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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, 1998

/ / 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  
(State or other jurisdiction of incorporation or  
organization)

58-2086934  
(I.R.S. Employer Identification No.)

5775 PEACHTREE DUNWOODY ROAD, SUITE 200, ATLANTA, GEORGIA 30342  
(Address of principal executive offices) (Zip code)

(Registrant's telephone number including area code) (404) 250-3420

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF SECURITIES

EXCHANGES ON WHICH REGISTERED

Common Stock, \$.01 par value per share  
Series A Cumulative Convertible Exchangeable Preferred Stock, \$.01 par value per share  
Preferred Share Purchase Rights

New York Stock Exchange  
New York Stock Exchange  
New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

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 / /

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. / /

The aggregate market value of the registrant's Common Stock held by  
non-affiliates of the registrant (5,743,672 shares) as of December 7, 1998,  
based on the closing sale price per share as reported by the New York Stock  
Exchange on such date, was \$118,463,235. The number of shares outstanding of the  
registrant's Common Stock as of December 7, 1998 was 6,267,423.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1998 Annual Report to Shareholders for the fiscal year ended September 30, 1998.....	II
Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on February 4, 1999.....	I, III

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ITEM 1. BUSINESS

Beazer Homes USA, Inc. ("Beazer" or the "Company") designs, builds and sells single family homes in the following locations within the United States:

REGION/STATE	MARKET(S)/YEAR ENTERED
SOUTHEAST REGION:	
Florida.....	Jacksonville (1993), Treasure Coast (1995), Fort Myers/Naples (1996), Tampa/St. Petersburg (1996), Orlando (1997)
Georgia.....	Atlanta (1985)
North Carolina.....	Charlotte (1987), Raleigh (1992)
South Carolina.....	Charleston (1987), Columbia (1993), Myrtle Beach (1996), Greenville (1998)
Tennessee.....	Nashville (1987), Knoxville (1995)
SOUTHWEST REGION:	
Arizona.....	Phoenix (1993)
California.....	San Diego County (1992), Los Angeles County (1993), Orange County (1993), Riverside & San Bernadino Counties (1993), Ventura County (1993), Sacramento (1993)
Nevada.....	Las Vegas (1993), Reno/Sparks (1996)
CENTRAL REGION:	
Texas.....	Dallas (1995), Houston (1995)
MID-ATLANTIC REGION (1):	
Maryland.....	Baltimore (1998), Metro-Washington D.C. (1998)
New Jersey/Pennsylvania.....	Central and Southern New Jersey (1998), Bucks County, PA (1998)
Virginia.....	Fairfax County (1998), Loudoun County (1998), Prince William County (1998)

(1) Entered in December 1998 via the acquisition of certain assets of Trafalgar House Property, Inc. See "Recent Business Developments."

We design our homes to appeal primarily to entry-level and first move-up home buyers. Our objective is to provide our customers with homes that incorporate quality and value while seeking to maximize our return on invested capital. To achieve this objective, we have developed a business strategy which focuses on the following elements:

**GEOGRAPHIC DIVERSITY AND GROWTH MARKETS.** We compete in a large number of geographically diverse markets in an attempt to reduce our exposure to any particular regional economy. Virtually all of the markets in which we operate have experienced significant population growth in recent years. Within these markets, we build homes in a variety of projects, typically with fewer than 150 homesites.

**QUALITY HOMES FOR ENTRY-LEVEL AND FIRST MOVE-UP HOME BUYERS.** We seek to maximize customer satisfaction by offering homes that incorporate quality materials, distinctive design features, convenient locations and competitive prices. We focus on entry-level and first move-up home buyers because we believe they represent the largest segment of the homebuilding market. During Fiscal Year 1998, the average sales price of our homes closed was approximately \$156,400.

**ADDITIONAL PRODUCTS AND SERVICES FOR HOMEBUYERS.** In order to maximize our profitability and provide our home buyers with the additional products and services they desire, we have incorporated design centers and mortgage origination operations into our business. Recognizing that home buyers want to choose certain components of their new home, we offer limited customization through the use of design centers in most of our markets. These design centers allow the homebuyer to select certain

non-structural customizations for their homes such as cabinetry, flooring, fixtures, appliances and wallcoverings. Additionally, recognizing the homebuyer's desire to simplify the financing process, we originate mortgages on behalf of our customers through Beazer Mortgage Corp. ("Beazer Mortgage").

DECENTRALIZED OPERATIONS WITH EXPERIENCED MANAGEMENT. We believe our in-depth knowledge of our local markets enables us to better serve our customers. Our local managers, who have significant experience in both the homebuilding industry and the markets they serve, are responsible for operating decisions regarding design, construction and marketing. We combine these decentralized operations with a centralized corporate-level management that controls decisions regarding overall strategy, land acquisitions and financial matters.

CONSERVATIVE LAND POLICIES. We seek to maximize our return on capital employed by limiting our investment in land and by focusing on inventory turnover. To implement this strategy and to reduce the risks associated with investments in land, we use options to control land whenever possible. In addition, we do not speculate in unentitled land.

COMPANY HISTORY--In March 1994, we completed a concurrent initial public offering of common stock and issuance of 9% Senior Notes (the "IPO"). Prior to the IPO, the Company was an indirect wholly-owned subsidiary of Hanson PLC ("Hanson"), a company registered in the United Kingdom. As a result of the IPO, Hanson's ownership interest in the Company was reduced to approximately 30%. During 1995, the Company repurchased Hanson's remaining 30% interest, which had been transferred to a former affiliate of Hanson.

#### RECENT BUSINESS DEVELOPMENTS

ACQUISITIONS: Subsequent to the end of Fiscal Year 1998, we completed two acquisitions. In October 1998, we acquired the assets of Snow Construction, Inc. in Orlando, Florida for approximately \$1.8 million. In December 1998, we acquired certain assets of the homebuilding operations of Trafalgar House Property, Inc. for a purchase price of approximately \$90.0 million.

JOINT VENTURE: In Fiscal Year 1998, we entered into a joint venture agreement with Corporacion GEO S.A. de C.V. ("Corporacion GEO"), the largest builder of affordable homes in Mexico. The joint venture ("Premier Communities") will focus exclusively on the development, construction and sale of affordable housing throughout the United States, initially priced from under \$40,000 to \$55,000 per home. The joint venture is owned 60% by Corporacion GEO and 40% by Beazer. As of December 1998, Premier Communities had begun development of its first project in El Paso, Texas.

#### MARKETS AND PRODUCT DESCRIPTION

We evaluate a number of factors in determining which geographic markets to enter or in which to concentrate our homebuilding activities. We attempt to anticipate swings in economic and real estate conditions by evaluating such statistical information as

- (i) the historical and projected growth of the population;
- (ii) the number of new jobs created or projected to be created;
- (iii) the number of housing starts in previous periods;
- (iv) building lot availability and price;
- (v) housing inventory;
- (vi) level of competition; and
- (vii) home sales absorption rates.

We generally seek to avoid direct competition in a particular market with respect to product type. We maintain the flexibility to alter our product mix within a given market depending on market conditions and, in determining our product mix, consider demographic trends, demand for a particular type of product, margins, timing and the economic strength of such market. While remaining responsive to market opportunities within the industry, in recent years we have focused, and intend to continue to focus, primarily on entry-level and first move-up housing in the form of single family detached homes and townhouses. Entry-level homes generally are those homes priced at the lower end of the market and target first time home buyers, while first move-up homes generally are priced in the mid-to-upper price range and target a wide variety of home buyers as they progress in income and family size. Although some of our move-up homes are priced at the upper end of the market and we offer a selection of amenities, we generally do not build "custom homes," and our prices of first

move-up homes are generally well below the prices of custom homes in most areas. We attempt to maximize efficiency by using standardized design plans whenever possible.

The following table summarizes information regarding our markets as of and for the year ended September 30, 1998 (DOLLARS IN THOUSANDS).

STATE	AVERAGE CLOSING PRICE	UNITS IN BACKLOG AT YEAR END	DOLLAR VALUE OF BACKLOG		NUMBER OF ACTIVE SUBDIVISIONS	NUMBER OF HOMES CLOSED
			AT YEAR END			
Arizona.....	\$ 127.6	478	\$ 66,642		32	1,336
California.....	\$ 173.4	182	39,817		18	1,154
Florida.....	\$ 178.0	342	66,150		41	677
Georgia.....	\$ 170.2	92	18,370		8	166
Nevada.....	\$ 161.3	83	15,886		9	491
North Carolina.....	\$ 141.8	226	31,586		25	777
South Carolina.....	\$ 121.7	182	24,078		16	445
Tennessee.....	\$ 196.0	154	29,077		23	428
Texas.....	\$ 171.1	318	55,698		31	639
Total Company.....	\$ 156.4	2,057	\$ 347,304		203	6,113

Our homebuilding and marketing activities are conducted under the name of Beazer Homes in each of our markets except as follows:

MARKET	DOING BUSINESS AS
Ft. Myers/Naples.....	GulfCoast Homes
Jacksonville.....	Panitz Homes
Tennessee.....	Phillips Builders
North Carolina.....	Squires Homes
South Carolina.....	Squires Homes
Maryland.....	Trafalgar House
New Jersey.....	Trafalgar House
Virginia.....	Trafalgar House

CORPORATE OPERATIONS

We perform the following functions at a centralized level:

- (i) evaluate and select geographic markets;
- (ii) allocate capital resources to particular markets, including with respect to land and acquisitions;
- (iii) maintain the Company's relations with its lenders to regulate the flow of financial resources and develop consistent relationships with such lenders;
- (iv) maintain centralized information systems; and
- (v) monitor the decentralized operations of the Company's subsidiaries and divisions.

We allocate the capital resources necessary for new projects consistent with our overall operating strategy. We utilize value created (a variation of the economic value financial concept) return on capital employed and profit margin as criteria for this allocation. This allocation varies 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, which are applied uniformly throughout the Company.

Structurally, we operate through separate divisions, which are generally

located within the areas in which they operate. Each division is managed by executives with substantial experience in the division's market. In addition, each division is equipped with the skills to complete the functions of land acquisition, map processing, land development, construction, marketing, sales and product service.

#### LAND ACQUISITION AND DEVELOPMENT

Substantially all of the land we acquire is purchased only after necessary entitlements have been obtained so that we have certain rights to begin development or construction as market conditions dictate. In certain situations we will purchase unentitled property where we perceive an opportunity to build on such property in a manner consistent with our strategy. The term "entitlements" refers to 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 our 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

- (i) internal and external demographic and marketing studies;
- (ii) suitability for projects comprised of generally less than 150 homesites;
- (iii) suitability for development during the time period of one to five years from the beginning of the development process to the last closing;
- (iv) financial review as to the feasibility of the proposed project, including projected value created, profit margins and returns on capital employed;
- (v) the ability to secure governmental approvals and entitlements;
- (vi) environmental and legal due diligence;
- (vii) competition;
- (viii) proximity to local traffic corridors and amenities; and
- (ix) management's judgment as to the real estate market, 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) that 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.

The Company strives to develop a design and marketing concept for each of its projects, 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 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 design plans.

The development and construction of each project are managed by our operating divisions, each of which is led by a president who, in turn, reports to the Company's Chief Operating Officer and the Company's Chief Executive Officer. At the development stage, a manager (who may be assigned to several projects and reports to the president of the division) supervises development of buildable lots. In addition, a field superintendent is located at each project site to supervise actual construction, and each division has one or more customer service and marketing representatives assigned to projects operated by

that division.

The following table sets forth, by state, the Company's land inventory as of September 30, 1998.

	LAND OWNED		LAND UNDER CONTRACT (III)		TOTAL
	FINISHED LOTS (I)	UNDEVELOPED LOTS (II)	FINISHED LOTS	UNDEVELOPED LOTS (II)	
SOUTHEAST REGION:					
Georgia.....	226	29	138	--	393
North Carolina.....	408	306	537	662	1,913
South Carolina.....	248	51	163	1,781	2,243
Tennessee.....	538	369	771	733	2,411
Florida.....	902	120	459	182	1,663
SOUTHWEST REGION:					
Arizona.....	1,215	--	2,944	--	4,159
California.....	490	885	174	921	2,470
Nevada.....	720	--	307	--	1,027
CENTRAL REGION:					
Texas.....	741	879	255	469	2,344
Total.....	5,488	2,639	5,748	4,748	18,623

FISCAL YEAR 1998  
HOMES CLOSED

SOUTHEAST REGION:	
Georgia.....	166
North Carolina.....	777
South Carolina.....	445
Tennessee.....	428
Florida.....	677
SOUTHWEST REGION:	
Arizona.....	1,336
California.....	1,154
Nevada.....	491
CENTRAL REGION:	
Texas.....	639
Total.....	6,113

(i) The category "Land Owned--Finished Lots" includes lots on which construction of a home has commenced.

(ii) Undeveloped lots consist of raw land and land under development that is expected to be developed into the respective number of lots reflected in this table.

(iii) The classification within Land Under Contract for this schedule is based upon level of completion at delivery as stated in the option contract.

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. Under option contracts without specific performance obligations, our liability is limited to forfeiture of the non-refundable deposits, which aggregated approximately \$10.6 million at September 30, 1998. Under option contracts with specific performance obligations, we generally are required to purchase specific numbers of lots on fixed dates pursuant to a contractually established schedule. Under such option contracts with specific performance obligations, the party granting the option is required to maintain and/or develop the property pursuant to certain standards specified in the contract and to deliver lots which are free of any liens and are appropriate for residential building pursuant to a specified schedule. If we fail to purchase the required number of lots on the date fixed for purchase pursuant to such option contracts and the party granting the option has fulfilled all of its obligations under the contract, the party granting the option to us generally has the right to either terminate the option granted pursuant to the option contract in its entirety or to require us to purchase the

remaining lots. If the party granting the option fails to meet its obligations under such option contracts, we generally may, at our option, either not make the lot purchase or require the party granting the option to cure the deficiency. Under such option contracts, if we purchase a lot and subsequently discover that the lot did not meet all of the conditions specified by the option contract, we generally may require the party granting the option to repurchase the lot or cure the deficiency. At September 30, 1998, committed amounts under option contracts with specific performance obligations aggregated approximately \$39.0 million, while option contracts without specific performance obligations aggregated \$204.1 million. The Company's option contracts have expiration periods ranging from one to 60 months.

#### CONSTRUCTION

We act as the general contractor for the construction of our projects. Our project development operations are controlled by our subsidiaries and 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 by us and whose designs are geared to the local market. 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, and we do not have any long-term contractual commitments with any of our subcontractors or suppliers. In connection with such 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. From time to time we enter into regional and national supply contracts with certain of our vendors. For instance, during 1996 we entered into a three-year agreement with General Electric to be our exclusive supplier of appliances. 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 except California, construction of a home historically has been completed within three to five months following commencement of construction. In California, construction of a home historically has been completed within four to eight months following commencement of construction. At September 30, 1998, the Company had 447 finished homes, of which 239 were sold and included in backlog at such date.

#### WARRANTY PROGRAM

We have established a risk retention group, United Home Insurance Corp. ("UHIC"), to self insure our structural warranty obligations and replace our warranty program with Home Buyers Warranty Corporation ("HBW"). During Fiscal Year 1997, UHIC was licensed by the State of Vermont as a captive insurance risk retention group. UHIC provided insurance to Beazer homebuyers during Fiscal Year 1998. We believe this will result in cost savings as well as increased control over the warranty process. The first year of Beazer's warranty covers defects in plumbing, electrical, heating, cooling and ventilation systems, and major structural defects; the second year of such warranty covers major structural defects and certain defects in plumbing, electrical, heating, cooling and ventilation systems of the home (exclusive of defects in appliances, fixtures and equipment); and the final eight years of protection cover only major structural defects. An allowance of approximately 0.5% to 1.0% of the sale price of a home is established to cover

warranty expenses, although this allowance is subject to adjustment in special circumstances. Our historical experience is that such warranty expenses generally fall within the amount established for such allowance.

We provide a one-year limited warranty of workmanship and materials with each of our homes, which generally includes home inspection visits with the



customer during the first year following the purchase of a home. 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 and, therefore, claims relating to workmanship and materials are generally the primary responsibility of our subcontractors.

For homes closed prior to January 1, 1998, we provided a 10-year homeowners' warranty through a single national agreement with HBW. The terms of the warranty are materially consistent with those currently provided through UHIC.

We do not currently have any material litigation or claims regarding warranties or latent defects with respect to the construction of our homes. We believe that claims and litigation will be substantially covered by our warranty accrual or insurance.

#### MARKETING AND SALES

We make extensive use of advertising and other promotional activities, including newspaper advertisements, brochures, direct mail and the placement of strategically located sign boards in the immediate areas of its developments.

We normally build, decorate, furnish and landscape between one to five model homes for each project and maintain on-site sales offices. At September 30, 1998, we maintained 267 model homes, of which 169 were owned and 98 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. Consequently, we expend significant effort creating an attractive atmosphere at our model homes. Interior decorations are undertaken by both in-house and third party local design specialists, and vary among our models based upon the lifestyles of targeted home buyers. The purchase of furniture, fixtures and fittings is coordinated to ensure that manufacturers' bulk discounts are utilized to the maximum extent. Structural changes in design from the model homes are not generally permitted, but home buyers may select various optional amenities. We also use a cross-referral program that encourages our personnel to direct customers to other Company subdivisions based on the customers' needs.

We generally sell our homes through commissioned employees (who typically work from the sales offices located at the model homes used in each division) as well as through independent brokers. Our personnel are available to assist prospective home buyers by providing them with floor plans, price information and tours of model homes and in connection with the selection of options. Our 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, marketing and advertising plans, which management believes result 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. We typically also build a number of homes for which no signed sales contract exists at the time of commencement of construction. The use of an inventory of such homes is necessary to satisfy the requirements of relocated personnel and of independent brokers, who often represent customers requiring a completed home within 60 days. At September 30, 1998, excluding models, we had 781 homes either finished or at various stages of completion for which we had not received a sales contract.

We also use various sales incentives (such as landscaping and certain interior home options and upgrades) in order to attract home buyers. The use of incentives depends largely on prevailing economic and competitive market conditions.

#### CUSTOMER FINANCING

We provide customer financing through branch offices of Beazer Mortgage. Beazer Mortgage provides mortgage originations only, and does not retain or service the mortgages that it originates. Such mortgages are generally funded by one of a network of mortgage lenders arranged for us by Homebuilders Financial Network, an independent consultant of the Company. Beazer Mortgage can provide qualified home buyers numerous financing options, including a wide variety of conventional, FHA and VA financing programs. In certain situations we seek to assist our home buyers in obtaining financing from outside mortgage lenders and in certain limited circumstances, we attempt to minimize potential risks relating to the availability of customer financing by purchasing mortgage

financing commitments that lock in the availability of funds and interest rates at specified levels for a certain period of time. Since substantially all home buyers utilize long-term mortgage financing to purchase a home, adverse economic conditions, increases in unemployment and high mortgage interest rates may deter and eliminate a substantial number of potential home buyers from our markets in the future.

#### COMPETITION AND MARKET FACTORS

The development and sale of residential properties is highly competitive and fragmented. 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, available rental housing and, to a lesser extent, resales of condominiums. We believe that our Company compares favorably to other builders in the markets in which we operate, due primarily to

- (i) our experience within our geographic markets and breadth of product line, which allow us to vary our regional product offerings to reflect changing market conditions;
- (ii) our responsiveness to market conditions, enabling us to capitalize on the opportunities for advantageous land acquisitions in desirable locations; and
- (iii) our reputation for quality design, construction and service.

The housing industry is cyclical and affected by consumer confidence levels, prevailing economic conditions generally, and interest rate levels in particular. A variety of other factors affect the housing industry and demand for new homes, including the availability of labor and materials and increases in the costs thereof, changes in costs associated with home ownership such as increases in property taxes and energy costs, changes in consumer preferences, demographic trends and the availability of and changes in mortgage financing programs.

#### GOVERNMENT REGULATION AND ENVIRONMENTAL MATTERS

Substantially all of 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 must seek 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. Several governmental authorities in California 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 or "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 jurisdiction. These 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.

BONDS AND OTHER OBLIGATIONS

We are frequently required, in connection with the development of its projects, to obtain 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, 1998, there were approximately \$10.9 million and \$68.6 million of outstanding letters of credit and performance bonds, respectively, for such purposes. We do not believe that any such bonds or letters of credit are likely to be drawn upon.

EMPLOYEES AND SUBCONTRACTORS

At September 30, 1998, we employed 1,261 persons, of whom 271 were sales and marketing personnel, 440 were executive, management and administrative personnel, 465 were involved in construction, 58 were personnel of Beazer Mortgage and 27 were employed at the Nashville, Tennessee manufacturing facility. 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.

ITEM 2. PROPERTIES

We lease approximately 8,900 square feet of office space in Atlanta, Georgia to house our corporate headquarters. We also lease an aggregate of approximately 182,000 square feet of office space for its operating divisions at various locations. We own approximately 18,500 square feet of manufacturing space and 6,800 square feet of office space in Nashville, Tennessee.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings, all of which have arisen in the ordinary course of business and some of which are covered by insurance. In the opinion of management, none of the claims relating to such proceedings will have a material adverse effect on the financial condition or results of operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

SEPARATE ITEM: EXECUTIVE OFFICERS OF THE REGISTRANT

Unless otherwise indicated, the following executive officers have served in their current capacity with the Company since 1994, the year of the Company's initial public offering.

NAME	AGE	POSITION
Ian J. McCarthy.....	45	President, Chief Executive Officer and Director
Michael H. Furlow (i).....	48	Executive Vice President, Chief Operating Officer
David S. Weiss.....	38	Executive Vice President, Chief Financial Officer and Director
John Skelton.....	49	Senior Vice President
Peter H. Simons.....	39	Senior Vice President, Corporate Development

(i) Since October 1997

All officers are elected by the Board of Directors.

There are no family relationships nor arrangements or understandings pursuant to which any of the officers listed were elected. See pages 16 to 17 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on February 4, 1999 for a description of employment arrangements with certain executive officers of the Company.

BUSINESS EXPERIENCE

Refer to pages 4 and 5 of the company's Proxy Statement for the Annual Meeting of Shareholders to be held on February 4, 1999 for the business experience of Messrs. Ian J. McCarthy, and David S. Weiss.

MICHAEL H. FURLOW. Mr. Furlow joined the Company in October 1997 as the Executive Vice President for Operations and since October 1998 has been the Chief Operating Officer. In this capacity the operating division presidents report to Mr. Furlow and he is responsible for the performance of those operating divisions. During the preceding 12 years Mr. Furlow was with Pulte Home Corporation in various field and corporate roles, most recently as a Regional President. Mr. Furlow received a Bachelor of Arts degree with honors in accounting from the University of West Florida and initially worked as a CPA for Arthur Young & Company.

JOHN SKELTON. Mr. Skelton has served as the Company's Senior Vice President ("SVP"), Operations since March 1994. Mr. Skelton served as Vice President and Chief Financial Officer of Beazer Homes, Inc. since 1985 and Vice President and Chief Financial Officer of Beazer Homes Holdings, Inc. since April 1993. During the period 1977 to 1985, Mr. Skelton served as Finance Director of Leech Homes, a subsidiary of Leech PLC which was acquired by Beazer PLC in 1985. After graduating with a Bachelor's degree from Durham University in the United Kingdom, he was employed by Deloitte & Touche and is a Fellow of the Institute of Chartered Accountants in England and Wales.

PETER H. SIMONS. Mr. Simons has served as Vice President of Corporate Development (since October 1998 SVP) since September 1994. The preceding year, he was Director of Operations for Lokelani Homes in Hawaii. From 1989 to 1993, Mr. Simons was a Senior Project Manager for Castle & Cooke Properties in Hawaii. Mr. Simons earned a Bachelor of Arts degree from Yale University and a Masters in Public and Private Management from the Yale School of Management.

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#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the information set forth under the captions "Quarterly Stock Price Information" and "Trading Information" located on page 44 and 49, respectively, of the Company's Annual Report to Shareholders for the year ended September 30, 1998.

#### ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is incorporated by reference from page 19 of the Company's Annual Report to Shareholders for the year ended September 30, 1998.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The information required by this item is incorporated by reference from pages 20 to 29 of the Company's Annual Report to Shareholders for the year ended September 30, 1998.

#### ITEM 7(A). QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is not materially affected by any market risk sensitive instruments.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated by reference from pages 31 to 44 of the Company's Annual Report to Shareholders for the year ended September 30, 1998.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements between the Company and its accountants on accounting and financial disclosure matters during the fiscal years ended September 30, 1998 and 1997.

### PART III.

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Director information is incorporated by reference from pages 4 to 5 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held February 4, 1999. Information regarding the Company's executive officers is set forth herein under Part I as a separate item.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from page 15 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held February 4, 1999.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this is incorporated by reference from page 10 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held February 4, 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

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The Independent Auditors' Report and the following consolidated financial statements are incorporated by reference from the Company's Annual Report to Shareholders for the fiscal year ended September 30, 1998 in Part II, Item 8 of this report:

Consolidated Statements of Operations for the years ended September 30, 1998, 1997 and 1996.

Consolidated Balance Sheets as of September 30, 1998 and 1997.

Consolidated Statement of Stockholders' Equity for the years ended September 30, 1998, 1997 and 1996.

Consolidated Statements of Cash Flows for the years ended September 30, 1998, 1997 and 1996

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

None required

3. Exhibits

EXHIBIT NUMBER	EXHIBIT DESCRIPTION	PAGE HEREIN OR INCORPORATED BY REFERENCE FROM
3.1.....	Amended and Restated Certificate of Incorporation of Company.	(7)
3.2.....	Amended and Restated Bylaws of the Company	(7)
4.1.....	Indenture dated as of March 2, 1994 among the Company, its subsidiaries party thereto, and U.S. Bank Trust National Association (f/k/a Continental Bank, National Association), as trustee, relating to the Company's 9% Senior Notes due 2004 (the "9% Notes").	(1)
4.2.....	First Supplemental Indenture (9% Notes) dated June 13, 1995	(13)
4.3.....	Second Supplemental Indenture (9% Notes) dated February 1, 1996	(13)
4.4.....	Third Supplemental Indenture (9% Notes) dated March 18, 1998	(13)
4.5.....	Fourth Supplemental Indenture (9% Notes) dated July 20, 1998	Filed herewith
4.6.....	Form of 9% Senior Note due 2004.	(2)
	Indenture dated as of March 25, 1998 among the Company, its subsidiaries	(13)

party thereto, and US Bank Trust National Association, as trustee, relating to the Company's 8 7/8% Senior Notes due 2008.

4.7.....	Form of 8 7/8% Senior Note due 2008 Note	(13)
4.8.....	First Supplemental Indenture (8 7/8% Notes) dated July 20, 1998	Filed herewith
4.9.....	Specimen of Common Stock Certificate.	(6)
4.10.....	Form of Certificate of Designations for Series A Cumulative Convertible Exchangeable Preferred Stock, \$.01 par value per share (the "Preferred Stock")	(4)
4.11.....	Form of Certificate representing shares of the Preferred Stock	(4)
4.12.....	Form of Indenture between the Company and the First National Bank of Boston, as trustee, relating to the 8% Convertible Subordinated Debentures due 2005.	(4)

EXHIBIT NUMBER	EXHIBIT DESCRIPTION	PAGE HEREIN OR INCORPORATED BY REFERENCE FROM
4.13.....	Form of 8% Convertible Subordinated Debenture due 2005	(4)
4.14.....	Retirement Savings and Investment Plan (the "RSIP").	(5)
4.15.....	RSIP Summary Plan Description.	(5)
4.16.....	Rights Agreement, dated as of June 21, 1996, between the Company and First Chicago Trust Company of New York, as Rights Agent.	(8)
10.1.....	Amended 1994 Stock Incentive Plan.	(3)
10.2.....	Non-Employee Director Stock Option Plan.	(3)
10.3.....	Asset Purchase Agreement dated as of October 26, 1998 between Beazer Homes Corp., and Trafalgar House Property, Inc.	(12)
10.4-7.....	Amended and Restated Employment Agreements dated as of March 31, 1995:	
10.4.....	Ian J. McCarthy.	(9)
10.5.....	David S. Weiss.	(9)
10.6.....	John Skelton.	(9)
10.7.....	Employment Agreement dated as of January 13, 1998--Michael H. Furlow	(13)
10.8-11	Supplemental Employment Agreements dated as of July 17, 1996:	
10.8.....	Ian J. McCarthy.	(10)
10.9.....	David S. Weiss.	(10)
10.10.....	John Skelton.	(10)
10.11.....	Peter H. Simons.	(10)
10.12.....	Amended and Restated Credit Agreement dated as of November 3, 1998 between the Company and First National Bank of Chicago, as Agent, and Comerica Bank and Guaranty Federal Bank, F.S.B. as Managing Agents	Filed herewith
11.....	Earnings Per Share Calculations	Filed herewith
13.....	Annual Report to Shareholders for the year ended September 30, 1998	Filed herewith
21.....	Subsidiaries of the Company	(13)
23.1.....	Consent of Deloitte & Touche LLP, Independent Auditors	Filed herewith
27.....	Financial Data Schedule	Filed herewith

- (1) Incorporated herein by reference to the exhibits to the Company's report on Form 10-Q for the quarterly period ended March 31, 1994.
- (2) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-1 (Registration No. 33-72982) initially filed on December 15, 1993.
- (3) Incorporated herein by reference to the exhibits to the Company's report on Form 10-K for the year ended September 30, 1994.

- (4) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-3 (Registration No. 33-92892) initially

filed on June 15, 1995.

- (5) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-8 (Registration No. 33-91904) filed on May 4, 1995.
- (6) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-1 (Registration No. 33-72576) initially filed on December 6, 1993.
- (7) Incorporated herein by reference to the exhibits to the Company's report on Form 8-K filed on May 30, 1996.
- (8) Incorporated herein by reference to the exhibits to the Company's report on Form 8-K filed on June 21, 1996
- (9) Incorporated herein by reference to the exhibits to the Company's report on Form 10-Q for the quarterly period ended March 31, 1995.
- (10) Incorporated herein by reference to the exhibits to the Company's report on Form 10-K for the year ended September 30, 1996.
- (11) Incorporated herein by reference to the exhibits to the Company's report on Form 10-Q for the quarterly period ended June 30, 1997.
- (12) Incorporated herein by reference to the exhibits to the Company's report on Form 8-K/A filed on December 18, 1998.
- (13) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-4 (Registration No. 333-51087) filed on April 27, 1998.

(B) REPORTS ON FORM 8-K

The Company did not file any reports on Form 8-K during the fourth quarter of the fiscal year ended September 30, 1998.

(C) EXHIBITS

Reference is made to Item 14(a)3 above. The following is a list of exhibits, included in Item 14(a)3 above, that are filed concurrently with this report.

- 4.5..... Fourth Supplemental Indenture (9% Notes) dated July 20, 1998
- 4.8..... First Supplemental Indenture (8 7/8% Notes) dated July 20, 1998
- 10.12..... Amended and Restated Credit Agreement dated November 3, 1998 between the Company and First National Bank of Chicago, as Agent, and Comerica Bank and Guaranty Federal Bank, F.S.B. as Managing Agents
- 11..... Earnings Per Share Calculations
- 13..... The Company's Annual Report to Shareholders for the fiscal year ended September 30, 1998. Except as expressly incorporated by reference in this report on Form 10-K, such Annual Report is furnished only for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this report. The following portions of such Annual Report are incorporated by reference in the indicated items of this report.

PORTIONS OF THE ANNUAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998	ITEM OF THIS REPORT
----- "Trading Information" and "Quarterly Stock Price Information"	5
Selected Financial Data	6
Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Consolidated Financial Statements	8
23.1..... Consent of Deloitte & Touche LLP, Independent Auditors.	
27..... Financial Data Schedule	

(D) FINANCIAL STATEMENT SCHEDULES

Reference is made to Item 14(a)2 above.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BEAZER HOMES USA, INC.

By: /s/ IAN J. MCCARTHY

-----  
Name: Ian J. McCarthy  
Title: President and Chief Executive Officer  
Date: December 23, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

12/23/98 By: /s/ BRIAN C. BEAZER  
-----  
Date Brian C. Beazer, Director and Non-Executive Chairman of the Board

12/23/98 By: /s/ IAN J. MCCARTHY  
-----  
Date Ian J. McCarthy, Director, President and Chief Executive Officer (Principal Executive Officer)

12/23/98 By: /s/ DAVID S. WEISS  
-----  
Date David S. Weiss, Director, Executive Vice President and Chief Financial Officer (Principal Financial Officer)

12/23/98 By: /s/ THOMAS B. HOWARD, JR.  
-----  
Date Thomas B. Howard, Jr., Director

12/23/98 By: /s/ GEORGE W. MEFFERD  
-----  
Date George W. Mefferd, Director

12/23/98 By: /s/ D.E. MUNDELL  
-----  
Date D.E. Mundell, Director

12/23/98 By: /s/ LARRY T. SOLARI  
-----  
Date Larry T. Solari, Director

12/23/98 By: /s/ MICHAEL T. RAND  
-----  
Date Michael T. Rand, Vice President and Controller (Principal Accounting Officer)

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FOURTH SUPPLEMENTAL INDENTURE  
Dated as of July 20, 1998

among

BEAZER HOMES USA, INC.,  
as Issuer,

BEAZER HOMES CORP. (formerly PHILLIPS BUILDERS, INC.),  
BEAZER/SQUIRES REALTY, INC.,  
BEAZER HOMES SALES ARIZONA INC.,  
BEAZER REALTY CORP. (formerly BEAZER-COHN REALTY CORP.),  
PANITZ HOMES REALTY, INC.,  
BEAZER MORTGAGE CORPORATION,  
BEAZER HOMES HOLDINGS CORP.,  
BEAZER HOMES TEXAS HOLDINGS, INC., and  
BEAZER HOMES TEXAS, L.P.  
as Guarantors, and

U.S. BANK TRUST NATIONAL ASSOCIATION  
(formerly FIRST TRUST NATIONAL ASSOCIATION)

as Trustee

to

INDENTURE  
Dated as of March 2, 1994

Relating to  
\$115,000,000 Aggregate Principal Amount of  
9% Senior Notes due 2004

FOURTH SUPPLEMENTAL INDENTURE

THIS FOURTH SUPPLEMENTAL INDENTURE, dated as of July 20, 1998 (this "Supplement"), by and among (i) Beazer Homes USA, Inc., a Delaware corporation (the "Company"), (ii) Beazer Mortgage Corporation, a Delaware corporation, Beazer Homes Corp. (f/k/a Phillips Builders, Inc.), a Tennessee corporation, Beazer Homes Sales Arizona Inc., a Delaware corporation, Beazer Realty Corp., a Georgia corporation, Beazer/Squires Realty, Inc., a North Carolina corporation, Panitz Homes Realty, Inc., a Florida corporation, Beazer Homes Holdings Corp., a Delaware corporation, Beazer Homes Texas Holdings, Inc., a Delaware corporation, and Beazer Homes Texas, L.P., a Delaware limited partnership (collectively, the "Guarantors") and (iii) U.S. Bank Trust National Association (formerly known as First Trust National Association), as trustee (the "Trustee"). Capitalized terms used but not defined herein shall have the meanings respectively ascribed thereto in the Indenture, dated as of March 2, 1994, as amended by the First Supplemental Indenture, dated as of June 13, 1995, as further amended by the Second Supplemental Indenture, dated as of February 1, 1996, as further amended by the Third Supplemental Indenture, dated as of March 18, 1998, among the Company, as issuer, the guarantors of the Company's obligations thereunder, and the Trustee (the "Indenture"), pursuant to which \$115,000,000 aggregate principal amount of the Company's 9% Senior Notes due

2004 were issued and with respect to which this Supplement relates.

RECITALS OF THE PARTIES:

WHEREAS, the parties hereto desire to amend the Indenture to reduce the required combined capital and surplus that must be maintained by the Trustee under the Indenture.

NOW, THEREFORE, THIS SUPPLEMENT WITNESSETH:

1. The parties hereto agree that Section 7.10(a) of the Indenture shall be amended so that "\$150 million" shall be deleted from the eighth line of Section 7.10(a) and replaced with "\$100 million".

2. Nothing contained herein shall be deemed or construed to relieve any party to the Indenture of its obligations thereunder as in effect immediately prior to the effectiveness of this Supplement or to impair any of such obligations in any way and, except to the extent the Indenture is amended hereby, the Indenture shall remain in full force and effect and each of the parties hereto hereby confirms all the terms and provisions of the Indenture as amended hereby.

3. This Supplement shall be governed by and construed in accordance with the laws that govern the Indenture and its construction.

4. This Supplement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

[The remainder of this page was intentionally left blank]

IN WITNESS WHEREOF, each the parties hereto has caused this Supplement to be duly executed by its representative, thereunto duly authorized, as of the day and year first written above.

The Company:

Beazer Homes USA, Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

The Guarantors:

Beazer Mortgage Corporation  
Beazer Homes Corp.  
Beazer Homes Sales Arizona Inc.  
Beazer Realty Corp.  
Beazer/Squires Realty, Inc.  
Panitz Homes Realty, Inc.  
Beazer Homes Holdings Corp.  
Beazer Homes Texas Holdings, Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Beazer Homes Texas, L.P.

By: Beazer Homes Texas Holdings, Inc.  
its general partner

By:

Name: -----  
-----  
Title: -----  
-----

The Trustee:

U.S. Bank Trust National Association (formerly  
known as First Trust National Association), as  
trustee

By: -----  
Name: -----  
-----  
Title: -----  
-----

FIRST SUPPLEMENTAL INDENTURE  
Dated as of July 20, 1998

among

BEAZER HOMES USA, INC.,  
as Issuer,

BEAZER HOMES CORP. (formerly PHILLIPS BUILDERS, INC.),  
BEAZER/SQUIRES REALTY, INC.,  
BEAZER HOMES SALES ARIZONA INC.,  
BEAZER REALTY CORP. (formerly BEAZER-COHN REALTY CORP.),  
PANITZ HOMES REALTY, INC.,  
BEAZER MORTGAGE CORPORATION,  
BEAZER HOMES HOLDINGS CORP.,  
BEAZER HOMES TEXAS HOLDINGS, INC., and  
BEAZER HOMES TEXAS, L.P.  
as Guarantors, and

U.S. BANK TRUST NATIONAL ASSOCIATION  
(formerly FIRST TRUST NATIONAL ASSOCIATION)

as Trustee

to

INDENTURE  
Dated as of March 25, 1998

Relating to  
\$100,000,000 Aggregate Principal Amount of  
8 7/8% Senior Notes due 2008

FIRST SUPPLEMENTAL INDENTURE

THIS FIRST SUPPLEMENTAL INDENTURE, dated as of July 20, 1998 (this "Supplement"), by and among (i) Beazer Homes USA, Inc., a Delaware corporation (the "Company"), (ii) Beazer Mortgage Corporation, a Delaware corporation, Beazer Homes Corp. (f/k/a Phillips Builders, Inc.), a Tennessee corporation, Beazer Homes Sales Arizona Inc., a Delaware corporation, Beazer Realty Corp., a Georgia corporation, Beazer/Squires Realty, Inc., a North Carolina corporation, Panitz Homes Realty, Inc., a Florida corporation, Beazer Homes Holdings Corp., a Delaware corporation, Beazer Homes Texas Holdings, Inc., a Delaware corporation, and Beazer Homes Texas, L.P., a Delaware limited partnership (collectively, the "Guarantors") and (iii) U.S. Bank Trust National Association (formerly known as First Trust National Association), as trustee (the "Trustee"). Capitalized terms used but not defined herein shall have the meanings respectively ascribed thereto in the Indenture, dated as of March 25, 1998, among the Company, as issuer, the guarantors of the Company's obligations thereunder, and the Trustee (the "Indenture"), pursuant to which \$100,000,000 aggregate principal amount of the Company's 8 7/8% Senior Notes due 2008 were issued and with respect to which this Supplement relates.

RECITALS OF THE PARTIES:

WHEREAS, the parties hereto desire to amend the Indenture to reduce the required combined capital and surplus that must be maintained by

the Trustee under the Indenture.

NOW, THEREFORE, THIS SUPPLEMENT WITNESSETH:

1. The parties hereto agree that Section 7.10(a) of the Indenture shall be amended so that "\$150 million" shall be deleted from the eighth line of Section 7.10(a) and replaced with "\$100 million".

2. Nothing contained herein shall be deemed or construed to relieve any party to the Indenture of its obligations thereunder as in effect immediately prior to the effectiveness of this Supplement or to impair any of such obligations in any way and, except to the extent the Indenture is amended hereby, the Indenture shall remain in full force and effect and each of the parties hereto hereby confirms all the terms and provisions of the Indenture as amended hereby.

3. This Supplement shall be governed by and construed in accordance with the laws that govern the Indenture and its construction.

4. This Supplement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

[The remainder of this page was intentionally left blank]

IN WITNESS WHEREOF, each the parties hereto has caused this Supplement to be duly executed by its representative, thereunto duly authorized, as of the day and year first written above.

The Company: Beazer Homes USA, Inc.  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

The Guarantors: Beazer Mortgage Corporation  
Beazer Homes Corp.  
Beazer Homes Sales Arizona Inc.  
Beazer Realty Corp.  
Beazer/Squires Realty, Inc.  
Panitz Homes Realty, Inc.  
Beazer Homes Holdings Corp.  
Beazer Homes Texas Holdings, Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Beazer Homes Texas, L.P.  
By: Beazer Homes Texas Holdings, Inc.  
its general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

The Trustee:

U.S. Bank Trust National Association (formerly  
known as First Trust National Association), as  
trustee

By: -----

Name: -----

Title: -----

-----  
 AMENDED AND RESTATED  
 CREDIT AGREEMENT  
 -----

-----  
 Dated as of November 3, 1998  
 -----

BEAZER HOMES USA, INC.,  
 The Guarantors Parties Thereto,  
 The Banks Parties Thereto,  
 The First National Bank of Chicago  
 As Agent,  
 and  
 Comerica Bank  
 and  
 Guaranty Federal Bank, F.S.B.,  
 as Managing Agents

-----

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AMENDED AND RESTATED CREDIT AGREEMENT dated as of November 3, 1998 among BEAZER HOMES USA, INC., a Delaware corporation (the "Borrower"), BEAZER MORTGAGE CORPORATION, a Delaware corporation, BEAZER HOMES CORP., a Tennessee corporation, BEAZER HOMES SALES ARIZONA INC., a Delaware corporation, BEAZER REALTY CORP., a Georgia corporation, BEAZER/SQUIRES REALTY, INC., a North Carolina corporation, PANITZ HOMES REALTY, Inc., a Florida corporation, BEAZER HOMES HOLDING CORP., a Delaware corporation, BEAZER HOMES TEXAS HOLDINGS, INC., a Delaware corporation, and BEAZER HOMES TEXAS, L.P., a Delaware limited partnership (individually an "Original Guarantor" and collectively the "Original Guarantors") and THE FIRST NATIONAL BANK OF CHICAGO, COMERICA BANK, GUARANTY FEDERAL BANK, F.S.B., BANK UNITED, AMSOUTH BANK and SUNTRUST BANK (collectively, the "Banks") and THE FIRST NATIONAL BANK OF CHICAGO as Agent (the "Agent") for the Banks and as an Issuing Bank (as hereinafter defined).

WITNESSETH:

WHEREAS, the Borrower and certain of the Banks are party to that certain Credit Agreement dated as of October 22, 1996, as amended by that certain First Amendment to Credit Agreement dated as of July 29, 1997, as further amended by that certain Second Amendment to Credit Agreement dated as of December 10, 1997, and as further amended by that certain Third Amendment to Credit Agreement dated as of March 16, 1998 (as so amended, the "Original Agreement"); and

WHEREAS, the parties hereto now desire to amend and restate the Original Agreement in its entirety to effect the changes in the Banks' Commitments set forth herein and to effect certain other modifications of the terms of the Original Agreement as hereinafter provided;

NOW THEREFORE, in consideration of the premises, the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree that, effective as of the Effective Date (as hereinafter defined), the Original Agreement is hereby amended and restated in its entirety as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.01. Defined Terms. As used in this Agreement, the following terms have the following meanings (terms defined in the singular shall have the same meaning when used in the plural and vice versa):

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"ABR Loan" means any Loan when and to the extent that the interest rate therefor is determined by reference to the Alternate Base Rate.

"Acquisition" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (i) acquires any going concern or all or substantially all of the assets of any firm, corporation or division thereof, whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding partnership interests of a partnership.

"Adjusted Land Value" means, as of any date, (i) the book value of all Land, less (ii) the sum of (a) the book value of Finished Lots that are subject to bona fide contracts of sale with Persons that are not Affiliates and (b) the lesser of (1) the product of (x) the number of Housing Units with respect to which the Borrower and its Subsidiaries (including any company or other entity acquired in an Acquisition by the Borrower or a Subsidiary as of such date) entered into bona fide contracts of sale with Persons that are not Affiliates during the six-month period ending on such date multiplied by (y) the average book value of all Finished Lots as of such date and (2) forty percent (40%) of Consolidated Tangible Net Worth as of such date.

"Affiliate" means any Person (1) which directly or indirectly controls, or is controlled by, or is under common control with, the Borrower or a Subsidiary; (2) which directly or indirectly beneficially owns or holds five percent (5%) or more of any class of voting stock of the Borrower or any Subsidiary; or (3) five percent (5%) or more of the voting stock of which is directly or indirectly beneficially owned or held by the Borrower or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Agent" means The First National Bank of Chicago.

"Aggregate Commitments" means the aggregate Commitments of all the Banks, as reduced or increased from time to time pursuant to the terms of this Agreement.

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"Agreement" means this Amended and Restated Credit Agreement, as amended, supplemented, or modified from time to time.

"Alternate Base Rate" means a fluctuating rate per annum equal to the higher of (i) the corporate base rate of interest announced by the Agent from time to time, changing when and as said rate changes, or (ii) the sum of 1/2 of 1% plus the Federal Funds Rate then in effect.

"Applicable ABR Margin" means, as at any date of determination, the margin indicated in Section 2.05 as then applicable to ABR Loans and Swing Line Loans (under Section 2.07(a)(i)).

"Applicable Commitment Rate" means, as at any date of determination, the rate per annum indicated in Section 2.05 as then applicable in the determination of the commitment fee (under Section 2.09).

"Applicable Letter of Credit Rate" means, as at any date of determination, a rate per annum equal to (i) the Applicable LIBOR Margin, less (ii) 0.125% per annum.

"Applicable LIBOR Margin" means, as at any date of determination, the margin indicated in Section 2.05 as then applicable to LIBOR Loans (under Section 2.07(a)(ii)).

"Applicable Margin(s)" means the Applicable ABR Margin and/or the Applicable LIBOR Margin, as the case may be.

"Banks" means the Banks that are signatories to this Agreement, and their respective successors and assigns.

"Borrowing" means a borrowing consisting of Loans of the same type made, renewed or converted on the same day.

"Borrowing Base" means, with respect to an Inventory Valuation Date for which it is to be determined, an amount equal to the sum of the following unencumbered assets of the Borrower and the Guarantors: (i) the lesser of (a) one hundred percent (100%) of the Unrestricted Cash and (b) \$10,000,000.00, (ii) one-hundred percent (100%) of the Receivables, (iii) ninety percent (90%) of the book value of Housing Units Under Contract, (iv) seventy-five percent (75%) of the book value of Speculative Housing Units, (v) seventy percent (70%) of the book value of Finished Lots (subject to the limitation set forth below), (vi) fifty percent (50%) of the book value of Lots under Development (subject to the limitation set forth below), and (vii) the lesser

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of (a) twenty-five percent (25%) of the book value of Entitled Land and (b) \$30,000,000.00 (subject to the limitation set forth below). Notwithstanding the foregoing, the Borrowing Base shall not include any amounts under clauses (v), (vi) and (vii) above to the extent that the sum of such amounts exceeds forty percent (40%) of the total Borrowing Base. The term "unencumbered" means that such asset is not subject to any Lien (except for Liens permitted under Sections 6.01(1), (2) or (6)).

