 shares) as of March 31, 2013, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was \$397,465,232.

Class	Outstanding at November 6, 2013
Common Stock, \$0.001 par value	25,245,034

DOCUMENTS INCORPORATED BY REFERENCE

	Part of 10-K where incorporated
Portions of the registrant's Proxy Statement for the 2014 Annual Meeting of Stockholders	III

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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 16 states within three geographic regions in the United States: West, East, and Southeast. 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 the course of a housing cycle.

Our principal executive offices are located at 1000 Abernathy Road, Suite 260, Atlanta, Georgia 30328, telephone (770) 829-3700. We also provide information about our active communities through our Internet website located at 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. In general, high levels of employment, significant affordability and low new home and resale home inventories contribute to a strong and growing homebuilding market environment.

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 homebuilders 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 of existing homes for sale and job growth characteristics.

Over the past few years, we have undertaken numerous actions to allow the Company to generate or conserve liquidity while maintaining a substantial homebuilding presence in large markets. During fiscal 2013, we made significant strides in the execution of our path-to-profitability plan, generating net income in our fourth quarter of fiscal 2013. Our path-to-profitability plan consists of the following four key components:

- Increase sales (new orders) per community;
- Gradually expand our active communities;
- Leverage our fixed costs; and
- Improve homebuilding gross margins and gross profit dollars per transaction.

We believe that long-term fundamentals for new home construction remain intact and are encouraged by evidence of strengthening conditions in the housing market. After several years of exceptionally weak demand for new homes, the U.S. housing industry began to show some signs of improvement during fiscal 2012 followed by more solid and accelerated improvement during fiscal 2013. Single family starts and average sales prices were up in most markets across the country during fiscal 2013.

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 maximizing 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 new home communities. We continually review our selection of markets based on both aggregate demographic information and our own operating results. We use the results of these reviews to re-allocate our investments to those markets where we believe we can maximize our profitability and return on capital over the next several years.

Diversity of Product Offerings. Our product strategy further 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 categories of home buyers: entry-level, move-up or retirement-oriented. Within these buyer groups, we have developed detailed targeted buyer profiles based on demographic and psychographic data including information about their marital and family status, employment, age, affluence, special interests, media consumption and distance moved. Recognizing that our customers want to choose certain components of their new home, we offer a limited number of structural options on most homes, as well as the use of design studios in most of our markets. These design studios allow the customer to select certain non-structural options for their homes such as cabinetry, flooring, fixtures, appliances and wall coverings.

Differentiated Process. Our strategy has three specific tenets: energy efficiency, personalization and lender choice. We engineer our homes for energy-efficiency, cost savings and comfort. Using the ENERGYSTAR™ standards as our minimum performance criteria, our homes reduce the impact on the environment while decreasing our homebuyers' annual operating costs. In response to consumers' desire to reflect their personal preferences and lifestyle in their homes, we continue to evolve our floor plans based on market opportunity and demand. We create base plans that meet most homebuyers' needs but also give the homebuyer the flexibility to change how the home lives through choices in structural and design options. To address the homebuyers' perceived challenge of securing a mortgage, we facilitate the process by making available a small number of preferred lenders who offer a comprehensive set of mortgage products, competitive rates and outstanding customer service.

Consistent Use of National Brand. Our homebuilding and marketing activities are conducted under the name of Beazer Homes in each of our markets. We believe that the Beazer Homes® trademark has significant value and is an important factor in the marketing of our homebuilding activities and business. We utilize a single brand name across our markets 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 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, marketing, planning and design among our markets, respond to telephonic and online customer inquiries 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. We may acquire lots from various development and land banking entities pursuant to purchase and option agreements. To reduce the risks associated with investments in land, we sometimes 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

In our homebuilding operations, we design, sell and build single-family and multi-family homes in the following geographic regions which are presented as reportable segments.

Segment/State	Market(s)/Year Entered
Homebuilding - 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)
Texas	Dallas/Ft. Worth (1995), Houston (1995)
Homebuilding - East:	
Indiana	Indianapolis (2002)
Maryland/Delaware	Baltimore (1998), Metro-Washington, D.C. (1998), Delaware (2003)
New Jersey/Pennsylvania/New York	Central and Southern New Jersey (1998), Bucks County, PA (1998), Orange County, NY (2011)
Tennessee	Nashville (1987)
Virginia	Fairfax County (1998), Loudoun County (1998), Prince William County (1998)
Homebuilding - Southeast:	
Florida	Tampa/St. Petersburg (1996), Orlando (1997)
Georgia	Atlanta (1985), Savannah (2005)
North Carolina	Raleigh/Durham (1992)
South Carolina	Charleston (1987), Myrtle Beach (2002)

The results of operations of all of the homebuilding markets we have exited are reported as discontinued operations in our Consolidated Statements of Operations. Beginning in the second quarter of fiscal 2011, through May 2, 2012, we operated our Pre-Owned Homes business in Arizona and Nevada. Effective May 3, 2012, we contributed our Pre-Owned Homes business for an investment in an unconsolidated entity (see Note 3 for additional information).