"Borrowing Base Certificate" means a written certificate in a form acceptable to the Majority Banks setting forth the amount of the Borrowing Base with respect to the fiscal quarter, or (if applicable under Section 2.01(d) or (e)) calendar month, most recently completed, certified as true and correct by the Chief Financial Officer of the Borrower.

"Business Day" means (i) with respect to any Borrowing, payment or rate selection of LIBOR Loans, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago and New York for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities.

"Capital Lease" means all leases which have been or should be capitalized on the books of the lessee in accordance with GAAP.

"Change of Control" means any of the following: (i) the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Borrower or (except for an Internal Reorganization) of a Significant Guarantor or Significant Subsidiary, as an entirety or substantially as an entirety to any Person or "group" (within the meaning of Section 13(d)(3) of the Exchange Act) in one or a series of transactions; (ii) the acquisition of fifty percent (50%) or more of the aggregate voting power of all classes of Common Equity of the Borrower or (except for an Internal Reorganization) of a Significant Guarantor or Significant Subsidiary in one transaction or a series of related transactions; (iii) the liquidation or dissolution of the Borrower or (except for an Internal Reorganization) of a Significant Guarantor or Significant Subsidiary; (iv) any transaction or a series of related transactions (as a result of a tender offer, merger, consolidation or otherwise but excluding an Internal Reorganization) that results in, or that is in connection with,

(a) any Person, including, a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) acquiring "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of fifty percent (50%) or more of the aggregate voting power of all classes of Common Equity of the Borrower, a Significant Guarantor or a Significant Subsidiary, or of any Person that possesses "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of fifty percent (50%) or more of the aggregate voting power of all classes of Common Equity of the Borrower, a Significant Guarantor or a Significant Subsidiary, or (b) less than fifty percent (50%) (measured by the aggregate voting power of all classes) of the Common Equity of the Borrower being registered under Section 12(b) or 12(g) of the Exchange Act; (v) a majority of the Board of Directors of the Borrower, a Significant Guarantor or a Significant Subsidiary, not being comprised of persons who (a) were members of the Board of Directors of such Borrower, Significant Guarantor or Significant Subsidiary, as of the date of this Agreement ("Original Directors"), or (b) were nominated for election or elected to the Board of Directors of such Borrower, Significant Guarantor, or Significant Subsidiary, with the affirmative vote of at least a majority of the directors who themselves were Original Directors or who were similarly nominated for election or elected; or (vi) with respect to any Significant Guarantor or Significant Subsidiary which is not a corporation, any loss of the right or power to control the activities, directly, or indirectly through one or more intermediaries, or both. Nothing herein contained shall modify or otherwise affect the provisions of Section 6.06.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations and published interpretations thereof.

"Commitment" has the meaning assigned to such term in Section 2.01.

"Common Equity" of any Person means any and all shares, rights to purchase, warrants or options (whether or not currently exercisable), participations, or other equivalents of or interests in (however designated) the equity (which includes, but is not limited to, common stock, preferred stock and partnership and joint venture interests) of such Person (excluding any debt securities convertible into, or exchangeable for, such equity) to the extent that the foregoing is entitled to (i) vote in the election of directors of such Person or (ii) if such Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or other persons that will control the management and policies of such Person.

"Commonly Controlled Entity" means an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 414(b) or 414(c) of the Code.

"Consolidated Debt" means the Debt of the Borrower and its Subsidiaries determined on a consolidated basis (but shall not include Debt of any Joint Venture or Debt of any Subsidiary which is not a Guarantor, except to the extent that such Debt is guaranteed by the Borrower or a Guarantor).

"Consolidated Subordinated Debt" means, as of any date, all Debt of the Borrower and the Guarantors (on a consolidated basis), the payment of which is, either expressly by its terms or otherwise, subordinated to payment of the Obligations to the satisfaction of the Majority Banks.

"Consolidated Tangible Assets" of the Borrower means, as of any date, the total amount of assets of the Borrower and its Subsidiaries (less applicable reserves) on a consolidated basis at the end of the fiscal quarter immediately preceding such date (or on such date if such date is the last day of the fiscal quarter), as determined in accordance with GAAP, less (i) Intangible Assets and (ii) appropriate adjustments on account of minority interests of other Persons holding equity Investments in Subsidiaries, in the case of each of clauses (i) and (ii) above, as would be reflected on a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of the fiscal quarter immediately preceding such date (or on such date if such date is the last day of the fiscal quarter), prepared in accordance with GAAP.

"Consolidated Tangible Net Worth" of the Borrower means, at any date, the consolidated stockholders' equity of the Borrower determined in accordance with GAAP, less Intangible Assets, all determined as of such date.

"D&P" means Duff & Phelps Credit Rating Co.

"Debt" means, without duplication, with respect to any Person (1) indebtedness or liability for borrowed money, including, without limitation, subordinated indebtedness (other than trade accounts payable and accruals incurred in the ordinary course of business); (2) obligations evidenced by bonds, debentures, notes, or other similar instruments; (3) obligations for the deferred purchase price of property (including, without limitation, seller financing of any Inventory) or services, provided, however, that Debt shall not include obligations with respect to options to purchase real property that have not been exercised; (4) obligations as lessee under Capital Leases to the extent that the same would, in accordance with GAAP, appear as liabilities in the Borrower's consolidated balance sheet; (5) current liabilities in respect of unfunded vested benefits under

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Plans and incurred withdrawal liability under any Multiemployer Plan; (6) reimbursement obligations under letters of credit (including contingent obligations with respect to letters of credit not yet drawn upon); (7) obligations under acceptance facilities; (8) all guaranties, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any other Person or entity, or otherwise to assure a creditor against loss, provided, however, that "Debt" shall not include guaranties of performance obligations; (9) obligations secured by any Liens on any property of such Person, whether or not the obligations have been assumed; and (10) net liabilities under interest rate swap, exchange or cap agreements.

"Debt/Cap Ratio" means, as at any date of determination, the quotient obtained by dividing (a) Consolidated Debt as at such date by (b) the sum of Consolidated Debt and Consolidated Tangible Net Worth as at such date.

"Default" means any of the events specified in Section 8.01, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Dollars" and the sign "\$" mean lawful money of the United States of America.

"EBITDA" means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the sum of the amounts for such period of (i) Net Income (but excluding from such Net Income for the applicable period any income derived from any Investment referred to in Section 6.07(9) to the extent that such income exceeds the cash distributions thereof received by the Borrower or its Subsidiaries in such period), plus (ii) charges against income for foreign, federal, state and local taxes, plus (iii) Interest Expense, plus (iv) depreciation, plus (v) amortization expense, including, without limitation, amortization of goodwill and other intangible assets and amortization of deferred compensation expense, plus (vi) extraordinary losses, minus (vii) interest income, minus (viii) extraordinary gains (and any unusual gains arising in or outside of the ordinary course of business not included in extraordinary gains that have been included in the determination of Net Income).

"Effective Date" means the later of (a) the date on which this Agreement has been fully executed and delivered by the Banks, the Agent, the Issuing Bank or Banks and the Borrower and (b) the date on which the conditions set forth in Section 3.01 have been satisfied.

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"Entitled Land" means all Lots that are neither Lots under Development nor Finished Lots.

"ERISA" means the Employee Retirement Income Security Act of

1974, as amended from time to time, and the regulations and published interpretations thereof.

"Eurocurrency Reserve Requirement" means, for any Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on "Eurocurrency liabilities" (as such term is used in Regulation D) but without benefit or credit of proration, exemptions, or offsets that might otherwise be available from time to time under Regulation D. Without limiting the effect of the foregoing, the Eurocurrency Reserve Requirement shall reflect any other reserves required to be maintained against (1) any category of liabilities that includes deposits by reference to which the LIBOR Interest Rate for LIBOR Loans is to be determined; or (2) any category of extension of credit or other assets that include LIBOR Loans.

"Event of Default" means any of the events specified in Section 8.01, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

"Extension Request" has the meaning assigned to that term in Section 2.19(a).

"Facility Letter of Credit" means (a) any Letter of Credit issued as a "Facility Letter of Credit" by First Chicago as "Issuing Bank" under the Original Agreement that is outstanding on the Effective Date and (b) any Letter of Credit issued by an Issuing Bank for the account of the Borrower in accordance with Article XIII.

"Facility Letter of Credit Fee" means a fee, payable with respect to each Facility Letter of Credit issued by the Issuing Bank, in an amount per annum equal to the product of (i) the Applicable Letter of Credit Rate (determined as of the date on which the quarterly installment of such fee is due) and (ii) the face amount of such Facility Letter of Credit, which fee shall be calculated in the manner provided in Section 13.07.

"Facility Letter of Credit Obligations" means, at any date, the sum of (i) the aggregate undrawn face amount of all outstanding Facility Letters of Credit, and (ii) the aggregate amount paid by an Issuing Bank on any Facility Letters of Credit

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to the extent (if any) not reimbursed by the Borrower or by the Banks under Section 13.04.

"FCCM" means First Chicago Capital Markets, Inc.

"Federal Funds Rate" means, for each day, a fluctuating interest rate per annum equal to the weighted average of the rates on overnight Federal Funds transactions with members of the Federal Reserve System arranged by Federal Funds brokers, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10:00 A.M. Chicago time on such day on such transactions received by the Agent from three Federal Funds brokers of recognized standing selected by the Agent in its sole discretion.

"Finished Lots" means Lots in respect of which a building permit, from the applicable local governmental authority, has been or could be obtained; provided, however, that the term "Finished Lots" shall not include any Land upon which the construction of a Housing Unit has commenced.

"First Chicago" means The First National Bank of Chicago.

"Fitch" means Fitch Investors Services, L.P.

"GAAP" means generally accepted accounting principles in the



United States in effect from time to time (subject to the provisions of Section 1.02).

"Guarantor" means an Original Guarantor and any Person that, pursuant to Section 5.15, guarantees the Obligations.

"Guaranty" means the guaranty of the Obligations by each Guarantor under the provisions of Article IX contained herein or under a guaranty of the Obligations delivered under Section 5.15.

"Housing Unit" means a single-family dwelling, including the Land on which such dwelling is located, whether such dwelling is detached or attached (including condominiums but excluding mobile homes), which dwelling is either under construction or completed and is (or, upon completion of construction thereof, will be) available for sale; the term "Housing Unit" includes a Speculative Housing Unit.

"Housing Unit Closing" means a closing of the sale of a Housing Unit by the Borrower or a Subsidiary (including any

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company or other entity acquired in an Acquisition by the Borrower or a Subsidiary) to a bona fide purchaser for value that is not an Affiliate.

"Housing Unit Under Contract" means a Housing Unit owned by the Borrower or a Subsidiary as to which the Borrower or such Subsidiary has a bona fide contract of sale, in a form customarily employed by the Borrower or such Subsidiary and reasonably satisfactory to the Majority Banks, entered into not more than 15 months prior to the date of determination with a Person who is not an Affiliate, under which contract no defaults then exist and not less than \$1,000.00 toward the purchase price has been paid; provided, however, that in the case of any Housing Unit the purchase of which is to be financed in whole or in part by a loan insured by the Federal Housing Administration or guaranteed by the Veterans Administration, the required minimum downpayment shall be the amount (if any) required under the rules of the relevant agency.

"Incur" means to, directly or indirectly, create, incur, assume, guarantee, extend the maturity of or otherwise become liable with respect to any Debt; provided, however, that neither the accrual of interest (whether such interest is payable in cash or kind) nor the accretion of original issue discount shall be considered an Incurrence of Debt.

"Intangible Assets" means, at any time, the amount (to the extent reflected in determining consolidated stockholders equity of the Borrower and its Subsidiaries) of (i) Investments in any Subsidiaries that are not Guarantors and (ii) all unamortized debt discount and expense, unamortized deferred charges, good will, patents, trademarks, service marks, trade names, copyrights and all other items which would be treated as intangibles on a consolidated balance sheet of the Borrower and its Subsidiaries prepared in accordance with GAAP.

"Interest Deficit" has the meaning assigned to that term in Section 2.08(b) hereof.

"Interest Expense" means, for any period, the total interest expense of the Borrower and its Subsidiaries, whether paid directly or amortized through cost of sales (including the interest component of Capital Leases).

"Interest Period" means, with respect to any LIBOR Loan, the period commencing on the date such Loan is made, converted or renewed, and ending, as the Borrower may select pursuant to Section 2.03, on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, except that each such Interest Period that commences on the last Business Day of a calendar month (or on any day for which there

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is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month; provided that all of the foregoing provisions relating to Interest

Periods are subject to the following:

(a) No Interest Period may extend beyond the Termination Date; and

(b) If an Interest Period would end on a day that is not a Business Day, such Interest Period shall be extended to the next Business Day unless such Business Day would fall in the next calendar month, in which event such Interest Period shall end on the immediately preceding Business Day.

"Internal Reorganization" means any reorganization between or among the Borrower and any Subsidiary or Subsidiaries or between or among any Subsidiary and one or more other Subsidiaries or any combination thereof by way of liquidations, mergers, consolidations, conveyances, assignments, sales, transfers and other dispositions of all or substantially all of the assets of a Subsidiary (whether in one transaction or in a series of transactions); provided that (a) the Borrower shall preserve and maintain its status as a validly existing corporation and (b) all assets, liabilities, obligations and guarantees of any Subsidiary party to such reorganization will continue to be held by such Subsidiary or be assumed by the Borrower or a Wholly-Owned Subsidiary of the Borrower.

"Inventory" means all Housing Units, Lots, goods, merchandise and other personal property wherever located to be used for or incorporated into any Housing Unit.

"Inventory Valuation Date" means (a) the last day of the most recent fiscal quarter of the Borrower with respect to which the Borrower is required to have delivered a Borrowing Base Certificate pursuant to Section 5.08(6) hereof or (b) if the Borrower elects pursuant to Section 2.01(d) or is required pursuant to Section 2.01(e) to deliver a Borrowing Base Certificate with respect to a calendar month subsequent to such most recent fiscal quarter, the last day of such subsequent calendar month.

"Investment" has the meaning provided therefor in Section 6.07. The amount of any Investment shall include (a) in the case of any loan or advance, the outstanding amount of such loan or advance and (b) in the case of any equity Investment, the amount of the "net equity investment" as determined in accordance with GAAP; provided, however, that, solely for purposes of Section 6.07(12), the amount of the Investment in a Joint Venture

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shall be the "net cash investment" therein, as determined in accordance with GAAP, but not less than zero (0).

"Issuance Date" means the date on which a Facility Letter of Credit is issued, amended or extended.

"Issuing Bank" means The First National Bank of Chicago and any other Bank that may from time to time be designated as an Issuing Bank in accordance with the provisions of Section 13.10.

"Joint Venture" means any Person (other than a Subsidiary) in which the Borrower or a Subsidiary holds any stock, partnership interest, joint venture interest, limited liability company interest or other equity interest.

"Land" means land owned by the Borrower or a Subsidiary, which land is being developed or is held for future development or sale.

"Lending Office" means, with respect to any Bank, the Lending Office of such Bank (or of an affiliate of such Bank) designated on the signature pages hereof or such other office or branch of such Bank (or of an affiliate of such Bank) as that Bank may from time to time specify to the Borrower and the Agent as the office or branch at which its Loans (or Loans of a type designated in such notice) are to be made and maintained.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued by a financial institution upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Level" means the level of a Pricing Factor, Applicable Margin or Applicable Commitment Rate (as applicable) as designated in the Table set forth in Section 2.05. The five Levels in such Table are identified as Levels I through V, and Level I shall constitute the lowest Level and Level V shall constitute the highest Level.

"LIBOR Interest Rate" means, for each LIBOR Loan for the relevant Interest Period, the rate per annum (rounded upward, if necessary, to the nearest one-sixteenth of 1%) determined by the Agent to be equal to the quotient of (a) the London Interbank Offered Rate for such LIBOR Loan for such Interest Period divided by (b) one minus the Eurocurrency Reserve Requirement for such Interest Period.

"LIBOR Loan" means any Loan when and to the extent that the interest rate therefor is determined by reference to the LIBOR Interest Rate.

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"Lien" means any mortgage, deed of trust, pledge, security interest, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority, or other security agreement or preferential arrangement, charge, or encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction to evidence any of the foregoing).

"Loan(s)" means a loan made by a Bank pursuant to this Agreement, including (unless the context otherwise indicates) a Swing Line Loan. Each such Loan (other than a Swing Line Loan) shall be an ABR Loan or a LIBOR Loan.

"Loan Document(s)" means this Agreement, the Notes, the Reimbursement Agreements, and any and all documents delivered hereunder or pursuant hereto.

"London Interbank Offered Rate" means, with respect to a LIBOR Loan for the relevant Interest Period, the rate determined by the Agent to be the rate at which deposits in U.S. Dollars are offered by First Chicago to first-class banks in the London interbank market at approximately 11:00 A.M. (London time) two (2) Business Days prior to the first day of such Interest Period, in the approximate amount of First Chicago's relevant LIBOR Loan and having a maturity approximately equal to such Interest Period.

"Lots" means all Land owned by the Borrower and/or a Subsidiary which is zoned by the municipality in which such real property is located for residential building and use, and with respect to which the Borrower or such Subsidiary has obtained all necessary approvals for its subdivision for Housing Units; provided, however, that the term "Lots" shall not include any Land upon which the construction of a Housing Unit has commenced.

"Lots under Development" means Lots with respect to which construction of streets or other subdivision improvements has commenced but which are not Finished Lots.

"Majority Banks" means at any time the Banks holding at least sixty-six and two-thirds percent (66 2/3%) of the then aggregate unpaid principal amount of the Notes held by the Banks (including in such amount any participation held by such Bank as a result of its purchase thereof pursuant to Section 10.07), or, if no such principal amount is then outstanding, Banks having at least sixty-six and two-thirds percent (66 2/3%) of the Aggregate Commitments.

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"Merged Banks" has the meaning assigned to that term in Section 12.03(c).

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a plan described in Section 4001(a)(3) of ERISA in respect of which the Borrower, a Subsidiary or a Commonly Controlled Entity is an "employer" as defined in Section 3(5) of ERISA.

"Net Income" means, for any period, the net earnings (or loss) after taxes of the Borrower and its Subsidiaries on a consolidated basis for such period.

"Note(s)" means the promissory notes described in Section 2.10 hereof.

"Notice of Assignment" has the meaning assigned to that term in Section 12.03(b) hereof.

"Obligations" means (a) the due and punctual payment of principal of and interest on the Loans and the Notes, (b) the due and punctual payment of the Facility Letter of Credit Obligations, and (c) the due and punctual payment of fees, expenses, reimbursements, indemnifications and other present and future monetary obligations of the Borrower to the Banks or to any Bank, the Agent, the Issuing Bank or any indemnified party under the Loan Documents.

"Original Agreement" has the meaning assigned to that term in the recitals of this Agreement.

"Participant" has the meaning assigned to that term in Section 12.02(a) hereof.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Performance Letter of Credit" means any Letter of Credit of the Borrower or a Guarantor that is issued for the benefit of a municipality, other governmental authority, utility, water or sewer authority, or other similar entity for the purpose of assuring such beneficiary of the Letter of Credit of the proper and timely completion of construction work.

"Permitted Acquisition" means any Acquisition (other than by means of a hostile takeover, hostile tender offer or other similar hostile transaction) of a business or entity engaged primarily in the business of home building; provided

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that, immediately after giving effect to such Acquisition, no Default or Event of Default has occurred and is continuing.

"Permitted Senior Debt" means the sum of all Debt of the Borrower and its Subsidiaries on a consolidated basis, excluding (i) Secured Debt, (ii) Performance Letters of Credit, (iii) performance bonds and (iv) Debt of any Joint Venture.

"Person" means an individual, partnership, corporation, business trust, joint stock company, trust, limited liability company, unincorporated association, joint venture, governmental authority, or other entity of whatever nature.

"Plan" means any pension plan which is covered by Title IV of ERISA and in respect of which (a) the Borrower or a Subsidiary or a Commonly Controlled Entity is an "employer" as defined in Section 3(5) of ERISA and (b) the Borrower or a Subsidiary has any material liability; provided, however, that the term "Plan" shall not include any Multiemployer Plan.

"Pricing Factor" means either the Debt/Cap Ratio or the Senior Debt Rating.

"Principal Office" means, with respect to the Agent, the Principal Office of the Agent designated as such on the signature pages hereof or such other office of the Agent as the Agent may from time to time specify to the Borrower and the Banks as its Principal Office.

"Prohibited Transaction" means any transaction set forth in

Section 406 of ERISA or Section 4975 of the Code that could subject the Borrower or any Subsidiary to any material liability.

"Purchaser" has the meaning assigned to that term in Section 12.03(a) hereof.

"Receivables" means the net proceeds payable to, but not yet received by, the Borrower or a Subsidiary following a Housing Unit Closing.

"Refinancing Debt" means Debt that refunds, refinances or extends any applicable Debt ("Refinanced Debt") but only to the extent that (i) the Refinancing Debt is subordinated to or pari passu with the Obligations to the same extent as such Refinanced Debt, if at all, (ii) the Refinancing Debt is scheduled to mature no earlier than the earlier of (A) the current maturity date of such Refinanced Debt or (B) a date three (3) years after the Termination Date (as determined at the time such Refinancing Debt is Incurred), (iii) such Refinancing Debt is in an aggregate amount that is equal to or less than the sum

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of (A) the aggregate amount then outstanding under the Refinanced Debt, plus (B) accrued and unpaid interest on such Refinanced Debt, plus (C) reasonable fees and expenses incurred in obtaining such Refinancing Debt, it being understood that this clause (iii) shall not preclude the Refinancing Debt from being a part of a Debt financing that includes other or additional Debt otherwise permitted herein, (iv) such Refinancing Debt is Incurred by the same Person that initially Incurred such Refinanced Debt or by another Person of which the Person that initially Incurred such Refinanced Debt is a Subsidiary, and (v) such Refinancing Debt is Incurred within 60 days after such Refinanced Debt is so refunded, refinanced or extended.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"Regulation X" means Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by foreign lenders for the purpose of purchasing or carrying margin stock (as defined therein).

"Reimbursement Agreement" means, with respect to a Facility Letter of Credit, such form of application therefor and form of reimbursement agreement therefor (whether in a single or several documents, taken together) as the applicable Issuing Bank may employ in the ordinary course of business for its own account, with the modifications thereto as may be agreed upon by such Issuing Bank and the Borrower and as are not materially adverse (in the reasonable judgment of such Issuing Bank and the Agent) to the interests of the Banks; provided, however, in the event of any conflict between the terms of any Reimbursement Agreement and this Agreement, the terms of this Agreement shall control.

"Rejecting Bank" has the meaning assigned to such term in Section 2.19(b).

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"Replacement Bank" has the meaning assigned to such term in Section 2.20.

"Reportable Event" means any of the events set forth in Section 4043 of ERISA with respect to a Plan (excluding any such event with

respect to which the PBGC has waived the 30-day notice requirement).

"S&P" means Standard & Poor's Rating Services.

"Secured Debt" means all Debt of the Borrower or any of its Subsidiaries (excluding Debt owing to the Borrower or any of its Subsidiaries) that is secured by a Lien on assets of the Borrower or any of its Subsidiaries.

"Senior Debt" means the Senior Notes or, if the Senior Notes are refinanced, the Refinancing Debt with respect thereto.

"Senior Debt Rating" means the second highest rating among the publicly announced ratings of Moody's, S&P, D&P and/or Fitch of the Borrower's unsecured long-term debt (including the Senior Debt and the Obligations), provided, however, (i) at any time at which neither of the two highest ratings is by Moody's or S&P, the Senior Debt Rating shall be (x) the rating assigned by either Moody's or S&P at any time at which only one of Moody's or S&P shall publicly announce a rating of the Borrower's unsecured long-term debt, or (y) the higher of the two ratings by Moody's and S&P at any time at which both shall publicly announce a rating of the Borrower's unsecured long-term debt, and (ii) at any time at which (A) none of Moody's, S&P, D&P or Fitch publicly announces ratings of the Borrower's unsecured long-term debt, or (B) neither Moody's nor S&P publicly announces ratings of the Borrower's unsecured long-term debt, no Senior Debt Rating shall be deemed to exist. The Senior Debt Rating shall change if and when such rating(s) change, and such change in the Senior Debt Rating shall have the effect provided for in Section 2.05 and elsewhere in this Agreement.

"Senior Indentures" means either of the Indentures identified in the definition of the term "Senior Notes" and any other Indenture hereafter entered into by the Borrower pursuant to which the Borrower Incurs any Refinancing Debt with respect to any of the Senior Notes.

"Senior Notes" means (i) the 9% Senior Notes due 2004 of the Borrower issued in the original principal amount of \$115,000,000 pursuant to the Indenture dated March 2, 1994 and (ii) the 8 7/8 percent Senior Notes due 2008 of the Borrower issued in the original principal amount of \$100,000,000 pursuant to the Indenture dated March 25, 1998.

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"Significant Guarantor" means, at any date of determination thereof, any Guarantor that (together with its Subsidiaries) accounts for five percent (5%) or more of the Consolidated Tangible Assets as of the last day of the most recent fiscal quarter then ended and of the net revenues for the twelve-month period ending on the last day of the most recent fiscal quarter then ended, in each case of the Borrower and its Subsidiaries taken as a whole. Such percentage shall be determined on the basis of financial reports that shall be available not later than 25 days (or, in the case of the last fiscal quarter of the fiscal year, 35 days) following the end of such fiscal quarter.

"Significant Subsidiary" means, at any date of determination thereof, any Subsidiary that (together with its Subsidiaries) accounts for five percent (5%) or more of the Consolidated Tangible Assets as of the last day of the most recent fiscal quarter then ended and of the net revenues for the twelve-month period ending on the last day of the most recent fiscal quarter then ended, in each case of the Borrower and its Subsidiaries taken as a whole. Such percentage shall be determined on the basis of financial reports that shall be available not later than 25 days (or, in the case of the last fiscal quarter of the fiscal year, 35 days) following the end of such fiscal quarter.

"Speculative Housing Unit" means any Housing Unit owned by the Borrower or a Subsidiary that is not a Housing Unit Under Contract.

"Subsidiary" means, as to the Borrower or a Guarantor, in the case of a corporation, a corporation of which shares of stock having ordinary voting power (other than stock having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation are at the time owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by the Borrower or such Guarantor, as the case may be,

or in the case of an entity which is not a corporation, the activities of which are controlled directly, or indirectly through one or more intermediaries, or both, by the Borrower or such Guarantor, as the case may be.

"Swing Line Bank" means First Chicago or any Purchaser to which First Chicago assigns the Swing Line Commitment in accordance with Section 12.03 hereof.

"Swing Line Commitment" means the commitment of the Swing Line Bank to make Swing Line Loans pursuant to Section 2.21(a) hereof. The Swing Line Commitment is in the amount of \$10,000,000.

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"Swing Line Loan" has the meaning assigned to such term in Section 2.21(a).

"Termination Date" means November 2, 2002.

"Transferee" has the meaning assigned to that term in Section 12.04.

"UHIC" means United Homes Insurance Corporation, a Vermont corporation and Wholly Owned Subsidiary of the Borrower.

"Unrestricted Cash" of a Person means the cash of such Person that would not be identified as "restricted" on a balance sheet of such Person prepared in accordance with GAAP.

"Wholly Owned Subsidiary" of any Person means (i) a Subsidiary, of which one hundred percent (100%) of the outstanding Common Equity (except for directors' qualifying shares or certain minority interests owned by other Persons solely due to local law requirements that there be more than one stockholder, but which interest is not in excess of what is required for such purpose) is owned directly by such Person or through one or more other Wholly Owned Subsidiaries of such Person, or (ii) any entity other than a corporation in which such Person, directly or indirectly, owns all of the outstanding Common Equity of such entity.

"Year 2000 Issues" means anticipated costs, problems and uncertainties associated with the inability of the Borrower's or its Subsidiaries' computer applications to effectively handle data (including dates) on and after January 1, 2000, as such inability affects the business, operations, or financial condition of the Borrower or its Subsidiaries.

Section 1.02. Accounting Terms. (a) All accounting terms not specifically defined herein shall be construed in accordance with GAAP consistent with those applied in the preparation of the financial statements referred to in Section 4.04, and all financial data submitted pursuant to this Agreement shall be prepared in accordance with such principles.

(b) Notwithstanding anything to the contrary contained in this Agreement, in determining the Borrower's compliance with the provisions of Article VII hereof, GAAP shall not include modifications of generally accepted accounting principles that become effective after the date hereof.

## ARTICLE II

### AMOUNTS AND TERMS OF THE LOANS

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Section 2.01. Revolving Credit. (a) Each Bank severally agrees, on the terms and conditions hereinafter set forth, to make Loans (other than Swing Line Loans) to the Borrower from time to time during the period from the date of this Agreement up to but not including the Termination Date, and to purchase undivided interests and participations in Facility Letters of Credit in accordance with Section 13.06, in an aggregate principal amount of Loans and of such Bank's ratable share of Facility Letter of Credit Obligations not to exceed at any time outstanding the amount set opposite such Bank's name on the

signature pages of this Agreement (such Bank's obligations to make Loans (other than Swing Line Loans) and to purchase undivided interests and participations in Facility Letters of Credit in accordance with Section 13.06 in such amounts, as reduced, increased or otherwise modified from time to time pursuant to the terms of this Agreement, being herein referred to as such Bank's "Commitment"), subject to the limitations set forth in Section 2.01(b) and Section 13.02.

(b) The aggregate amount of Permitted Senior Debt at any one time outstanding may not exceed the Borrowing Base as of the most recent Inventory Valuation Date, and no Loan (including a Swing Line Loan) shall be made that would have the effect of increasing the then outstanding amount of the Permitted Senior Debt to an amount exceeding such Borrowing Base, provided that a Loan shall not be deemed to have increased the amount of the Permitted Senior Debt to the extent that the proceeds of such Loan are immediately used to repay a Swing Line Loan theretofore included in the Permitted Senior Debt. No Loans shall be made at any time that any Swing Line Loan is outstanding, except for Loans that are used, on the day on which made, to repay in full the outstanding principal balance of the Swing Line Loans.

(c) Each Borrowing which shall not utilize the Commitment in full shall be in an amount not less than One Million Dollars (\$1,000,000) for a Borrowing consisting of LIBOR Loans and Five Hundred Thousand Dollars (\$500,000) in the case of a Borrowing consisting of ABR Loans and, in either case, if in excess of the specified amount, in integral multiples of One Hundred Thousand Dollars (\$100,000). Each Borrowing shall consist of a Loan made by each Bank in the proportion which that Bank's Commitment bears to the Aggregate Commitments. Within the limits of the Aggregate Commitments, the Borrower may borrow, repay pursuant to Section 2.11, and reborrow under this Section 2.01. On such terms and conditions, the Loans may be outstanding as ABR Loans or LIBOR Loans. Each type of Loan shall be made and maintained at such Bank's Lending Office for such type of Loan. The failure of any Bank to make any requested Loan to be made by it on the date specified for such Loan shall not relieve any other Bank of its obligation (if any) to make such Loan on such date, but no Bank shall be responsible for the failure of any

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other Bank to make such Loans to be made by such other Bank. The provisions of this Section 2.01(c) shall not apply to Swing Line Loans.

(d) The Borrower may elect to deliver to the Agent a Borrowing Base Certificate setting forth the Borrowing Base as of the last day of a calendar month subsequent to the most recent fiscal quarter with respect to which a Borrowing Base Certificate was required to be delivered under Section 5.08(6) of the Agreement.

(e) The Agent or the Majority Lenders may, upon notice to the Borrower from the Agent, require the Borrower to deliver a Borrowing Base Certificate determined as of the last day of a calendar month (as designated in such notice) subsequent to the fiscal quarter with respect to which a Borrowing Base Certificate was required to be delivered under Section 5.08(6) of the Agreement, provided that the Borrowing Base Certificate under this Section 2.01(e) shall only be required to be delivered on the later to occur of (i) the tenth (10th) day following the Agent's notice to the Borrower under this Section 2.01(e) or (ii) the twenty-fifth (25th) day after the last day of the applicable calendar month (as designated in such notice).

(f) The Borrower may elect to include in a Borrowing Base Certificate delivered in anticipation of a Permitted Acquisition all assets that would have been included in the Borrowing Base had the Permitted Acquisition been consummated as of the last day of the most recent fiscal quarter or (if applicable under Section 2.01(d) or (e)) calendar month, provided, however, that such Borrowing Base Certificate shall expressly state that it is delivered in anticipation of, and shall only be effective hereunder for purposes of Borrowings made on or after, the consummation of such Permitted Acquisition (it being understood that, until the consummation of such Permitted Acquisition, the previously delivered Borrowing Base Certificate shall remain in effect).

Section 2.02. Reduction of Aggregate Commitments. The Borrower shall have the right, upon at least three (3) Business Days' prior notice to the Agent, to terminate in whole or reduce in part the unused portion of the Aggregate Commitments, provided that each partial reduction shall be in the



amount of at least Five Million Dollars (\$5,000,000), and provided further that no reduction shall be permitted if, after giving effect thereto, and to any prepayment made therewith, the sum of (i) the outstanding and unpaid principal amount of the Loans and (ii) the Facility Letter of Credit Obligations shall exceed the Aggregate Commitments. Each reduction in part of the unused portion of each Bank's Commitment shall be made in the proportion that such Bank's Commitment bears to the total amount of the Aggregate

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Commitments. Any Commitment, once reduced or terminated, may not be reinstated.

Section 2.03. Notice and Manner of Borrowing. The Borrower shall give the Agent notice of any Loans under this Agreement, on the Business Day of each ABR Loan, and at least three (3) Business Days before each LIBOR Loan, specifying: (1) the date of such Loan; (2) the amount of such Loan; (3) the type of Loan (whether an ABR Loan or a LIBOR Loan); and (4) in the case of a LIBOR Loan, the duration of the Interest Period applicable thereto. All notices given by the Borrower under this Section 2.03 shall be irrevocable and shall be given not later than 10:00 A.M. Chicago time on the day specified above for such notice. The Agent shall notify each Bank of each such notice (including any notice provided for in Section 2.20(d)) not later than 11:00 A.M. Chicago time on the date it receives such notice from the Borrower if such notice is received by the Agent at or before 10:00 A.M. Chicago time. In the event such notice from the Borrower is received after 10:00 A.M. Chicago time, it shall be treated as if received on the next succeeding Business Day, and the Agent shall notify each Bank of such notice as soon as practicable but not later than 11:00 A.M. Chicago time on the next succeeding Business Day. Not later than 1:00 P.M. Chicago time on the date of such Loans, each Bank will make available to the Agent in immediately available funds, such Bank's pro rata share of such Loans. After the Agent's receipt of such funds, on the date of such Loans and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such Loans available to the Borrower in immediately available funds by crediting the amount thereof to the Borrower's account with the Agent. The provisions of this Section 2.03 shall not apply to Swing Line Loans.

Section 2.04. Non-Receipt of Funds by Agent. (a) Unless the Agent shall have received notice from a Bank prior to the date (in the case of a LIBOR Loan), or by 12:00 noon Chicago time on the date (in the case of an ABR Loan), on which such Bank is to provide funds to the Agent for a Loan to be made by such Bank that such Bank will not make available to the Agent such funds, the Agent may assume that such Bank has made such funds available to the Agent on the date of such Loan in accordance with Section 2.03 and the Agent in its sole discretion may, but shall not be obligated to, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent such Bank shall not have given the notice provided for above and shall not have made such funds available to the Agent, such Bank agrees to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, at the Federal Funds Rate for three Business Days and thereafter at

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the Alternate Base Rate. If such Bank shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan for purposes of this Agreement. If such Bank does not pay such corresponding amount forthwith upon Agent's demand therefor, the Agent shall promptly notify the Borrower, and the Borrower shall immediately pay such corresponding amount to the Agent with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, at the rate of interest applicable at the time to such proposed Loan. Nothing set forth in this Section shall affect the rights of the Borrower with respect to any Bank that defaults in the performance of its obligation to make a Loan hereunder.

(b) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Agent may assume that

the Borrower has made such payment in full to the Agent on such date and the Agent in its sole discretion may, but shall not be obligated to, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, at the Federal Funds Rate for three Business Days and thereafter at the Alternate Base Rate.

(c) The provisions of this Section 2.04 shall not apply to Swing Line Loans.

Section 2.05. Determination of Applicable Margins and Applicable Commitment Rate. (a) The Applicable Margins and the Applicable Commitment Rate shall be determined by reference to the Senior Debt Rating and the Debt/Cap Ratio in accordance with the following table and the provisions of this Section 2.05:

Level	Senior Debt Rating	Debt/Cap Ratio	Applicable LIBOR Margin	Applicable ABR Margin	Applicable Commitment Rate
V	BBB- /Baa3	less than 30%	.80%	-0-	0.20%
IV	BB+/Ba1	equal to or more than 30% and less than 35%	1.00%	-0-	0.225%
III	BB/Ba2	equal to or more than 35% and less than 40%	1.15%	-0-	0.25%
II	BB-/Ba3 B+/B1	equal to or more than 40% and less than 55%	1.35%	0.10%	0.30%
I	B/B2 & Below	55% or more	1.55%	0.30%	0.35%

The Applicable Margins and Applicable Commitment Rate shall be determined on the basis of the Levels of the Pricing Factors in accordance with the following provisions:

(i) At any time at which the Pricing Factors are at the same Level, the Applicable Margins and Applicable Commitment Rate shall be at that Level;

(ii) At any time at which the Pricing Factors are at different Levels, the Applicable Margins and the Applicable Commitment Rate shall be at the Level that corresponds to (A) the Level of the higher of the two Pricing Factors (i.e. the lower pricing) whenever the Pricing Factors differ by one Level and (B) the Level that is one Level lower than the higher of the two Pricing Factors whenever the Pricing Factors differ by more than one Level;

(iii) At any time at which there is or is deemed to be no Senior Debt Rating, the Applicable Margins and the Applicable Commitment Rate shall be at the Level that is one Level lower than the Level of the Debt/Cap Ratio; and

(iv) At any time at which (A) neither D&P nor Fitch publicly announces a rating of the Borrower's unsecured long-term debt, and (B)

Moody's or S&P (but not both) publicly announces a rating of the Borrower's unsecured long-term debt, the Applicable Margin and Applicable

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Commitment Rate shall be determined in accordance with subsections (i) and (ii) above (as applicable), except that (A) the Applicable LIBOR Margin set forth in the Table above shall be increased by 0.075% and (B) the Applicable Commitment Rate set forth in the Table shall be increased by 0.025%.

(b) The Applicable Margin and the Applicable Commitment Rate shall be adjusted, from time to time, effective (as applicable) on the first Business Day after any change in the Senior Debt Ratings that results in any change in the Applicable Margins or Applicable Commitment Rate or the fifth (5th) Business Day after the Agent's receipt of the Borrower's quarterly or annual financial statements evidencing a change in the Debt/Cap Ratio that results in any change in the Applicable Margins or Applicable Commitment Rates, provided, however, that any change in the Applicable LIBOR Margin shall only apply to LIBOR Loans for Interest Periods commencing after such change in the Applicable LIBOR Margin is effective.

Section 2.06. Conversions and Renewals. The Borrower may elect from time to time to convert all or a part of one type of Loan into another type of Loan or to renew all or part of a Loan by giving the Agent notice at least one (1) Business Day before conversion into an ABR Loan, and at least three (3) Business Days before the conversion into or renewal of a LIBOR Loan, specifying: (1) the renewal or conversion date; (2) the amount of the Loan to be converted or renewed; (3) in the case of conversions, the type of Loan to be converted into; and (4) in the case of renewals of or a conversion into a LIBOR Loan, the duration of the Interest Period applicable thereto; provided that (a) the minimum principal amount of each Loan of each Bank outstanding after a renewal or conversion shall be One Million Dollars (\$1,000,000) in the case of a LIBOR Loan, and Two Hundred Fifty Thousand Dollars (\$250,000) in the case of an ABR Loan; and (b) LIBOR Loans may be converted on a Business Day that is not the last day of the Interest Period for such Loan only if the Borrower pays on the date of conversion all amounts due pursuant to Section 2.17 hereof; and (c) the Borrower may not renew a LIBOR Loan or convert an ABR Loan into a LIBOR Loan at any time that a Default has occurred that is continuing. Each such notice shall be accompanied by a Borrowing Base Certificate dated as at the date of such notice. All conversions and renewals shall be made in the proportion that each Bank's Loan bears to the total amount of all the Banks' Loans. All notices given by the Borrower under this Section 2.06 shall be irrevocable and shall be given not later than 10:00 A.M. Chicago time on the day which is not less than the number of Business Days specified above for such notice. The Agent shall notify each Bank of each such notice not later than 11:00 A.M. Chicago time on the date it receives such notice from the Borrower if such notice is received by the Agent at or before 10:00 A.M. Chicago time. In the event

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such notice from the Borrower is received after 10:00 A.M. Chicago time, it shall be treated as if received on the next succeeding Business Day, and the Agent shall notify each Bank of such notice as soon as practicable but not later than 11:00 A.M. Chicago time on the next succeeding Business Day. Notwithstanding the foregoing, if the Borrower shall fail to give the Agent the notice as specified above for the renewal or conversion of a LIBOR Loan prior to the end of the Interest Period with respect thereto, such LIBOR Loan shall automatically be converted into an ABR Loan on the last day of the Interest Period for such Loan. The provisions of this Section 2.06 shall not apply to Swing Line Loans.

Section 2.07. Interest. (a) The Borrower shall pay interest to the Agent for the account of each Bank on the outstanding and unpaid principal amount of the Loans at the following rates:

(i) If an ABR Loan or Swing Line Loan, then at a rate

per annum equal to the sum of (A) the Applicable ABR Margin in effect from time to time as interest accrues and (B) the Alternate Base Rate in effect from time to time as interest accrues; and

(ii) if a LIBOR Loan, then at a rate per annum for the Interest Period applicable to such LIBOR Loan equal to the sum of (A) the Applicable LIBOR Margin in effect on the first day of such Interest Period and (B) the LIBOR Interest Rate determined for such Interest Period.

(b) Any change in the interest rate based on the Alternate Base Rate resulting from a change in the Alternate Base Rate shall be effective as of the opening of business on the day on which such change in the Alternate Base Rate becomes effective. Interest on each LIBOR Loan shall be calculated on the basis of a year of 360 days for the actual number of days elapsed. Interest on each ABR Loan and Swing Line Loan shall be calculated on the basis of a year of 365 days for the actual number of days elapsed.

(c) Interest on the Loans shall be paid (in an amount set forth in a statement delivered by the Agent to the Borrower, provided, however, that the failure of the Agent to deliver such statement shall not limit or otherwise affect the obligations of the Borrower hereunder) in immediately available funds to the Agent at its Principal Office for the account of the applicable Lending Office of each Bank as follows:

(1) For each ABR Loan and Swing Line Loan on the first day of each calendar month commencing on the first such date after such Loan;

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(2) For each LIBOR Loan, on the last day of the Interest Period with respect thereto, except that, if such Interest Period is longer than three months, interest shall also be paid on the last day of the third month of such Interest Period; and

(3) If not sooner paid, then on the Termination Date or such earlier date as the Loans may be due or declared due hereunder.

(d) Any principal amount of any Loan not paid when due (at maturity, by acceleration, or otherwise) shall bear interest thereafter until paid in full, payable on demand, at a rate per annum equal to the Alternate Base Rate or the applicable LIBOR Interest Rate, as the case may be, for such Loan in effect from time to time as interest accrues, plus the Applicable Margin in effect from time to time as interest accrues, plus two percent (2%) per annum.

Section 2.08. Interest Rate Determination. (a) The Agent shall determine each London Interbank Offered Rate, as applicable. The Agent shall give prompt notice to the Borrower and the Banks of the applicable interest rate determined by the Agent pursuant to the terms of this Agreement.

(b) If the provisions of this Agreement or any Note would at any time require payment by the Borrower to a Bank of any amount of interest in excess of the maximum amount then permitted by the law applicable to any Loan, the interest payments to such Bank shall be reduced to the extent necessary so that such Bank shall not receive interest in excess of such maximum amount. If, as a result of the foregoing a Bank shall receive interest payments hereunder or under a Note in an amount less than the amount otherwise provided hereunder, such deficit (hereinafter called "Interest Deficit") will cumulate and will be carried forward (without interest) until the termination of this Agreement. Interest otherwise payable to a Bank hereunder and under a Note for any subsequent period shall be increased by the maximum amount of the Interest Deficit that may be so added without causing such Bank to receive interest in excess of the maximum amount then permitted by the law applicable to the Loans. The amount of the Interest Deficit relating to the Loans shall be treated as a prepayment premium (to the extent permitted by law) and paid in full at the time of any optional prepayment by the Borrower to the Banks of all the Loans at that time outstanding pursuant to Section 2.11 hereof. The amount of the Interest

Deficit relating to the Loans at the time of any complete payment of the Loans at that time outstanding (other than an optional prepayment thereof pursuant to Section 2.11 hereof) shall be canceled and not paid.

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Section 2.09. Fees. (a) The Borrower shall pay to the Agent upon the execution of this Agreement, for the account of each Bank, a one time, nonrefundable fee equal to the percentage of such Bank's Commitment provided for in the allocation letter delivered on or before the date hereof by First Chicago and FCCM to the Banks and the Borrower. The Agent shall deliver to each Bank its applicable fee promptly upon the Agent's receipt thereof.

(b) The Borrower agrees to pay to the Agent for the account of each Bank (subject to adjustment in the case of the Swing Line Bank as hereinafter provided) a commitment fee on the average daily unused portion of such Bank's Commitment (in an amount set forth in a statement delivered by the Agent to the Borrower, provided, however, that the failure of the Agent to deliver such statement shall not limit or otherwise affect the obligations of the Borrower hereunder) from the date of this Agreement until the Termination Date at the Applicable Commitment Rate, payable in arrears on the first day of each January, April, July and October during the term of such Bank's Commitment, commencing January 1, 1999, and ending on the Termination Date. The commitment fees shall be calculated on the basis of a year of 365 days for the actual number of days elapsed. Upon receipt of any commitment fees, the Agent will promptly thereafter cause to be distributed such payments to the Banks in the proportion that each Bank's unused Commitment bears to the unused Aggregate Commitments (subject to adjustment in the case of the Swing Line Bank as hereinafter provided). For purposes of determining the commitment fee payable to the Swing Line Bank, the unused portion of such Bank's Commitment shall be reduced dollar-for-dollar by the amount of any Swing Line Loans then outstanding.

(c) The Borrower shall pay to the Agent and FCCM such additional fees as are specified in a fee letter from the Agent and FCCM to the Borrower dated October 30, 1998, accepted by the Borrower on November 2, 1998.

Section 2.10. Notes. All Loans made by each Bank under this Agreement shall be evidenced by, and repaid with interest in accordance with, a single promissory note of the Borrower in substantially the form of Exhibit A-1 hereto in the case of each Bank that is not a party to the Original Agreement and in substantially the form of Exhibit A-2 hereto in the case of each Bank that is a party to the Original Agreement, and in each case duly completed, dated the date of this Agreement, and payable to such Bank for the account of its applicable Lending Office, such Note to represent the obligation of the Borrower to repay the Loans. Each Bank is hereby authorized by the Borrower to endorse on the schedule attached to the Note held by it the amount and type of each Loan and each renewal, conversion, and

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payment of principal amount received by such Bank for the account of its applicable Lending Office on account of its Loans, which endorsement shall, in the absence of manifest error, be conclusive as to the outstanding balance of the Loans made by such Bank; provided, however, that the failure to make such notation with respect to any Loan or renewal, conversion, or payment shall not limit or otherwise affect the obligations of the Borrower under this Agreement or the Note held by such Bank. All Loans shall be repaid on the Termination Date.