Seasonal and Quarterly Variability

Our homebuilding operating cycle generally reflects higher levels of new home order activity in the second and third fiscal quarters and increased closings in the third and fourth fiscal quarters. However, during periods of an economic downturn in the industry such as we have experienced in recent years, decreased revenues and closings as compared to prior periods including prior quarters, will typically reduce seasonal patterns.

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, incorporating energy efficient features, 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, 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 and home customization options, 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 and energy-efficient materials, distinctive design features, convenient locations and competitive prices.

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The following table summarizes certain operating information of our reportable homebuilding segments and our discontinued homebuilding operations as of and for the fiscal years ended September 30, 2013, 2012 and 2011. Please see "Management's Discussion and Analysis of Results of Operations and Financial Condition" in Item 7 below for additional information.

(\$ in thousands)	2013		2012		2011	
	Number of Homes Closed	Average Closing Price	Number of Homes Closed	Average Closing Price	Number of Homes Closed	Average Closing Price
West	2,277	\$238.7	1,883	\$205.3	1,115	\$195.9
East	1,629	296.2	1,506	266.8	1,316	258.1
Southeast	1,150	220.2	1,039	199.9	818	189.0
Continuing Operations	5,056	\$253.0	4,428	\$224.9	3,249	\$219.4
Discontinued Operations	—	\$—	19	\$219.6	101	\$196.2

	September 30, 2013		September 30, 2012		September 30, 2011	
	Units in Backlog	Dollar Value in Backlog	Units in Backlog	Dollar Value in Backlog	Units in Backlog	Dollar Value in Backlog
West	738	\$200,532	839	\$184,754	570	\$113,931
East	661	210,066	747	223,050	638	169,851
Southeast	494	117,544	337	71,276	242	50,724
Continuing Operations	1,893	\$528,142	1,923	\$479,080	1,450	\$334,506
Discontinued Operations	—	\$—	—	\$—	17	\$3,800

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;
- maintain and develop relationships with national product vendors;
- 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 investments 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 investments are consistent with our strategy. Centralized financial controls are also maintained through the standardization of accounting and financial policies and procedures.

Field Operations

The development and construction of each new home community is managed by our operating divisions, each of which is generally led by a market leader who, in most instances, reports directly to our Chief Executive Officer. At the development stage, a manager (who may be assigned to several communities and reports to the market leader of the division) supervises development of buildable lots. 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, home construction, marketing, sales, warranty service and certain purchasing and planning/design

functions. The accounting and accounts payable functions of our field operations are concentrated in one or more of our three regional accounting centers.

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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.

In a very small number of 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;
- 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 of 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. During fiscal 2013, we aggressively pursued land acquisition opportunities in an effort to increase our number of active communities, spending approximately \$475 million for land acquisition and development.

We strive to develop a design and marketing concept for each of our communities, which includes 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 new home community 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 new home community. We are, however, often able to use standardized home design plans.

Option Contracts. We acquire certain lots by means of option contracts from various sellers including land banking entities. 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 fixed or variable price.

Under option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our liability under option contracts is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which aggregated approximately \$37.3 million at September 30, 2013. At September 30, 2013, future amounts under option contracts aggregated approximately \$288.6 million, net of cash deposits.

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The following table sets forth, by reportable segment, land controlled by us as of September 30, 2013:

	Lots Owned							
	Homes Under Construction (1)	Finished Lots	Lots for Current Development	Lots for Future Development	Land Held for Sale	Total Lots Owned	Total Lots Under Contract	Total Lots Controlled
West								
Arizona	139	332	790	46	1	1,308	—	1,308
California	90	51	866	3,567	44	4,618	72	4,690
Nevada	110	594	305	800	—	1,809	223	2,032
Texas	467	329	2,310	—	350	3,456	1,742	5,198
Total West	806	1,306	4,271	4,413	395	11,191	2,037	13,228
East								
Indiana	208	529	926	—	250	1,913	116	2,029
Maryland	166	299	1,300	462	6	2,233	1,192	3,425
New Jersey	68	169	413	81	—	731	94	825
Tennessee	43	54	848	—	102	1,047	91	1,138
Virginia	90	81	27	—	—	198	381	579
Total East	575	1,132	3,514	543	358	6,122	1,874	7,996
Southeast								
Georgia	31	55	129	88	—	303	118	421
Florida	216	235	1,226	266	168	2,111	678	2,789
North Carolina	37	101	187	21				