Section 2.11. Prepayments. (a) The Borrower may, upon notice to the Agent not later than 11:00 A.M. (Chicago time) on the date of prepayment in the case of ABR Loans and at least three (3) Business Days' prior notice to the Agent in the case of LIBOR Loans, prepay (including, without limitation, all amounts payable pursuant to the terms of Section 2.17 hereof) the Notes in whole or in part with accrued interest to the date of such prepayment on the amount prepaid, provided that (1) each partial payment shall be in a principal amount of not less than One Million Dollars (\$1,000,000) in the case of a LIBOR Loan and Two Hundred Fifty Thousand Dollars (\$250,000) in the case of an ABR Loan; and (2) LIBOR Loans may be prepaid only on the last day of the Interest Period for such Loans; provided, however, that such prepayment of LIBOR Loans may be

made on any other Business Day if the Borrower pays at the time of such prepayment all amounts due pursuant to Section 2.17 hereof. Upon receipt of any such prepayments, the Agent will promptly thereafter cause to be distributed such prepayment to each Bank for the account of its applicable Lending Office pro rata to each Bank in the proportion that its Commitment bears to the Aggregate Commitments, except that prepayments of Swing Line Loans shall be made solely to the Swing Line Bank.

(b) The Borrower shall immediately upon a Change in Control prepay the Notes in full and all accrued interest to the date of such prepayment, and in the case of LIBOR Loans all amounts due pursuant to Section 2.17 hereof.

Section 2.12. Method of Payment. The Borrower shall make each payment under this Agreement and under the Notes not later than 11:00 A.M. Chicago time on the date when due in lawful money of the United States to the Agent for the account of the applicable Lending Office of each Bank (or, in the case of Swing Line Loans, for the account of the Swing Line Bank) in immediately available funds. The Agent will promptly thereafter cause to be distributed (1) such payments of principal and interest with respect to Loans (other than Swing Line Loans) in like funds to each Bank for the account of its applicable Lending Office pro rata to each Bank in the proportion that its Commitment bears to the Aggregate Commitments, (2) such payments of principal and interest with respect to Swing Line Loans solely

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to the Swing Line Bank and (3) other fees payable to any Bank to be applied in accordance with the terms of this Agreement. If any such payment is not received by a Bank on the Business Day on which the Agent received such payment (or the following Business Day if the Agent's receipt thereof occurs after 2:00 P.M. (Chicago time)), such Bank shall be entitled to receive from the Agent interest on such payment at the Federal Funds Rate for three Business Days and thereafter at the Alternate Base Rate (which interest payment shall not be an obligation for the Borrower's account, including under Section 11.04 or Section 11.06). The Borrower hereby authorizes each Bank, if and to the extent payment is not made when due under this Agreement or under the Notes, to charge from time to time against any account of the Borrower with such Bank any amount as due. Whenever any payment to be made under this Agreement or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall be included in the computation of the payment of interest and the commitment fee, as the case may be, except, in the case of a LIBOR Loan, if the result of such extension would be to extend such payment into another calendar month, such payment shall be made on the immediately preceding Business Day.

Section 2.13. Use of Proceeds. The proceeds of the Loans hereunder shall be used by the Borrower for working capital and general corporate purposes of the Borrower and the Guarantors to the extent permitted in this Agreement and to repay Swing Line Loans. The Borrower will not, directly or indirectly, use any part of such proceeds for the purpose of repaying the Senior Notes or for purchasing or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or to extend credit to any Person for the purpose of purchasing or carrying any such margin stock, or for any purpose which violates, or is inconsistent with, Regulation X of such Board of Governors.

Section 2.14. Yield Protection. If any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any interpretation thereof, or the compliance of any Bank therewith,

- (i) subjects any Bank or any applicable Lending Office to any tax, duty, charge or withholding on or from payments due from the Borrower (excluding federal taxation of the overall net income of any Bank or applicable Lending Office), or changes the basis of taxation of payments to any Bank in respect of its Loans or other amounts due it hereunder, or

- (ii) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Bank or any applicable Lending Office (other than reserves and assessments taken into account in determining the interest rate applicable to LIBOR Loans), or
- (iii) imposes any other condition the result of which is to increase the cost to any Bank or any applicable Lending Office of making, funding or maintaining loans or reduces any amount receivable by any Bank or any applicable Lending Office in connection with loans, or requires any Bank or any applicable Lending Office to make any payment calculated by reference to the amount of loans held or interest received by it, by an amount deemed material by such Bank,

then, within fifteen (15) days of demand by such Bank, the Borrower shall pay such Bank that portion of such increased expense incurred or reduction in an amount received which such Bank reasonably determines is attributable to making, funding and maintaining its Loans and its Commitment.

Section 2.15. Changes in Capital Adequacy Regulations. If a Bank determines the amount of capital required or expected to be maintained by such Bank, any Lending Office of such Bank or any corporation controlling such Bank is increased as a result of a Change, then, within 10 days of demand by such Bank, the Borrower shall pay such Bank the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Bank determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Bank's policies as to capital adequacy); provided, however, that a Bank shall impose such cost upon the Borrower only if such Bank is generally imposing such cost on its other borrowers having similar credit arrangements. "Change" means (i) any change after the date of this Agreement in the Risk-Based Capital Guidelines or (ii) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Bank or any Lending Office or any corporation controlling any Bank. "Risk-Based Capital Guidelines" means (i) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory authorities outside the

United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices Entitled "International Convergence of Capital Measurements and Capital Standards," including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

Section 2.16. Availability of LIBOR Loans. If any Bank determines that maintenance of its LIBOR Loans at the Lending Office selected by the Bank would violate any applicable law, rule, regulation, or directive, whether or not having the force of law (and it is not reasonably possible for the Bank to designate an alternate Lending Office without being adversely affected thereby), or if the Majority Banks determine that (i) deposits of a type and maturity appropriate to match fund LIBOR Loans are not available or (ii) the interest rate applicable to LIBOR Loans does not accurately reflect the cost of making or maintaining such LIBOR Loans, then the Agent shall suspend the availability of LIBOR Loans and require any LIBOR Loans to be repaid.

Section 2.17. Funding Indemnification. If any payment of a LIBOR Loan occurs on a date which is not the last day of the applicable Interest

Period, whether because of acceleration, prepayment or otherwise, or a LIBOR Loan is not made on the date specified by the Borrower for any reason other than default by the Banks, the Borrower will indemnify each Bank for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits required to fund or maintain the LIBOR Loan.

Section 2.18. Bank Statements; Survival of Indemnity. To the extent reasonably possible, each Bank shall designate an alternate Lending Office with respect to its LIBOR Loans to reduce any liability of the Borrower to such Bank under Sections 2.14 and 2.15 or to avoid the unavailability of LIBOR Loans. Each Bank shall deliver a written statement of such Bank as to the amount due, if any, under Sections 2.14, 2.15 or 2.17. Such written statement shall set forth in reasonable detail the calculations upon which such Bank determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a LIBOR Loan shall be calculated as though each Bank funded its LIBOR Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the LIBOR Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the

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Borrower under Sections 2.14, 2.15 and 2.17 shall survive payment of the Obligations and termination of this Agreement.

Section 2.19. Extension of Termination Date. (a) The Borrower may request an extension of the Termination Date to February 28, 2004 (in the case of the first such extension) or to the first anniversary of the then scheduled Termination Date (in the case of each subsequent extension) by submitting a request for an extension to the Agent (i) in the case of the first such extension, on or after January 1, 2000 and on or before February 28, 2000, and (ii) in the case of each subsequent extension, not more than 38 months nor less than 36 months prior to the then scheduled Termination Date; provided that, in the case of each such request, the Borrower shall have theretofore furnished to the Agent the annual financial statements for the immediately preceding fiscal year provided for in Section 5.08(2). At the time of or prior to the delivery of such request, the Borrower shall propose to the Agent the amount of the fees that the Borrower would agree to pay with respect to such extension if approved by the Banks. Promptly upon (but not later than five Business Days after) the Agent's receipt and approval of the extension request and fee proposal (as so approved, the "Extension Request"), the Agent shall deliver to each Bank a copy of, and shall request each Bank to approve, the Extension Request. Each Bank approving the Extension Request shall deliver its written approval no later than 30 days after such Bank's receipt of the Extension Request. If the approval of each of the Banks is received by the Agent within 30 days of the receipt by them of the Extension Request (or as otherwise provided in Section 2.19(b)), the Agent shall promptly so notify the Borrower and each Bank in writing, and the Termination Date shall be extended to February 28, 2004 (in the case of the first such extension) or to the first anniversary of the then scheduled Termination Date (in the case of each subsequent extension), and in such event the Borrower may thereafter request, each time the Termination Date is so extended, a further extension of the then scheduled Termination Date in accordance with this Section 2.19. If any of the Banks does not deliver to the Agent such Bank's written approval to any Extension Request within such 30-day period, the Termination Date shall not be extended, except as otherwise provided in Section 2.19(b).

(b) If (i) any Bank (but not more than one Bank) ("Rejecting Bank") shall not approve an Extension Request, (ii) all rights and obligations (from and after the date of the assignment described below) of such Rejecting Bank under this Agreement and under the other Loan Documents (including, without



limitation, its Commitment and all Loans owing to it) shall have been assigned, within 90 days following the Bank's receipt of such Extension Request, in accordance with Section 2.20, to one or more Replacement Banks who shall have approved in writing such

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Extension Request at the time of such assignment, or, to the extent not so assigned, such Rejecting Bank's Commitment shall have been terminated as provided in Section 2.19(c), and (iii) no other Bank shall have given written notice to the Agent of such Bank's withdrawal of its approval of the Extension Request, the Agent shall promptly so notify the Borrower and each Bank, and the Termination Date shall be extended to February 28, 2004 (in the case of the first such extension) or to the first anniversary of the then scheduled Termination Date (in the case of each subsequent extension), and in such event the Borrower may thereafter request, each time the Termination Date is so extended, a further extension as provided in Section 2.19(a).

(c) Within ninety (90) days following the Banks' receipt of an Extension Request, the Borrower may, upon notice to the Agent and the Rejecting Bank, and subject to the provisions of the last sentence of this Section 2.19(c), terminate the Commitment of such Rejecting Bank (or such portion of the Commitment as is not assigned to a Replacement Bank in accordance with Section 2.20), which termination shall occur as of a date set forth in such Borrower's notice but in no event more than thirty (30) days following such notice (subject to the provisions of Section 2.20(b)). Upon the effective date of such termination, the Borrower shall pay to the Rejecting Bank all amounts due and owing to it hereunder or under any other Loan Document, including, without limitation, the aggregate outstanding principal amount of the Loans owed to such Rejecting Bank, together with accrued interest thereon through the date of such termination, amounts payable under Sections 2.14 and 2.15 with respect to such Rejecting Bank and the fees payable to such Rejecting Bank under Section 2.09(b). Upon request by the Borrower or the Agent, the Rejecting Bank will deliver to the Borrower and the Agent a letter setting forth the amounts payable to the Rejecting Bank as set forth above. Upon the termination of such Rejecting Bank's Commitment and payment of the amounts provided for in the immediately preceding sentence, the Borrower shall have no further obligations to such Rejecting Bank under this Agreement and such Rejecting Bank shall cease to be a party hereto, provided, however, that such Rejecting Bank shall continue to be entitled to the benefits of Sections 2.14, 2.15, 2.17, 11.04 and 11.06, as well as to any fees accrued for its account hereunder not yet paid, and shall continue to be obligated under Section 10.05 with respect to obligations and liabilities accruing prior to the termination of such Rejecting Bank's Commitment. If, as a result of the termination of the Rejecting Bank's Commitment, any payment of a LIBOR Loan occurs on a day which is not the last day of the applicable Interest Period, the Borrower shall pay to the Agent for the benefit of the Banks any loss or cost incurred by the Banks resulting therefrom in accordance with Section 2.17. Upon the effective date of the termination of the Rejecting Bank's Commitment, the

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Aggregate Commitments shall be reduced by the amount of the terminated Commitment of the Rejecting Bank, and each other Bank shall be deemed to have irrevocably and unconditionally purchased and received (subject to the provisions of the last sentence of this Section 2.19(c), without recourse or warranty, from the Rejecting Bank, an undivided interest and participation in any Facility Letter of Credit then outstanding, ratably, such that each Bank (excluding the Rejecting Bank but including any Replacement Bank that acquires an interest hereunder from such Rejecting Bank) holds a participation interest in each Facility Letter of Credit in proportion to the ratio that such Bank's Commitment (upon the effective date of such termination of the Rejecting Bank's Commitment) bears to the Aggregate Commitments (as reduced by the termination of such Rejecting Bank's Commitment or a part thereof). Notwithstanding the foregoing, if, upon the termination of the Commitment of such Rejecting Bank, the sum of the outstanding principal balance of the Loans and the Facility Letter of Credit Obligations would exceed the Aggregate Commitments (as reduced), the Borrower may not terminate such Rejecting Bank's Commitment unless

the Borrower, on or prior to the effective date of such termination, prepays, in accordance with the provisions of this Agreement, outstanding Loans or causes to be canceled, released and returned to the applicable Issuing Bank outstanding Facility Letters of Credit in sufficient amounts such that, on the effective date of such termination, the sum of the outstanding principal balance of the Loans and the Facility Letter of Credit Obligations does not exceed the Aggregate Commitments (as reduced).

(d) Within ten days of the Agent's notice to the Borrower that all of the Banks have approved an Extension Request (whether pursuant to Section 2.19(a) or 2.19(b)), the Borrower shall pay to the Agent for the account of each Bank the applicable extension fees specified in the Extension Request.

Section 2.20. Replacement of Certain Banks. (a) In the event a Bank ("Affected Bank"): (i) shall have requested compensation from the Borrower under Sections 2.14 or 2.15 to recover additional costs incurred by such Bank that are not being incurred generally by the other Banks, (ii) shall have delivered a notice pursuant to Section 2.16 claiming that such Bank is unable to extend LIBOR Loans to the Borrower for reasons not generally applicable to the other Banks, (iii) shall have invoked Section 11.13 or (iv) is a Rejecting Bank pursuant to Section 2.19, then, in any such case, the Borrower or the Agent may make written demand on such Affected Bank (with a copy to the Agent in the case of a demand by the Borrower and a copy to the Borrower in the case of a demand by the Agent) for the Affected Bank to assign, and, if a Replacement Bank (as hereinafter defined) notifies the Affected Bank of its willingness to purchase the Affected Bank's interest and the Agent and the Borrower consent

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thereto in writing, then such Affected Bank shall assign pursuant to one or more duly executed assignment and acceptance agreements in substantially and in all material respects in the form and substance of Exhibit I five (5) Business Days after the date of such demand, to one or more financial institutions that comply with the provisions of Section 12.03(a) that the Borrower or the Agent, as the case may be, shall have engaged for such purpose ("Replacement Bank"), all (or, to the extent permitted under Section 2.20(b), a part) of such Affected Bank's rights and obligations (from and after the date of such assignment) under this Agreement and the other Loan Documents (including, without limitation, its Commitment and all Loans owing to it) in accordance with Section 12.03. The Agent agrees, upon the occurrence of such events with respect to an Affected Bank and upon the written request of the Borrower, to use its reasonable efforts to obtain the commitments from one or more financial institutions to act as a Replacement Bank. As a condition to any such assignment, the Affected Bank shall have concurrently received, in cash, all amounts due and owing to the Affected Bank hereunder or under any other Loan Document, including, without limitation, the aggregate outstanding principal amount of the Loans owed to such Bank, together with accrued interest thereon through the date of such assignment, amounts payable under Sections 2.14 and 2.15 with respect to such Affected Bank and the fees payable to such Affected Bank under Section 2.09(b); provided that upon such Affected Bank's replacement, such Affected Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.14, 2.15, 2.17, 11.04 and 11.06, as well as to any fees accrued for its account hereunder and not yet paid, and shall continue to be obligated under Section 10.05 with respect to obligations and liabilities accruing prior to the replacement of such Affected Bank.

(b) In the event that the Affected Bank is a Rejecting Bank, the Borrower may elect to have a part of the Rejecting Bank's rights and obligations under this Agreement and the other Loan Documents assigned pursuant to this Section 2.20, provided that the Borrower also elects, pursuant to Section 2.19(c), to terminate the entire amount of the Rejecting Bank's Commitment not so assigned, which termination shall be effective on the date on which such assignment of the Rejecting Bank's rights and obligations is consummated under this Section 2.20.

Section 2.21. Swing Line. (a) The Swing Line Bank agrees, on the terms and conditions hereinafter set forth, to make loans ("Swing Line Loans") to the Borrower from time to time during the period from the date of this Agreement, up to but not including the Termination Date, in an aggregate principal amount not to exceed at any time outstanding the lesser of (i) the Swing Line Commitment or (ii) the amount by which the Swing Line Bank's

Commitment under Section 2.01 exceeds the outstanding principal amount of the Loans made by the Swing Line Bank pursuant to Section 2.01, subject to the limitations set forth in Section 2.01(b).

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(b) Each Swing Line Loan which shall not utilize the Swing Line Commitment in full shall be in an amount not less than One Million Dollars (\$1,000,000) and, if in excess thereof, in integral multiples of One Million Dollars (\$1,000,000). Within the limits of the Swing Line Commitment, the Borrower may borrow, repay and reborrow under this Section 2.21.

(c) The Borrower shall give the Swing Line Bank notice of any request for a Swing Line Loan not later than 2:00 p.m. Chicago time on the Business Day of such Swing Line Loan, specifying the amount of such requested Swing Line Loan. Each such notice shall be accompanied by a Borrowing Base Certificate dated as of the date of such notice (and by the notice provided for in Section 2.21(d)). All notices given by the Borrower under this Section 2.21(c) shall be irrevocable. Upon fulfillment of the applicable conditions set forth in Article III, the Swing Line Bank will make the Swing Line Loan available to the Borrower in immediately available funds by crediting the amount thereof to the Borrower's account with the Swing Line Bank.

(d) On the first Business Day following the making of a Swing Line Loan, such Swing Line Loan shall be paid in full from the proceeds of a Loan made pursuant to Section 2.01. Each notice given by the Borrower under Section 2.21(c) shall include, or, if it does not include, shall be deemed to include an irrevocable notice under Section 2.03 requesting the Banks to make an ABR Loan on the next succeeding Business Day in the full amount of such Swing Line Loan.

Section 2.22. Increase of Aggregate Commitments. (a) The Borrower may, at any time and from time to time, request, by notice to the Agent, the Agent's approval of an increase of the Aggregate Commitments within the limitations hereafter described, which request shall set forth the amount of such requested increase. Within twenty (20) days of such request, the Agent shall advise the Borrower of its approval or disapproval of such request; failure to so advise the Borrower shall constitute disapproval. Upon approval of the Agent, the Aggregate Commitments may be so increased either by having additional financial institutions approved by the Borrower and the Agent ("Additional Banks") become Banks hereunder and/or by having any one or more of the then existing Banks hereunder (at their respective election in their sole discretion) that have been approved by the Borrower and the Agent, increase the amount of their Commitments (any such Bank that elects to increase its Commitment and any Additional Bank being hereinafter referred to as a "New Bank"), provided that (i) the Commitment of any Additional Bank shall not be less than Ten Million Dollars (\$10,000,000) and the sum of the Commitments of the Additional Banks and the increases in the Commitments of the other New Banks shall be in an aggregate amount of not less than Five Million

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Dollars (\$5,000,000) (and, if in excess thereof, in integral multiples of One Million Dollars (\$1,000,000)); (ii) the Aggregate Commitments shall not exceed Two Hundred Fifty Million Dollars (\$250,000,000); (iii) the Borrower and each New Bank shall have executed and delivered a commitment and acceptance (the "Commitment and Acceptance") substantially in the form of Exhibit B hereto, and the Agent shall have accepted and executed the same; (iv) the Borrower shall have executed and delivered to the Agent a Note or Notes payable to the order of each New Bank, each such Note to be in the amount of such New Bank's Commitment (and, if such New Bank is not an Additional Bank, such Note shall replace the Note theretofore held by such New Bank); (v) the Borrower shall have delivered to the Agent opinions of counsel (substantially similar to the forms of opinions attached hereto as Exhibits C and D, modified to apply to the increase in the Aggregate Commitments and each Note and Commitment and Acceptance executed and delivered in connection therewith); (vi) the Guarantors shall have consented in writing to the new Commitments or increases in Commitments (as applicable) and shall have agreed that their Guaranties continue in full force and effect; (vii) the Borrower and each New Bank shall otherwise have executed and delivered such

other instruments and documents as the Agent shall have reasonably requested in connection with such new Commitment or increase in Commitment (as applicable); and (viii) if the Aggregate Commitments shall at any time have been reduced (other than pursuant to Section 2.19(c)), any subsequent increase of the Aggregate Commitments shall be subject to the provisions of Section 2.22(b). The form and substance of the documents required under clauses (iii) through (vii) above shall be reasonably acceptable to the Agent. Upon the admission of any Additional Bank or the increase in the Commitment of any other New Bank hereunder, the Agent shall provide written notice thereof to all of the Banks and shall furnish to all of the Banks copies of the documents required under clauses (iii), (v), (vi) and (vii) above. Except for (1) the notice by the Borrower to the Agent provided for in the first sentence of this Section 2.22(a), (2) the notice by the Agent to the Banks provided for in the immediately preceding sentence of this Section 2.22(a) and (3) the Facility Increase Notice (which is required to be given under the provisions of Section 2.22(b) only if the Aggregate Commitments have been reduced (other than pursuant to Section 2.19(c)) prior to the Borrower's notice to the Agent requesting an increase in the Aggregate Commitments), neither the Borrower nor the Agent shall be required to give to any Bank any notice of the Borrower's request for an increase of the Aggregate Commitments under this Section 2.22(a).

(b) Notwithstanding the provisions of Section 2.22(a), in the event that the Aggregate Commitments shall at any time have been reduced (other than pursuant to Section 2.19(c)), the Aggregate Commitments shall not thereafter be increased unless and until each of the then existing Banks shall have been given

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the right (at its election) to increase its Commitment by an amount equal to the lesser of (i) such Bank's ratable portion (based upon the ratio (determined as of the date of the Borrower's request for the Agent's approval of such increase) of its then existing Commitment to the then existing Aggregate Commitments) of the aggregate amount of all prior decreases (net of prior increases) in the Aggregate Commitments (other than pursuant to Section 2.19(c)) or (ii) such Bank's ratable portion (based upon the ratio (determined as of the date of the Borrower's request for the Agent's approval of such increase) of its then existing Commitment to the then existing Aggregate Commitments) of the proposed increase in the Aggregate Commitments. If, at any time after the Aggregate Commitments have been reduced (other than pursuant to Section 2.19(c)), the Agent shall approve the Borrower's request for an increase in the Aggregate Commitments, the Agent shall promptly, but no later than ten (10) days after its receipt of the Borrower's request, deliver to the then existing Banks hereunder a notice (the "Facility Increase Notice") setting forth the amount of the increase so requested by the Borrower, and the Banks' rights hereunder to increase their Commitments shall be exercisable within, but not later than, thirty (30) days following the date of delivery of the Facility Increase Notice. If a Bank elects to exercise such right by notice given to the Agent within such 30-day period, then such Bank shall (in accordance with and subject to the provisions of Section 2.22(a)) increase its Commitment by an amount determined in accordance with the first sentence of this Section 2.22(b). If such Bank does not so elect by notice given to the Agent within such 30-day period, the Borrower and the Agent may proceed with the increase of the Aggregate Commitments as set forth in the Facility Increase Notice, subject to and in accordance with Section 2.22(a). Nothing contained herein shall preclude any Bank, at its election and with the approval of the Borrower and the Agent as provided in and otherwise in accordance with Section 2.22(a), from increasing its Commitment to an amount in excess of the amount provided for in this Section 2.22(b).

(c) Upon the effective date of any increase in the Aggregate Commitments pursuant to the provisions hereof, which effective date shall be mutually agreed upon by the Borrower, each New Bank and the Agent, each New Bank shall make a payment to the Agent in an amount sufficient, upon the application of such payments by all New Banks to the reduction of the outstanding Loans held by the Banks, to cause the principal amount outstanding under the Loans made by each Bank (including any New Bank) to be in the proportion to the ratio that such Bank's Commitment (upon the effective date of such increase) bears to the Aggregate Commitments as so increased. The Borrower hereby irrevocably authorizes each New Bank to fund to the Agent the payment required to be made pursuant to the immediately

preceding sentence for application to the reduction of the outstanding Loans held by the other Banks, and each such payment shall constitute a Loan hereunder, it being understood that the outstanding amounts of the Loans held by the other Banks shall be reduced by such amounts in accordance with this Section 2.22(c). If, as a result of the repayment of the Loans provided for in this Section 2.22(c), any payment of a Borrowing consisting of LIBOR Loans occurs on a day which is not the last day of the applicable Interest Period, the Borrower will pay to the Agent for the benefit of any of the Banks holding a LIBOR Loan any loss or cost incurred by such Bank resulting therefrom in accordance with Section 2.17. Upon the effective date of such increase in the Aggregate Commitments, all Loans outstanding hereunder (including any Loans made by the New Banks on such date) shall be ABR Loans, subject to the Borrower's right to convert the same to LIBOR Loans on or after such date in accordance with the provisions of Section 2.06.

(d) Upon the effective date of any increase in the Aggregate Commitments and the making of the Loans by the New Banks in accordance with the provisions of Section 2.22(c), each New Bank shall also be deemed to have irrevocably and unconditionally purchased and received, without recourse or warranty, from the Banks party to this Agreement immediately prior to the effective date of such increase, an undivided interest and participation in any Facility Letter of Credit then outstanding, ratably, such that each Bank (including each New Bank) holds a participation interest in each such Facility Letter of Credit in proportion to the ratio that such Bank's Commitment (upon the effective date of such increase in the Aggregate Commitments) bears to the Aggregate Commitments as so increased.

(e) Nothing contained herein shall constitute, or otherwise be deemed to be, a commitment or agreement on the part of any Bank to increase its Commitment hereunder at any time or (except as provided in Section 2.22(b)) a commitment or agreement on the part of the Borrower or the Agent to give or grant any Bank the right to increase its Commitment hereunder at any time.

Section 2.23 Amounts Payable Under Original Agreement. (a) On the Effective Date, each Bank ("Funding Bank") that is not party to the Original Agreement or whose Commitment hereunder exceeds (on a pro rata basis) its maximum "Commitment" under the Original Agreement shall make a payment to the Agent in an amount sufficient, upon the application of such payments by all such Funding Banks to the reduction of the outstanding Advances held by the Banks that are not Funding Banks, to cause the principal amount outstanding under the Loans by all Banks hereunder as at the Effective Date to be in proportion to the ratio that such Bank's Commitment (upon the Effective Date) bears to the Aggregate Commitments. The Borrower hereby irrevocably

authorizes each Funding Bank to fund to the Agent the payment required to be made pursuant to the immediately preceding sentence for application to the payment in full of the Loans held by "Banks" that are party to the Original Agreement but not party to this Agreement and to reduction of the outstanding Loans held by the Banks that are not Funding Banks, and each such payment shall constitute a Loan hereunder, provided that such Loans shall not increase the aggregate amount of all Loans outstanding hereunder on the Effective Date to an amount exceeding the aggregate amount outstanding under the Original Agreement immediately prior thereto. If, as a result of the repayment of the Loans provided for in this Section 2.23(a), any payment of a Borrowing consisting of LIBOR Loans occurs on a day which is not the last day of the applicable Interest Period under the Original Agreement, the Borrower will pay to the Agent for the benefit of the Banks that were party to the Original Agreement any loss or cost incurred by such Bank resulting therefrom in accordance with Section 2.17 of the Original Agreement. Upon the Effective Date, all Loans outstanding hereunder (including any Loans made by the Banks on such date) shall be ABR Loans, subject to the Borrower's right to convert the same to LIBOR Loans on or after such date in accordance with the provisions of Section 2.06.

(b) Borrower hereby agrees to pay to the Agent, for the benefit of the Banks that were party to the Original Agreement, the amount of

all interest (if any) that has accrued but not been paid under the Original Agreement through the Effective Date, all commitment fees that have accrued but not been paid under the Original Agreement through the Effective Date and all "Facility Letter of Credit Fees" that have accrued but not been paid under the Original Agreement through the Effective Date, all of which amounts shall be paid by the Borrower on the date or dates on which such amounts would have been due and payable under the terms of the Original Agreement.

### ARTICLE III

#### CONDITIONS PRECEDENT

##### Section 3.01. Conditions Precedent to Effective Date.

The Effective Date of this Agreement shall not occur, and the Banks and the Issuing Bank or Issuing Banks shall not be required to perform any of their obligations hereunder, unless and until the Borrower has paid to the Agent the applicable fees referred to in Sections 2.09(a) and (c) and the Agent shall have received each of the following, in form and substance satisfactory to the Agent and its counsel and (except for the Notes) in sufficient copies for each Bank:

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(1) Notes. A Note payable to each Bank duly executed by the Borrower;

(2) Evidence of all corporate action by the Borrower. Certified copies of all corporate action taken by the Borrower, including resolutions of its Board of Directors, authorizing the execution, delivery and performance of the Loan Documents to which it is a party and each other document to be delivered pursuant to this Agreement;

(3) Incumbency and signature certificate of Borrower. A certificate of the Secretary or Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign the Loan Documents to which it is a party and the other documents to be delivered by the Borrower under this Agreement;

(4) Articles of Incorporation of Borrower. Copies of the articles of incorporation of the Borrower, together with all amendments, and a certificate of good standing, all certified by the appropriate governmental officer in its jurisdiction of incorporation;

(5) Opinions of counsel for Borrower. A favorable opinion of Paul, Hastings, Janofsky & Walker LLP, counsel for the Borrower and for the Guarantors that are Delaware Persons, in substantially the form of Exhibit C and as to such other matters as the Agent may reasonably request and of Katten Muchin & Zavis, Illinois counsel for the Borrower, in substantially the form of Exhibit D and as to such other matters as the Agent may reasonably request;

(6) Opinion of counsel for Agent. A favorable opinion of Sidley & Austin, counsel for the Agent, in substantially the form of Exhibit E hereto;

(7) Evidence of all corporate or partnership action by Guarantors. With respect to each corporate Guarantor, certified (as of the date of this Agreement) copies of all corporate action taken by such Guarantor, including resolutions of its Board of Directors, authorizing the execution, delivery, and performance of the applicable Guaranty, and with respect to each limited partnership Guarantor, partnership action taken by such Guarantor, including any and all necessary partnership consents authorizing the execution, delivery, and performance of the applicable Guaranty;

(8) Articles of Incorporation of Guarantors. Copies of the articles of incorporation of each corporate Guarantor, together with all amendments, and a certificate of good standing,

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all certified by the appropriate governmental officer in its jurisdiction of incorporation; provided, however, that, if a certificate of good standing is not currently available, the Guarantor shall deliver other reasonably satisfactory evidence of its good standing and, within thirty (30) days, shall deliver a certificate of good standing;

(9) Incumbency and signature certificate of Guarantors. A certificate (dated as of the date of this Agreement) of the Secretary or Assistant Secretary of each corporate Guarantor or the general partner of each partnership Guarantor certifying the names and true signatures of the officers of each such corporate Guarantor and the representative of each partnership Guarantor authorized to sign the Guaranty;

(10) Opinion of counsel for Certain Guarantors. With respect to Beazer Homes Corp., a favorable opinion of Tennessee counsel in substantially the form of Exhibit F hereto, and as to such other matters as the Agent may reasonably request;

(11) Partnership agreement. A true and complete copy of the limited partnership agreement of each limited partnership Guarantor, including without limitation, any and all amendments and modifications thereto, and any and all filed partnership certificates; and

(12) Other Documents. Such other and further documents as any Bank or its counsel may have reasonably requested.

Upon the Effective Date, the Original Agreement shall be amended and restated in its entirety by this Agreement, which shall supersede the Original Agreement.

Section 3.02. Conditions Precedent to All Loans. The obligation of each Bank to make each Loan (including the Loans referred to in Section 2.23 and, in the case of the Swing Line Bank, any Swing Line Loan) shall be subject to the further conditions precedent that (except as hereinafter provided) on the date of such Loan:

- (1) The following statements shall be true and the Agent shall have received a certificate, substantially in the form of the certificate attached hereto as Exhibit G, signed by a duly authorized officer of the Borrower dated the date of such Loan, stating that:
  - (a) The representations and warranties contained in Article IV of this Agreement, are correct on and as of the date of such Loan as though made on and as of such date except to the extent that any such representation or warranty is stated to relate solely to an earlier date, in which case such  

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representation or warranty is correct as of such earlier date;
  - (b) No Default or Event of Default has occurred and is continuing, or would result from such Loan; and
  - (c) Upon the making of the requested Loans, the aggregate outstanding amount of Permitted Senior Debt shall not exceed the Borrowing Base as of the most recent Inventory Valuation Date; and
- (2) The Agent shall have received such other approvals, opinions, or documents as any Bank through the Agent may reasonably request; and
- (3) Such other and further documents as any Bank or its counsel may have reasonably requested. All matters incident to the making of such Loan shall be reasonably satisfactory to the Banks and their counsel.

Notwithstanding the foregoing, in the case of a Loan (provided

for in Section 2.21(d)) made to repay a Swing Line Loan, the satisfaction of the foregoing conditions with respect to such Swing Line Loan shall constitute satisfaction of such conditions with respect to the Loan made on the next succeeding Business Day to repay such Swing Line Loan.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

The Borrower and each of the Guarantors, jointly and severally, represent and warrant that:

Section 4.01. Incorporation, Formation, Good Standing, and Due Qualification. The Borrower, each Subsidiary, and each of the Guarantors is (in the case of a corporation) a corporation duly incorporated or (in the case of a limited partnership) a limited partnership duly formed, validly existing, and in good standing under the laws of the jurisdiction of its incorporation or formation; has the power and authority to own its assets and to transact the business in which it is now engaged or proposed to be engaged in; and is duly qualified and in good standing under the laws of each other jurisdiction in which such qualification is required.

Section 4.02. Power and Authority. The execution, delivery and performance by the Borrower and the Guarantors of the Loan Documents to which each is a party have been duly authorized by all necessary corporate or partnership action, as the case may be, and do not and will not (1) require any consent or approval of the stockholders of such corporation, or partners of such partnership; (2) contravene such corporation's charter or bylaws, or such partnership's partnership agreement; (3) violate,

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in any material respect, any provision of any law, rule, regulation (including, without limitation, Regulations U and X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination, or award presently in effect having applicability to such corporation or partnership; (4) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other material agreement, lease, or instrument to which such corporation or partnership is a party or by which it or its properties may be bound or affected; (5) result in, or require, the creation or imposition of any Lien, upon or with respect to any of the properties now owned or hereafter acquired by such corporation or partnership; and (6) cause such corporation or partnership to be in default, in any material respect, under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination, or award or any such indenture, agreement, lease or instrument.

Section 4.03. Legally Enforceable Agreement. This Agreement is, and each of the other Loan Documents when delivered under this Agreement will be legal, valid, and binding obligations of the Borrower or each Guarantor, as the case may be, enforceable against the Borrower or each Guarantor, as the case may be, in accordance with their respective terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, and other similar laws affecting creditors' rights generally.

Section 4.04. Financial Statements. The consolidated balance sheet of the Borrower and its Subsidiaries as at June 30, 1998, and the consolidated statements of operations, cash flow and changes to stockholders' equity of the Borrower and its Subsidiaries for the period of three fiscal quarters ended June 30, 1998, are complete and correct and fairly present as at such date the financial condition of the Borrower and its Subsidiaries and the results of their operations for the periods covered by such statements, all in accordance with GAAP consistently applied (subject to year-end adjustments), and since June 30, 1998, there has been no material adverse change in the condition (financial or otherwise), business, or operations of the entities for which combined financial statements have been furnished to the Banks. There are no liabilities of the Borrower or any Subsidiary, fixed or contingent, which are material but are not reflected in the financial statements or in the notes thereto, other than liabilities arising in the ordinary course of business since June 30, 1998. No information, exhibit, or report furnished by the Borrower to any Bank in connection with the negotiation of this Agreement taken together, contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not materially



misleading.

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Section 4.05. Labor Disputes and Acts of God. Neither the business nor the properties of the Borrower or any Subsidiary or any Guarantor are affected by any fire, explosion, accident, strike, lockout, or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy, or other casualty (whether or not covered by insurance), materially and adversely affecting such business or properties or the operation of the Borrower or such Subsidiary or such Guarantor.

Section 4.06. Other Agreements. Neither the Borrower nor any Significant Subsidiary nor any Significant Guarantor is a party to any indenture, loan, or credit agreement, or to any lease or other agreement or instrument or subject to any charter, corporate or other restriction which could have a material adverse effect on the business, properties, assets, operations, or conditions, financial or otherwise, of the Borrower or any Significant Subsidiary or any Significant Guarantor, or the ability of the Borrower or any Significant Guarantor to carry out its obligations under the Loan Documents to which it is a party. Neither the Borrower nor any Significant Subsidiary nor any Significant Guarantor is in default in any material respect in the performance, observance, or fulfillment of any of the obligations, covenants, or conditions contained in any agreement or instrument material to its business to which it is a party.

Section 4.07. Litigation. There is no pending or, to the knowledge of the Borrower or any Guarantor, threatened action or proceeding against or affecting the Borrower or any Significant Subsidiary or any Significant Guarantor before any court, governmental agency, or arbitrator, which may, in any one case or in the aggregate, materially adversely affect the financial condition, operations, properties, or business of the Borrower or any Significant Subsidiary or any Significant Guarantor or the ability of the Borrower or any Significant Guarantor to perform its obligation under the Loan Documents to which it is a party.

Section 4.08. No Defaults on Outstanding Judgments or Orders. The Borrower, each Significant Subsidiary and each Significant Guarantor have satisfied all judgments, and neither the Borrower nor any Significant Subsidiary nor any Significant Guarantor is in default with respect to any judgment, writ, injunction, decree, rule, or regulation of any court, arbitrator, or federal, state, municipal, or other governmental authority, commission, board, bureau, agency, or instrumentality, domestic or foreign.

Section 4.09. Ownership and Liens. The Borrower and each Subsidiary and each Guarantor have title to, or valid leasehold interests in, all of their respective properties and assets, real and personal, including the properties and assets

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and leasehold interests reflected in the financial statements referred to in Section 4.04 (other than any properties or assets disposed of in the ordinary course of business), and none of the properties and assets owned by the Borrower or any Subsidiary or any Guarantor and none of their leasehold interests is subject to any Lien, except such as may be permitted pursuant to Section 6.01 of this Agreement.

Section 4.10. Subsidiaries and Ownership of Stock. Set forth in Exhibit H hereto is a complete and accurate list of the Subsidiaries of the Borrower, showing the jurisdiction of incorporation or formation of each and showing the percentage of the Borrower's ownership of the outstanding stock or partnership interest of each Subsidiary. All of the outstanding capital stock of each such corporate Subsidiary has been validly issued, is fully paid and nonassessable, and is owned by the Borrower free and clear of all Liens. The limited partnership agreement of each such limited partnership Subsidiary is in full force and effect and has not been amended or modified. Each of the Guarantors is a Wholly Owned Subsidiary of the Borrower.

Section 4.11. ERISA. The Borrower and each Subsidiary and each Guarantor are in compliance in all material respects with all applicable

provisions of ERISA. Neither a Reportable Event nor a Prohibited Transaction has occurred and is continuing with respect to any Plan; no notice of intent to terminate a Plan has been filed, nor has any Plan been terminated; no circumstances exist which constitute grounds entitling the PBGC to institute proceedings to terminate, or appoint a trustee to administer, a Plan, nor has the PBGC instituted any such proceedings; neither the Borrower nor any Commonly Controlled Entity has completely or partially withdrawn from a Multiemployer Plan under circumstances that could subject the Borrower or any Subsidiary to material withdrawal liability; the Borrower and each Commonly Controlled Entity have met their minimum funding requirements under ERISA with respect to all of their Plans and the present value of all vested benefits under each Plan does not materially exceed the fair market value of all Plan assets allocable to such benefits, as determined on the most recent valuation date of the Plan and in accordance with the provisions of ERISA; and neither the Borrower nor any Commonly Controlled Entity has incurred any material liability to the PBGC under ERISA.

Section 4.12. Operation of Business. The Borrower, each Subsidiary and each Guarantor possess all licenses, permits, franchises, patents, copyrights, trademarks, and trade names, or rights thereto, to conduct their respective businesses substantially as now conducted and as presently proposed to be conducted and the Borrower and each of its Subsidiaries and each

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Guarantor are not in violation of any valid rights of others with respect to any of the foregoing.

Section 4.13. Taxes. All income tax liabilities or income tax obligations of the Borrower, each Subsidiary and each Guarantor have been paid or have been accrued by or reserved for by the Borrower. The Borrower constitutes the parent of an affiliated group of corporations for purposes of filing a consolidated United States federal income tax return.

Section 4.14. Laws; Environment. The Borrower, each Subsidiary and each Guarantor have duly complied, and their businesses, operations, assets, equipment, property, leaseholds, or other facilities are in compliance, in all material respects, with the provisions of all federal, state, and local statutes, laws, codes, and ordinances and all rules and regulations promulgated thereunder (including without limitation those relating to the environment, health and safety). The Borrower, each Subsidiary and each Guarantor have been issued and will maintain all required federal, state, and local permits, licenses, certificates, and approvals relating to (1) air emissions; (2) discharges to surface water or groundwater; (3) noise emissions; (4) solid or liquid waste disposal; (5) the use, generation, storage, transportation, or disposal of toxic or hazardous substances or hazardous wastes (intended hereby and hereafter to include any and all such materials listed in any federal, state, or local law, code, or ordinance and all rules and regulations promulgated thereunder as hazardous); or (6) other environmental, health or safety matters. Neither the Borrower nor any Subsidiary nor any Guarantor has received notice of, or has actual knowledge of any violations of any federal, state, or local environmental, health, or safety laws, codes or ordinances or any rules or regulations promulgated thereunder with respect to its businesses, operations, assets, equipment, property, leaseholds, or other facilities. Except in accordance with a valid governmental permit, license, certificate or approval, there has been no material emission, spill, release, or discharge into or upon (1) the air; (2) soils, or any improvements located thereon; (3) surface water or groundwater; or (4) the sewer, septic system or waste treatment, storage or disposal system servicing the premises, of any toxic or hazardous substances or hazardous wastes at or from the premises; and accordingly the premises of the Borrower, each Subsidiary and each Guarantor have not been adversely affected, in any material respect, by any toxic or hazardous substances or wastes. There has been no complaint, order, directive, claim, citation, or notice by any governmental authority or any person or entity with respect to violations of law or damages by reason of Borrower's or any Subsidiary's (1) air emissions; (2) spills, releases, or discharges to soils or improvements located thereon, surface water, groundwater or the sewer, septic system or waste

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treatment, storage or disposal systems servicing the premises; (3) noise emissions; (4) solid or liquid waste disposal; (5) use, generation, storage, transportation, or disposal of toxic or hazardous substances or hazardous waste; or (6) other environmental, health or safety matters affecting the Borrower, any Subsidiary or any Guarantor or its business, operations, assets, equipment, property, leaseholds, or other facilities. Neither the Borrower nor any Subsidiary nor any Guarantor has any material indebtedness, obligation, or liability, absolute or contingent, matured or not matured, with respect to the storage, treatment, cleanup, or disposal of any solid wastes, hazardous wastes, or other toxic or hazardous substances (including without limitation any such indebtedness, obligation, or liability with respect to any current regulation, law, or statute regarding such storage, treatment, cleanup, or disposal).

Section 4.15. Investment Company Act. Neither the Borrower nor any Subsidiary thereof is an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

Section 4.16. Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary is a "holding company" or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended.

Section 4.17. Year 2000. As of the date hereof, the Borrower has made a full and complete assessment of the Year 2000 Issues and has a realistic and achievable program for remediating the Year 2000 Issues on a timely basis. Based on such assessment and program, the Borrower does not reasonably anticipate that the Year 2000 Issues will have a material adverse effect on its operations, business or financial condition.

## ARTICLE V

### AFFIRMATIVE COVENANTS

So long as any Note shall remain unpaid or any Bank shall have any Commitment under this Agreement, the Borrower and each Guarantor will:

Section 5.01. Maintenance of Existence. Preserve and maintain, and cause each Subsidiary to preserve and maintain (except for a Subsidiary that ceases to maintain its existence solely as a result of an Internal Reorganization), its corporate or limited partnership existence and good standing in the

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jurisdiction of its incorporation or formation and qualify and remain qualified to transact business in each jurisdiction in which such qualification is required.

Section 5.02. Maintenance of Records. Keep and cause each Subsidiary to keep, adequate records and books of account, in which complete entries will be made in accordance with GAAP consistently applied, reflecting all financial transactions of the Borrower and its Subsidiaries.

Section 5.03. Maintenance of Properties. Maintain, keep, and preserve, and cause each Subsidiary to maintain, keep, and preserve, all of its properties (tangible and intangible) necessary or useful in the proper conduct of its business in good working order and condition, ordinary wear and tear excepted.

Section 5.04. Conduct of Business. Continue, and cause each Subsidiary to continue (except in the case of a Subsidiary that ceases to engage in business solely as a result of an Internal Reorganization), to engage in a business of the same general type and in the same manner as conducted by it on the date of this Agreement.

Section 5.05. Maintenance of Insurance. Maintain, and cause

each Subsidiary to maintain, insurance with financially sound reputable insurance companies or associations (or, in the case of insurance for construction warranties and builder default protection for buyers of Housing Units from the Borrower or any of its Subsidiaries, UHIC) in such amounts and covering such risks as are usually carried by companies engaged in the same or a similar business and similarly situated, which insurance may provide for reasonable deductibility from coverage thereof.

Section 5.06. Compliance with Laws. Comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, rules, regulations, and orders, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed upon it or upon its property, other than any such taxes, assessments and charges being contested by the Borrower in good faith which will not have a material adverse effect on the financial condition of the Borrower.

Section 5.07. Right of Inspection. At any reasonable time and from time to time, permit any Bank or any agent or representative thereof to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and any Subsidiary, and to discuss the affairs, finances, and accounts of the Borrower and any Subsidiary with any of their respective officers and directors and the Borrower's independent accountants.

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Section 5.08. Reporting Requirements. Furnish to the Agent for delivery to each of the Banks:

(1) Quarterly financial statements. As soon as available and in any event within sixty (60) days after the end of each of the first three quarters of each fiscal year of the Borrower, an unaudited condensed consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such quarter, unaudited condensed consolidated statements of operations and cash flow of the Borrower and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, and unaudited condensed consolidated statements of changes in stockholders' equity of the Borrower and its Subsidiaries for the portion of the fiscal year ended with the last day of such quarter, all in reasonable detail and stating in comparative form the respective figures for the corresponding date and period in the previous fiscal year and all prepared in accordance with GAAP consistently applied and certified by the chief financial officer of the Borrower (subject to year-end adjustments); statements in the form of the Borrower's quarterly 10-Q report to the Securities and Exchange Commission that are consistent with the foregoing requirements shall satisfy such requirements;

(2) Annual financial statements. As soon as available and in any event within one hundred (100) days after the end of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such fiscal year, consolidated statements of operations and cash flow of the Borrower and its Subsidiaries for such fiscal year, and consolidated statements of changes in stockholders' equity of the Borrower and its Subsidiaries for such fiscal year, all in reasonable detail and stating in comparative form the respective figures for the corresponding date and period in the prior fiscal year and all prepared in accordance with GAAP consistently applied and accompanied by an opinion thereon acceptable to the Agent by Ernst & Young or other independent accountants selected by the Borrower and acceptable to the Agent; statements in the form of the Borrower's annual 10-K report to the Securities and Exchange Commission that are consistent with the foregoing requirements shall satisfy such requirements;

(3) Financial projections. On August 15, 1999 and each anniversary thereof, two-year financial projections (including a consolidated income statement, balance sheet and statement of cash flows for the Borrower and its Subsidiaries) broken down by quarters, and as soon as available (but not later than June 15 of each year), a mid-year update of the financial projections for the current year;

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(4) Variance analysis. (a) Within sixty (60) days of the end of each of the first three fiscal quarters of each fiscal year of the Borrower, a quarterly variance analysis comparing actual quarterly results versus the most

recently projected quarterly results for the fiscal quarter most recently ended (including consolidated income statements of the Borrower and its Subsidiaries, an analysis of revenues, closings and operating profits of the Borrower and each Subsidiary on a state by state basis, and such other items as are requested by any of the Banks), together with a written explanation of material variances.

(b) Within one hundred (100) days after the end of each fiscal year of the Borrower, a quarterly variance analysis comparing actual quarterly results versus the most recently projected quarterly results for the fiscal year most recently ended (including consolidated income statements of the Borrower and its Subsidiaries accompanied by an opinion thereon acceptable to the Agent by Ernst & Young or other independent accountants selected by the Borrower and acceptable to the Agent, an analysis of revenues, closings and operating profits of the Borrower and each Subsidiary on a state by state basis, and such other items as are requested by any of the Banks), together with a written explanation of material variances.

(5) Management letters. Promptly upon receipt thereof, copies of any reports submitted to the Borrower or any Subsidiary by independent certified public accountants in connection with examination of the financial statements of the Borrower or any Subsidiary made by such accountants.

(6) Borrowing Base Certificate. Within thirty-five (35) days after the end of each fiscal quarter, a Borrowing Base Certificate, with respect to the Inventory Valuation Date occurring on the last day of such fiscal quarter.

(7) Compliance certificate. Within sixty (60) days after the end of each of the first three quarters, and within one hundred (100) days after the end of each fourth quarter, of each fiscal year of the Borrower, a certificate of the President or chief financial officer of the Borrower certifying (a) the Borrower's compliance with all financial covenants including, without limitation, those set forth in Sections 6.10 and 6.11 and Article VII hereof, which certificate shall set forth in reasonable detail the computation thereof and (b) certifying that to the best of his knowledge no Default or Event of Default has occurred and is continuing, or if a Default or Event of Default has occurred and is continuing, a statement as to the nature

thereof and the action which is proposed to be taken with respect thereto;

(8) Production Monitor Summary. Within thirty (30) days after the end of each fiscal quarter, a certificate of the President or Chief Operating Officer of the Borrower certifying the Inventory as at such date which lists by state of location each item of Inventory, in the following categories: (a) prefoundation, (b) foundation, (c) framed, (d) being finished, and (e) model homes; such summary shall include a delineation of sold or unsold items in each category;

(9) Land Bank Inventory. Within sixty (60) days after the end of each calendar quarter, a certificate of the President or Chief Operating Officer of the Borrower certifying the Land as at such date, which lists by state of location all Land, delineating Finished Lots, Lots under Development, Entitled Land and estimated undeveloped Lots.

(10) Accountant's report. Simultaneously with the delivery of the annual financial statements referred to in Section 5.08(2), a certificate of the independent public accountants who audited such statements to the effect that, in making the examination necessary for the audit of such statements, they have obtained no knowledge of any condition or event which constitutes a Default or Event of Default, or if such accountants shall have obtained knowledge of any such condition or event, specifying in such certificate each such condition or event of which they have knowledge and the nature and status thereof;

(11) Notice of litigation. Promptly after the commencement thereof, notice of all actions, suits, and proceedings before any court or governmental department, commission, board, bureau, agency, or instrumentality, domestic or foreign, affecting the Borrower or any Subsidiary which, if determined adversely to the Borrower or such Subsidiary, would reasonably be expected to result in a judgment against the Borrower or such Subsidiary in excess of \$1,000,000 or would reasonably be expected to have a material adverse

effect on the financial condition, properties, or operations of the Borrower or such Subsidiary;

(12) Notice of Defaults and Events of Default. As soon as possible and in any event within ten (10) days after the occurrence of each Default or Event of Default, a written notice setting forth the details of such Default or Event of Default and the action which is proposed to be taken by the Borrower with respect thereto;

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(13) ERISA reports. As soon as possible, and in any event within thirty (30) days after the Borrower knows or has reason to know that any circumstances exist that constitute grounds entitling the PBGC to institute proceedings to terminate a Plan subject to ERISA with respect to the Borrower or any Commonly Controlled Entity, and promptly but in any event within two (2) Business Days of receipt by the Borrower or any Commonly Controlled Entity of notice that the PBGC intends to terminate a Plan or appoint a trustee to administer the same, and promptly but in any event within five (5) Business Days of the receipt of notice concerning the imposition of withdrawal liability in excess of \$50,000 with respect to the Borrower or any Commonly Controlled Entity, the Borrower will deliver to each Bank a certificate of the chief financial officer of the Borrower setting forth all relevant details and the action which the Borrower proposes to take with respect thereto;

(14) Reports to other creditors. Promptly after the furnishing thereof, copies of any statement, report, document, notice, certificate, and correspondence furnished to any other party pursuant to the terms of any indenture, loan, credit, or similar agreement and not otherwise required to be furnished to the Bank pursuant to any other clause of this Section 5.08;

(15) Proxy statements, etc. Promptly after the sending or filing thereof, copies of all proxy statements, financial statements, and reports which the Borrower or any Subsidiary sends to its stockholders, and copies of all regular, periodic, and special reports, and all registration statements which the Borrower or any Subsidiary files with the Securities and Exchange Commission or any governmental authority which may be substituted therefor, or with any national securities exchange; and

(16) General information. Such other information respecting the condition or operations, financial or otherwise, of the Borrower or any Subsidiary as any Bank may from time to time reasonably request.

Section 5.09. Subsidiary Reporting Requirements. In the event any of the following statements are prepared with respect to any Subsidiary, then upon written request from any Bank, furnish to the Agent for delivery to each of the Banks the following with respect to any Subsidiary:

(1) Quarterly financial statements. An unaudited balance sheet of such Subsidiary as of the end of most recently completed fiscal quarter, statements of operations and cash flow of such Subsidiary for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, and statements of changes in stockholders' equity of such Subsidiary

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for the portion of the fiscal year ended with the last day of such quarter, all in reasonable detail and stating in comparative form the respective figures for the corresponding date and period in the previous fiscal year and all prepared in accordance with GAAP consistently applied and certified by the chief financial officer of such Subsidiary (subject to year-end adjustments);

(2) Annual financial statements. A balance sheet of such Subsidiary as of the end of such fiscal year, statements of operations and cash flow of such Subsidiary for such fiscal year, and statements of changes in stockholders' equity of such Subsidiary for such fiscal year, all in reasonable detail and stating in comparative form the respective figures for the corresponding date and period in the prior fiscal year and all prepared in accordance with GAAP consistently applied and as to the consolidated statements accompanied by an opinion thereon acceptable to the Agent by Ernst & Young or

other independent accountants selected by the Borrower and acceptable to the Agent.

Section 5.10. Environment. Be and remain, and cause each Subsidiary to be and remain, in compliance with the provisions of all federal, state, and local environmental, health, and safety laws, codes and ordinances, and all rules and regulations issued thereunder; notify the Agent promptly of any notice of a hazardous discharge or environmental complaint received from any governmental agency or any other party (and the Agent shall notify the Banks promptly following its receipt of any such notice from the Borrower); notify the Agent promptly of any hazardous discharge from or affecting its premises (and the Agent shall notify the Banks promptly following its receipt of any such notice from the Borrower); promptly contain and remove the same, in compliance with all applicable laws; promptly pay any fine or penalty assessed in connection therewith; permit any Bank to inspect the premises, to conduct tests thereon, and to inspect all books, correspondence, and records pertaining thereto; and at such Bank's request, and at the Borrower's expense, provide a report of a qualified environmental engineer, satisfactory in scope, form, and content to the Majority Banks, and such other and further assurances reasonably satisfactory to the Majority Banks that the condition has been corrected.

Section 5.11. Use of Proceeds. Use the proceeds of the Loans solely as provided in Section 2.13 hereof.

Section 5.12. Ranking of Obligations. Ensure that at all times its Obligations under the Loan Documents shall be and constitute unconditional general obligations of the Borrower ranking at least pari passu with all its other unsecured Debt.

Section 5.13. Taxes. Pay and cause each Subsidiary to pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or property, except those

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which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside.

Section 5.14. Wholly Owned Status. Ensure that at all times each of the Guarantors is a Wholly Owned Subsidiary of the Borrower.

Section 5.15. New Subsidiaries. Within thirty (30) days after the date on which any Person shall become a Subsidiary, cause such Subsidiary to execute and deliver to the Agent, for the benefit of the Banks, a guaranty of the Obligations in the form of Article IX and an opinion of counsel, certified copies of resolutions, articles of incorporation, incumbency certificates and other documents with respect to such Subsidiary and its guaranty substantially similar to the documents delivered pursuant to Section 3.01 with respect to the Original Guarantors and Guaranty, all of which shall be reasonably satisfactory to the Majority Banks in form and substance. UHIC shall not be required to deliver a Guaranty.

Section 5.16. Year 2000. The Borrower will take all actions reasonably necessary to assure that the Year 2000 Issues will not have a material adverse effect on the business, operations or financial condition of the Borrower and, upon the Agent's request, will provide the Agent a description of its program to address the Year 2000 Issues, including updates and progress reports. The Borrower will promptly advise the Agent of any reasonably anticipated material adverse effect as a result of the Year 2000 Issues.

## ARTICLE VI

### NEGATIVE COVENANTS

So long as any Note shall remain unpaid or any Bank shall have any Commitment under this Agreement, the Borrower and each Guarantor will not:

Section 6.01. Liens. Create, incur, assume, or suffer to exist, or permit any Subsidiary to create, incur, assume, or suffer to exist, any Lien, upon or with respect to any of its properties, now owned or hereafter

acquired, except the following:

(1) Liens for taxes or assessments or other government charges or levies if not yet due and payable or, if due and payable, if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

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(2) Liens imposed by law, such as mechanics', materialmen's, landlords', warehousemen's, and carriers' Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than ninety (90) days or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

(3) Liens under workers' compensation, unemployment insurance, Social Security, or similar legislation;

(4) Liens, deposits, or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), Capital Leases (permitted under the terms of this Agreement), public or statutory obligations, surety, stay, appeal, indemnity, performance, or other similar bonds, or other similar obligations arising in the ordinary course of business;

(5) Judgment and other similar Liens arising in connection with any court proceeding, provided the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith and by appropriate proceedings;

(6) Easements, rights-of-way, restrictions, and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use, and enjoyment by the Borrower or any Subsidiary of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property subject thereto;

(7) Liens securing Secured Debt permitted under Section 6.02.

Section 6.02. Secured Debt. Create, incur, assume or suffer to exist, or permit any Subsidiary to create, incur, assume or suffer to exist, any Secured Debt, except for Secured Debt in an aggregate amount outstanding at any one time not exceeding \$50,000,000.

Section 6.03. Mergers, Etc. Wind up, liquidate or dissolve itself, reorganize, merge or consolidate with or into, or convey, sell, assign, transfer, lease, or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to any Person, or acquire all or substantially all the assets or the business of any Person, or permit any Subsidiary to do so, except (1) for any Permitted Acquisition, (2) that any Subsidiary (other than UHIC) may merge

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into or transfer assets to the Borrower as a result of an Internal Reorganization or otherwise and (3) that any Subsidiary (other than UHIC) may merge into or consolidate with or transfer assets to any other Subsidiary (other than UHIC) as a result of an Internal Reorganization or otherwise.

Section 6.04. Leases. Create, incur, assume, or suffer to exist, or permit any Subsidiary to create, incur, assume, or suffer to exist, any obligation as lessee for the rental or hire of any real or personal property, except (1) Capital Leases not otherwise prohibited by the terms of this Agreement; (2) leases existing on the date of this Agreement and any extension or renewals thereof; (3) leases between the Borrower and any Subsidiary or between any Subsidiaries; (4) operating leases entered into in the ordinary course of business; and (5) any lease of property having a value of



\$500,000 or less.

Section 6.05. Sale and Leaseback. Sell, transfer or otherwise dispose of, or permit any Subsidiary to sell, transfer, or otherwise dispose of, any real or personal property to any Person and thereafter directly or indirectly lease back the same or similar property, except for the sale and leaseback of model homes.

Section 6.06. Sale of Assets. Sell, lease, assign, transfer, or otherwise dispose of, or permit any Subsidiary to sell, lease, assign, transfer, or otherwise dispose of, any of its now owned or hereafter acquired assets (including, without limitation, shares of stock and indebtedness of subsidiaries, receivables, and leasehold interests), except: (1) Inventory disposed of in the ordinary course of business; (2) the sale or other disposition of assets no longer used or useful in the conduct of its business; (3) the sale and leaseback of model homes, or (4) that any Subsidiary (other than UHIC) may sell, lease, assign, or otherwise transfer its assets to the Borrower or any Wholly Owned Subsidiary (other than UHIC) in connection with an Internal Reorganization or otherwise.

Section 6.07. Investments. Make, or permit any Subsidiary to make, any loan or advance to any Person, or purchase or otherwise acquire, or permit any Subsidiary to purchase or otherwise acquire, any capital stock, assets (other than assets acquired in the ordinary course of business), obligation, or other securities of, make any capital contribution to, or otherwise invest in or acquire any interest in any Person including, without limitation, any hostile takeover, hostile tender offer or similar hostile transaction (collectively, "Investments"), except: (1) a direct obligation of the United States or any agency thereof with maturities of one year or less from the date of acquisition; (2) commercial paper rated at least "A-1" by Standard & Poor's Corporation or "P-1" by Moody's

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Investors Service, Inc.; (3) certificates of deposit with maturities of one year or less from the date of acquisition issued by any commercial bank or federal savings bank having capital and surplus in excess of \$250,000,000; (4) a direct obligation of any state or municipality within the United States with maturities of one year or less from the date of acquisition and which, at the time of such acquisition, is accorded one of the two highest debt ratings for obligations of such type by Standard & Poor's or Moody's; (5) mutual funds investing in assets of the type described in items (1), (2), (3) or (4) above which in any case would be classified as a current asset in accordance with GAAP which are managed by a fund manager of recognized standing in the United States and having capital and surplus of at least \$100,000,000 or having at least \$250,000,000 under management; (6) stock, obligation, or securities received in settlement of debts (created in the ordinary course of business) owing to the Borrower or any Subsidiary provided such issuance is approved by the board of directors of the issuer thereof; (7) a loan or advance from the Borrower to a Subsidiary, or from a Subsidiary to a Subsidiary, or from a Subsidiary to the Borrower (subject, however, to the limitations set forth in Section 6.14 in the case of Investments in UHIC); (8) any Permitted Acquisition for which the total consideration payable for such Permitted Acquisition does not exceed, or have a value exceeding, \$50,000,000; (9) the Acquisition of Trafalgar House Properties Inc.; (10) an Investment in a Wholly Owned Subsidiary, which Investment is, or constitutes a part of, an Internal Reorganization (subject, however, to the limitations set forth in Section 6.14 in the case of Investments in UHIC); (11) Investments in UHIC to the extent permitted in Section 6.14; (12) any Investment in a Joint Venture, provided that the amount of all such Investments by the Borrower and its Subsidiaries in all Joint Ventures does not exceed \$15,000,000 in the aggregate; or (13) any Investment of \$500,000 or less.

Section 6.08. Guaranties, Etc. Assume, guarantee, endorse, or otherwise be or become directly or contingently responsible or liable, or permit any Subsidiary to assume, guarantee, endorse, or otherwise be or become directly or contingently responsible or liable (including, but not limited to, an agreement to purchase any obligation, stock, assets, goods, or services, or to supply or advance any funds, assets, goods, or services, or an agreement to maintain or cause such Person to maintain a minimum working capital or net worth or otherwise to assure the creditors of any Person against loss), for obligations of any Person, except: (1) guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary

course of business; (2) guaranties of performance obligations in the ordinary course of business; (3) guaranties of any obligation of \$500,000 or less, provided, however, that neither the Borrower nor any Subsidiary

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shall guarantee an obligation of UHIC; and (4) that the Borrower or any Subsidiary or any Guarantor may, whether as a result of an Internal Reorganization or otherwise, guarantee the Debt of any other Subsidiary (other than UHIC) or Guarantor or the Borrower permitted under this Agreement.

Section 6.09. Transactions With Affiliates. Enter into any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any Affiliate, or permit any Subsidiary to enter into any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of the Borrower's or such Guarantor's or any Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Guarantor or any Subsidiary than would obtain in a comparable arm's-length transaction with a Person not an Affiliate (which exception shall include the payment of insurance premiums to UHIC for the purchase of construction warranties and builder default protection for buyers of Housing Units from the Borrower or any of its Subsidiaries); provided, however, that the following transactions shall not be prohibited by this Section 6.09: (i) any transaction pursuant to the Tax Sharing Agreement dated as of March 2, 1994, between the Borrower and Hanson America Inc., the Services Agreement dated as of March 2, 1994, between the Borrower and Hanson America Inc., the agreement with Beazer Homes, Ltd. regarding use of name, the Pension and Employee Benefits Agreement dated as of March 2, 1994, among Beazer Homes, Inc., the Borrower and Hanson America Inc., the Cross Indemnification Agreement dated as of March 2, 1994, between the Borrower and Hanson America Inc., and the Registration Rights Agreement dated as of March 2, 1994, between the Borrower and Beazer America, Inc; (ii) transactions involving the purchase, sale or exchange of property having a value of \$500,000 or less; and (iii) transactions otherwise permitted by this Agreement.

Section 6.10. Land Inventory. Permit the ratio, determined as at the end of any fiscal quarter, of (i) the sum of the number of Finished Lots and the reasonably estimated number of Finished Lots that will be developed on other Land, all determined as at the end of such fiscal quarter, to (ii) the number of Housing Unit Closings for the period of four (4) full fiscal quarters ending with such fiscal quarter, to exceed 2.5 to 1.0.

Section 6.11. Housing Inventory. Permit the number of Speculative Housing Units, as at the end of any fiscal quarter, to exceed the greater of (a) the number of Housing Unit Closings occurring during the period of twelve (12) months ending on the last day of such fiscal quarter, multiplied by thirty percent

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(30%) or (b) the number of Housing Unit Closings occurring during the period of six (6) months ending on the last day of such fiscal quarter, multiplied by seventy percent (70%).

Section 6.12. Senior Debt. Repay in whole or in part the principal of the Senior Debt, except for refinancings thereof from the proceeds of Refinancing Debt with respect thereto.

Section 6.13. Amendment or Modification of Senior Indentures. Amend or modify, or permit any amendment or modification of, either of the Senior Indentures (other than those provided for in clauses (i), (ii), (iii), (v) or (vi) of Section 10.01(a) of such Senior Indentures).

Section 6.14. UHIC. Permit any of the following: (i) the assets of UHIC to exceed \$10,000,000 at any time; (ii) the aggregate amount of all Investments in UHIC by the Borrower and its Subsidiaries to exceed \$10,000,000; or (iii) UHIC to engage in any business other than the issuance of

construction warranties and builder default protection for buyers of Housing Units from the Borrower or any of its Subsidiaries.

Section 6.15. Negative Pledges. Directly or indirectly enter into any agreement (other than this Agreement and the Senior Indentures) with any Person that prohibits or restricts or limits the ability of the Borrower or any Guarantor to create, incur, pledge or suffer to exist any Lien upon any assets of the Borrower or any Guarantor (except that agreements creating or securing Secured Debt permitted under Section 6.02 may prohibit, restrict or limit other Liens on those assets encumbered by the Liens securing such Secured Debt).

## ARTICLE VII

### FINANCIAL COVENANTS

So long as any Note shall remain unpaid or any Bank shall have any Commitment under this Agreement:

Section 7.01. Minimum Consolidated Tangible Net Worth. The Borrower will maintain at all times a Consolidated Tangible Net Worth of not less than the sum of (i) \$162,400,000 (subject to adjustment of such amount as hereinafter provided), (ii) an amount equal to fifty percent (50%) of the cumulative Net Income of the Borrower earned after June 30, 1998 (excluding any quarter in which there is a loss), and (iii) one hundred percent (100%) of the net proceeds received after June 30, 1998 by the Borrower or any Subsidiary from the sale or issuance of any of its Common Equity. If the Borrower elects to convert to common stock some or all of the \$50,000,000 of its preferred stock outstanding as of

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the date of this Agreement (and provided its common stock price on the day that the conversion notice is given is greater than \$21.00 per share), the amount set forth in clause (i) above shall be reduced (but not below \$130,000,000) to the extent that Consolidated Tangible Net Worth is reduced as a result of the election by the preferred shareholders to convert their preferred stock to cash rather than to common stock.

Section 7.02. Leverage Ratio. The Borrower will not at any time permit the ratio of Consolidated Debt to Consolidated Tangible Net Worth to exceed 2.0 to 1.0. For purposes of this Section 7.02, Consolidated Tangible Net Worth shall exclude the Borrower's and Guarantors' Investments in Joint Ventures and in Subsidiaries that are not Guarantors.

Section 7.03. Permitted Senior Debt. The Borrower will not permit the outstanding amount of the Permitted Senior Debt to exceed the Borrowing Base.

Section 7.04. Fixed Charge Coverage Ratio. The Borrower shall maintain a ratio of (i) EBITDA to (ii) the sum (for the Borrower and its Subsidiaries on a consolidated basis) of (A) interest incurred, whether capitalized or expensed directly, plus (B) required principal payments (other than balloon payments on long-term Debt), (C) scheduled principal payments on Capital Lease obligations (other than balloon payments on long-term Capital Leases) and (D) dividends paid with respect to any one or more classes of preferred stock of the Borrower, of at least 1.5 to 1.0, which ratio shall be determined as of the last day of each fiscal quarter for the four-quarter period ending on such day.

Section 7.05. Land Inventory. The Borrower shall not permit the ratio of (i) Adjusted Land Value to (ii) the sum of (a) Consolidated Tangible Net Worth plus (b) fifty percent (50%) of Consolidated Subordinated Debt to exceed 1.0 to 1.0.

## ARTICLE VIII

### EVENTS OF DEFAULT

Section 8.01. Events of Default. If any of the

following events shall occur:

(1) The Borrower shall fail to pay (a) the principal of any Note, or any amount of a commitment or other fee, as and when due and payable or (b) interest on any Note or any amount of any commitment fee or other fee within five (5) Business Days after the same is due and payable;

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(2) Any representation or warranty made or deemed made by the Borrower or by any Guarantor in any Loan Document or which is contained in any certificate, document, opinion, or financial or other statement furnished at any time under or in connection with this Agreement shall prove to have been incorrect, incomplete, or misleading in any material respect on or as of the date made or deemed made;

(3) The Borrower or any Guarantor shall fail to perform or observe any term, covenant, or agreement contained in Articles V, VI or VII hereof, and such failure shall continue for a period of thirty (30) consecutive days;

(4) The Borrower or any Significant Subsidiary or any Significant Guarantor shall (a) fail to pay (within the applicable cure period, if any) any amount in respect of indebtedness for borrowed money equal to or in excess of \$5,000,000 in the aggregate (other than the Notes) of the Borrower or such Significant Subsidiary or such Significant Guarantor, as the case may be, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise); or (b) fail to perform or observe any term, covenant, or condition on its part to be performed or observed (within the applicable cure period, if any) under any agreement or instrument relating to any such indebtedness, when required to be performed or observed, if the effect of such failure to perform or observe is to accelerate, or permit the acceleration of after the giving of notice or passage of time, or both, the maturity of such indebtedness, whether or not such failure to perform or observe shall be waived by the holder of such indebtedness, or any such indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof;

(5) The Borrower or any Significant Subsidiary or any Significant Guarantor (a) shall generally not pay, or shall be unable to pay, or shall admit in writing its inability to pay its debts as such debts become due; or (b) shall make an assignment for the benefit of creditors, or petition or apply to any tribunal for the appointment of a custodian, receiver, or trustee for it or a substantial part of its assets; or (c) shall commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or (d) shall have had any such petition or application filed or any such proceeding commenced against it in which an order for relief is entered or an adjudication or appointment is made and which remains undismissed for a period of forty (40) days or more; or (e) shall take any corporate action indicating its consent to, approval of, or acquiescence in any such petition, application,

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proceeding, or order for relief or the appointment of a custodian, receiver, or trustee for all or any substantial part of its properties; or (f) shall suffer any such custodianship, receivership, or trusteeship to continue undischarged for a period of forty (40) days or more;

(6) One or more judgments, decrees, or orders for the payment of money in excess of \$10,000,000 in the aggregate shall be rendered against the Borrower and/or any Subsidiary and/or any Guarantor, and such judgments, decrees, or orders shall continue unsatisfied and in effect for a period of twenty (20) consecutive days without being vacated, discharged, satisfied, or stayed or bonded pending appeal;

(7) Any Guaranty hereunder shall at any time after its

execution and delivery and for any reason cease to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by the Guarantor or the Guarantor shall deny it has any further liability or obligation under, or shall fail to perform its obligations under, the Guaranty (except to the extent that the foregoing occurs solely by reason of the liquidation or dissolution of a Guarantor as a result of an Internal Reorganization);

(8) Any Change of Control of the Borrower or any Subsidiary or any Guarantor shall occur;

(9) Any of the following events shall occur or exist with respect to the Borrower, any Subsidiary or any Commonly Controlled Entity under ERISA: any Reportable Event shall occur; complete or partial withdrawal from any Multiemployer Plan shall take place; any Prohibited Transaction shall occur; a notice of intent to terminate a Plan shall be filed, or a Plan shall be terminated; or circumstances shall exist which constitute grounds entitling the PBGC to institute proceedings to terminate a Plan, or the PBGC shall institute such proceedings; and in each case above, such event or condition, together with all other events or conditions described in this Section 8.01(9), if any, could subject the Borrower or any Significant Guarantor or Significant Subsidiary to any tax, penalty, or other liability which in the aggregate may exceed \$500,000; or

(10) If any federal, state, or local agency asserts a material claim against the Borrower or any Significant Guarantor or Significant Subsidiary and/or its assets, equipment, property, leaseholds, or other facilities for damages or cleanup costs relating to a hazardous discharge or an environmental complaint; provided, however, that such claim shall not constitute a default if, within fifteen (15) days of the occurrence giving rise to the claim, (a) the Borrower can prove to the reasonable satisfaction

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of the Majority Banks that the Borrower has commenced and is diligently pursuing either: (i) a cure or correction of the event which constitutes the basis for the claim, and continues diligently to pursue such cure or correction or (ii) proceedings for an injunction, a restraining order or other appropriate emergent relief preventing such agency or agencies from asserting such claim, which relief is granted within thirty (30) days of the occurrence giving rise to the claim and the injunction, order, or emergent relief is not thereafter resolved or reversed on appeal or (iii) the defense against the claim through action in a court or agency exercising jurisdiction over the claim; and (b) in any of the foregoing events, the Borrower has posted a bond, letter of credit, or other security satisfactory in form, substance, and amount to the Majority Banks and the agency or entity asserting the claim to secure the correction of the event which constitutes the basis for the claim in accordance with applicable laws;

then, and in any such event, the Agent shall at the request of, or may, with the consent of, the Majority Banks, by notice to the Borrower, (1) declare the Banks' obligation to make Loans (including, in the case of the Swing Line Bank, Swing Line Loans) to be terminated, whereupon the same shall forthwith terminate; and (2) declare the outstanding Notes, all interest thereon, and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Notes, all such interest, and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, in the case of an event described in Section 8.01(5) hereof the obligations of the Banks to make Loans (including, in the case of the Swing Line Bank, Swing Line Loans) hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Bank.

Section 8.02. Set Off. Upon the occurrence and during the continuance of any Event of Default, each Bank is hereby authorized at any time and from time to time, without notice to the Borrower (any such notice being expressly waived by the Borrower), to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement or the Bank's Note or any other Loan Document, irrespective of whether or not the Agent or such Bank shall have

made any demand under this Agreement or such Bank's Note or such other Loan Document and although such obligations may be unmatured. Each Bank agrees promptly to notify the Borrower (with a copy to the Agent) after any such set-off and

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application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Bank under this Section 8.02 are in addition to other rights and remedies (including, without limitation, other rights of set-off) which each Bank may have.

#### ARTICLE IX

##### GUARANTY

Section 9.01. Guaranty. (a) Each of the Guarantors unconditionally and irrevocably guarantees the due and punctual payment and performance of the Obligations. Each of the Guarantors further agrees that the Obligations may be extended or renewed, in whole or in part, without notice or further assent from it, and it will remain bound upon this Guaranty notwithstanding any extension or renewal of any Obligation.

(b) Each of the Guarantors waives presentation to, demand for payment from and protest to the Borrower or any other Guarantor of any of the Obligations, and also waives notice of protest for nonpayment. The Obligations of the Guarantors hereunder shall not be affected by (i) the failure of the Agent or any Bank to assert any claim or demand or to enforce any right or remedy against the Borrower or any other Guarantor under the provisions of this Agreement or any other agreement or otherwise; (ii) any extension or renewal of any provision hereof or thereof; (iii) any rescission, waiver, compromise, acceleration, amendment or modification of any of the terms or provisions of any Loan Document or any other agreement; (iv) the release, exchange, waiver or foreclosure of any security held by the Agent or any Bank for the Obligations or any of them; (v) the failure of the Agent or any Bank to exercise any right or remedy against any other guarantor of the Obligations; or (vi) the release or substitution of any Guarantor.

(c) Each of the Guarantors further agrees that this Guaranty constitutes a guaranty of performance and of payment when due and not just of collection, and waives any right to require that any resort be had by the Agent or any Bank to any security held for payment of the Obligations or to any balance of any deposit, account or credit on the books of a Bank in favor of the Borrower or any other Guarantor, or to any other Person.

(d) Each of the Guarantors hereby expressly assumes all responsibilities to remain informed of the financial condition of the Borrower and each other Guarantor and any circumstances affecting the ability of the Borrower to perform under this Agreement. Each Guarantor acknowledges that it will receive direct and indirect benefits from the Loans contemplated

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by this Agreement and that the Banks required as a condition to entering into this Agreement, and in order to secure the prompt and complete payment, observance and performance of the Obligations, that each Guarantor shall make this Guaranty.

(e) Each of the Guarantors' guaranty shall not be affected by the genuineness, validity, regularity or enforceability of the Obligations, the Notes or any other instrument evidencing any Obligations, or by the existence, validity, enforceability, perfection, or extent of any collateral therefor or by any other circumstance relating to the Obligations which might otherwise constitute a defense to this Guaranty. The Agent makes no representation or warranty in respect of any such circumstances and has no duty or responsibility whatsoever to the Guarantors in respect of the management and maintenance of the Obligations or any such collateral.

Section 9.02. No Impairment of Guaranty. The Obligations of the Guarantors hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including, without limitation, any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or set-off, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the Obligations of the Guarantors hereunder shall not be discharged or impaired or otherwise affected by the failure of the Agent or any Bank to assert any claim or demand or to enforce any remedy under this Agreement or any other agreement, by any waiver or modification of any provision thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of the Guarantors or would otherwise operate as a discharge of the Guarantors as a matter of law, unless and until the Obligations are paid in full and the Commitments have been terminated.

Section 9.03. Continuation and Reinstatements etc. (a) Each of the Guarantors further agrees that its guaranty hereunder shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal or of interest on any Obligation is rescinded or must otherwise be restored by the Agent or any Bank upon the bankruptcy or reorganization of the Borrower or a Guarantor, or otherwise. In furtherance of the provisions of this Article IX, and not in limitation of any other right which the Agent or any Bank may have at law or in equity against the Borrower or the Guarantors by virtue hereof, upon failure of the Borrower to pay any Obligation when and as the same shall become due, whether at

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maturity, by acceleration, after notice or otherwise, each of the Guarantors hereby promises to and will, upon receipt of written demand by the Agent on behalf of the Banks, forthwith pay or cause to be paid to the Agent on behalf of the Banks in cash an amount equal to the unpaid amount of all the Obligations, and thereupon the Banks shall assign such Obligation, together with all security interests, if any, then held by the Agent in respect of such Obligation, to the Guarantor or Guarantors making such payment.

(b) Upon payment by any Guarantor of any sums to the Agent on behalf of the Banks hereunder, all rights of such Guarantor against the Borrower, arising as a result thereof by way of right of subrogation or otherwise, shall in all respects be subordinate and junior in right of payment to the prior final and indefeasible payment in full of all the Obligations to the Agent on behalf of the Banks. If any amount shall be paid to such Guarantor for the account of the Borrower, such amount shall be held in trust for the benefit of the Banks and shall forthwith be paid to the Agent on behalf of the Banks to be credited and applied to the Obligations, whether matured or unmatured.

Section 9.04. Limitation on Guaranteed Amount. Notwithstanding any other provision of this Article IX, the amount guaranteed by any Guarantor hereunder shall be limited to the extent, if any, required so that its obligations under this Article IX shall not be subject to avoidance under Section 548 of the Bankruptcy Code or to being set aside or annulled under any applicable state law relating to fraud on creditors. In determining the limitations, if any, on the amount of such Guarantor's obligations hereunder pursuant to the preceding sentence, any rights of subrogation or contribution which such Guarantor may have under this Article IX or applicable law shall be taken into account.

## ARTICLE X

### AGENCY PROVISIONS

Section 10.01. Authorization and Action. Each Bank hereby irrevocably appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. The duties of the Agent shall be mechanical and administrative in nature and the Agent shall not by reason of this Agreement be

a trustee or fiduciary for any Bank. The Agent shall have no duties or responsibilities except those expressly set forth herein. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or

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collection of the Notes), the Agent shall not be required to act or to refrain from acting except upon the instructions of the Majority Banks or, to the extent required under Section 11.01, all Banks (and shall be fully protected in so acting or so refraining from acting), and such instructions shall be binding upon all Banks and all holders of Notes; provided, however, that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement or applicable law. The Agent shall administer the Loan in the same manner that it would administer a comparable loan held 100% for its own account.

Section 10.02. Liability of Agent. Neither the Agent nor any of its directors, officers, agents, or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement in the absence of its or their own gross negligence or willful misconduct. Without limiting the generality of the foregoing, the Agent (1) may treat the payee of any Note as the holder thereof until the Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to the Agent; (2) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants, or experts; (3) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties, or representations made in or in connection with this Agreement; (4) shall not have any duty to ascertain or to inquire as to the performance or observance of any terms, covenants, or conditions of this Agreement on the part of the Borrower, or to inspect the property (including the books and records) of the Borrower; (5) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, perfection, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (6) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be sent by telegram, telefax, or facsimile transmission) reasonably believed by it to be genuine and signed or sent by the proper party or parties.

Section 10.03. Rights of Agent as a Bank. With respect to its Commitment, the Loans made by it and the Note issued to it, the Agent shall have the same rights and powers under this Agreement as any other Bank and may exercise the same as though it were not the Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include the Agent in its individual capacity. The Agent, each Bank and each of their respective Affiliates may accept deposits from, lend money to,

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act as trustee under indentures of, and generally engage in any kind of business with, the Borrower, any of its Subsidiaries and any Person who may do business with or own securities of the Borrower or any Subsidiary, all as if the Agent were not the Agent and without any duty to account therefor to the other Banks.

Section 10.04. Independent Credit Decisions. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement. The Agent shall promptly provide the Banks with copies of all notices of default and other formal notices sent or received in accordance with Section 11.02 of this Agreement, any written notice relating to changes in the Borrower's debt ratings that affect the Senior Debt Rating received from the Borrower or a ratings



agency and any other documents or notices received by the Agent with respect to the Agreement and requested in writing by any Bank. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall have no duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Borrower or any of its Subsidiaries (or any of their Affiliates) which may come into possession of the Agent or any of its Affiliates.

Section 10.05. Indemnification. The Banks severally agree to indemnify the Agent in its capacity as Agent and not as a Bank (to the extent not reimbursed by the Borrower), ratably according to the respective amounts of their Commitments, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent under this Agreement, provided that no Bank shall be liable for any portion of any of the foregoing (i) resulting from the Agent's gross negligence or willful misconduct, (ii) on account of a strictly internal or regulatory matter relating to the Agent (such as relating to legal lending limit violation by the Agent), or (iii) in connection with a breach of an express agreement made by the Agent to a Bank under this Agreement. Without limitation of the foregoing, each Bank severally agrees to reimburse the Agent (to the extent not reimbursed by the Borrower) promptly upon demand for its ratable

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share of any reasonable out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, administration, or enforcement of, or legal advice in respect of rights or responsibilities under, this Agreement; provided, however, that no Bank shall be required to reimburse the Agent for any such expenses incurred (i) resulting from the Agent's gross negligence or willful misconduct, (ii) on account of a strictly internal or regulatory matter relating to the Agent (such as relating to legal lending limit violation by the Agent), or (iii) in connection with a breach of an express agreement made by the Agent to a Bank under this Agreement.

Section 10.06. Successor Agent. (a) The Agent may resign at any time by giving at least sixty (60) days' prior written notice thereof to the Banks and the Borrower and may be removed at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right to appoint a successor Agent, subject to Section 10.06(b). If no successor Agent shall have been so appointed by the Majority Banks, and shall have accepted such appointment, within thirty (30) days after the retiring Agent's giving of notice of resignation or the Majority Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a commercial bank or federal savings bank organized under the laws of the United States of America or of any State thereof, subject to Section 10.06(b). Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article X shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

(b) The appointment of any successor Agent that is not a Bank shall be subject to the prior written approval of the Borrower, which approval shall not be unreasonably withheld.

Section 10.07. Sharing of Payments, Etc. If any Bank shall obtain any payments (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Note held by it in excess of its ratable share of payments on account of the Notes obtained by all the Banks, such Bank shall purchase from the other Banks such participations in the Notes held by them as shall be necessary to cause such purchasing Bank to share the excess payment ratably with each of the other Banks, provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing

Bank, such purchase from each Bank shall be rescinded and each Bank shall repay to the purchasing Bank the purchase price to the extent of such recovery together with an amount equal to such Bank's ratable share (according to the proportion of (1) the amount of such Bank's required repayment to (2) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. The Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 10.07 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of such participation.

Section 10.08. Withholding Tax Matters. Each Bank which is a Non-United States Person agrees to execute and deliver to the Agent for delivery to the Borrower, before the first scheduled payment date in each year, either (i) three United States Internal Revenue Service Forms 1001 or (ii) three United States Internal Revenue Service Forms 4224 together with three United States Internal Revenue Service Forms W-9, or any successor forms, as appropriate, properly completed and claiming complete or partial, as the case may be, exemption from withholding and deduction of United States federal taxes. Each Bank which is a Non-United States Person represents and warrants to the Borrower and to the Agent that, at the date of this Agreement, (i) its Lending Offices are entitled to receive payments of principal, interest, and fees hereunder without deduction or withholding for or on account of any taxes imposed by the United States or any political subdivision thereof and (ii) it is permitted to take the actions described in the preceding sentence under the laws and any applicable double taxation treaties of the jurisdictions specified in the preceding sentence. Each Bank which is a Non-United States Person further agrees that, to the extent any form claiming complete or partial exemption from withholding and deduction of United States federal taxes delivered under this Section 10.08 is found to be incomplete or incorrect in any material respect, such Bank shall execute and deliver to the Agent a complete and correct replacement form.

## ARTICLE XI

### MISCELLANEOUS

Section 11.01. Amendments, Etc. No amendment, modification, termination, or waiver of any provision of any Loan Document to which the Borrower is a party, nor consent to any departure by the Borrower from any Loan Document to which it is a party, shall in any event be effective unless the same shall be in writing and signed by the Majority Banks and the Borrower, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Banks and the Borrower, do any of the following: (1) increase the Commitments of the Banks (except as provided in Section 2.22) or the Swing Loan Commitment of the Swing Line Bank or subject the Banks to any additional obligations; (2) reduce the principal of, or interest on, the Notes or any fees (other than the Agent's fees) hereunder; (3) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees (other than the Agent's fees) hereunder; (4) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes or the number of Banks which shall be required for the Banks or any of them to take action hereunder (including, without limitation, any change in the number of Banks required to extend the Termination Date under the provisions of Section 2.19); (5) release any Significant Guarantor; or (6) amend, modify or waive any provision of Article X or this Section 11.01; and, provided further, that no amendment, waiver, or consent shall, unless in writing and signed by the Agent or the Swing Line Bank (as applicable) in addition to the Banks required above to take such action, affect the rights or duties of the Agent or the Swing Line Bank (as applicable) under any of the Loan Documents; and, provided, further, that no amendment, waiver or consent shall, unless in writing and signed by the Issuing Bank in addition to the Banks required above to take such action, affect the rights or duties of the Issuing Bank under any

of the Loan Documents.

Section 11.02. Notices, Etc. All notices and other communications provided for under this Agreement and under the other Loan Documents to which the Borrower is a party shall be in writing (including telegraphic, telex, and facsimile transmissions) and mailed or transmitted or hand delivered, if to the Borrower, a Guarantor, a Bank or the Agent at its respective address set forth on the signature pages hereof; or, as to each party, at such other address as shall be designated by such party in a written notice to all other parties complying as to delivery with the terms of this Section 11.02. Except as is otherwise provided in this Agreement, all such notices and communications shall be effective when deposited in the mails or delivered to

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the telegraph company, or transmitted, answerback received, or hand delivered, respectively, addressed as aforesaid, except that notices to the Agent pursuant to the provisions of Article II shall not be effective until received by the Agent or, in the case of Section 2.21, the Swing Line Bank.

Section 11.03. No Waiver. No failure or delay on the part of any Bank or the Agent or the Issuing Bank in exercising any right, power, or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power, or remedy preclude any other or further exercise thereof or the exercise of any other right, power, or remedy hereunder. The making of a Loan or issuance, amendment or extension of a Facility Letter of Credit notwithstanding the existence of a Default or Event of Default shall not constitute any waiver or acquiescence of such Default or Event of Default, and the making of any Loan or issuance, amendment or extension of a Facility Letter of Credit notwithstanding any failure or inability to satisfy the conditions precedent to such Loan or issuance, amendment or extension of a Facility Letter of Credit shall not constitute any waiver or acquiescence with respect to such conditions precedent with respect to any subsequent Loans or subsequent issuance, amendment or extension of a Facility Letter of Credit. The rights and remedies provided herein are cumulative, and are not exclusive of any other rights, powers, privileges, or remedies, now or hereafter existing, at law, in equity or otherwise.

Section 11.04. Costs, Expenses, and Taxes. The Borrower agrees to reimburse the Agent for any reasonable costs, internal charges and out-of-pocket expenses (including reasonable fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent in connection with the preparation, negotiation, execution, delivery, review, amendment, modification and administration of the Loan Documents and the collection of the Loans and enforcement of the Loan Documents. In addition, the Borrower shall pay any and all stamp and other taxes and fees payable or determined to be payable in connection with the execution, delivery, filing, and recording of any of the Loan Documents and the other documents to be delivered under any such Loan Documents, and agrees to hold the Agent and each of the Banks harmless from and against any and all liabilities with respect to or resulting from any delay in paying or failing to pay such taxes and fees. This provision shall survive termination of this Agreement.

Section 11.05. Integration. This Agreement (including the Borrower's obligation to pay the fees of the Agent and FCCM as provided in Section 2.09(c) and the letter referred to therein) and the Loan Documents contain the entire agreement

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between the parties relating to the subject matter hereof and supersede all oral statements and prior writings with respect thereto.

Section 11.06. Indemnity. The Borrower hereby agrees to defend, indemnify, and hold each Bank harmless from and against all claims, damages, judgments, penalties, costs, and expenses (including attorney fees and court costs now or hereafter arising from the aforesaid enforcement of this clause) arising directly or indirectly from the activities of the Borrower and its Subsidiaries, its predecessors in interest, or third parties with whom it has a contractual relationship, or arising directly or indirectly from the

violation of any environmental protection, health, or safety law, whether such claims are asserted by any governmental agency or any other person. This indemnity shall survive termination of this Agreement.

Section 11.07. Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of Illinois (without regard to principles of conflict of law) but giving effect to federal laws applicable to national banks.

Section 11.08. Severability of Provisions. Any provision of any Loan Document which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of such Loan Document or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 11.09. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties to this Agreement in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Agreement.

Section 11.10. Headings. Article and Section headings in the Loan Documents are included in such Loan Documents for the convenience of reference only and shall not constitute a part of the applicable Loan Documents for any other purpose.

Section 11.11. Submission to Jurisdiction. The Borrower, each Subsidiary, and each Guarantor hereby submits to the nonexclusive jurisdiction of the United States District Court for the Northern District of Illinois and of any Illinois State court sitting in The City of Chicago for purposes of all legal proceedings which may arise hereunder or under the Notes. The Borrower, each Subsidiary, and each Guarantor irrevocably waives to the fullest extent permitted by law, any objection which it

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may have or hereafter have to the laying of the venue of any such proceeding brought in such a court, and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. The Borrower, each Subsidiary, and each Guarantor hereby consents to process being served in any such proceeding by the mailing of a copy thereof by registered or certified mail, postage prepaid, to its address specified in Section 11.02 hereof or in any other manner permitted by law.

Section 11.12. Jury Trial Waiver. THE BORROWER, EACH SUBSIDIARY, EACH GUARANTOR, THE AGENT, AND EACH BANK HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM, WHETHER IN CONTRACT OR TORT, AT LAW OR IN EQUITY, ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE LOAN DOCUMENTS. NO OFFICER OF ANY BANK OR OF THE AGENT HAS AUTHORITY TO WAIVE, CONDITION, OR MODIFY THIS PROVISION.

Section 11.13. Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, no Bank shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

Section 11.14. No Fiduciary Duty. The relationship between the Borrower and the Banks and the Agent shall be solely that of borrower and lender. Neither the Agent nor any Bank shall have any fiduciary responsibilities to the Borrower. Neither the Agent nor any Bank undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations.

Section 11.15. Confidentiality. Each Bank agrees to hold any confidential information which it may receive from the Borrower pursuant to this Agreement in confidence, except for disclosure (i) to other Banks and their respective affiliates, (ii) to legal counsel, accountants, and other professional advisors to that Bank or to a Transferee, (iii) to regulatory officials, (iv) to any Person as requested pursuant to or as required by law, regulation, or legal process, (v) to any Person in connection with any legal proceeding to which that Bank is a party, and (vi) permitted by Section 12.04.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

Section 12.01. Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Agent and the Banks and

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their respective successors and assigns, except that (i) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents without the consent of all Banks and (ii) any assignment by any Bank must be made in compliance with Section 12.03. Notwithstanding clause (ii) of this Section, any Bank may at any time, without the consent of the Borrower or the Agent, pledge all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank as security for an obligation of such pledgor or of an affiliated entity to such Federal Reserve Bank; provided, however, that no such pledge shall release the pledgor Bank from its obligations hereunder. The Agent may treat the payee of any Note as the owner thereof for all purposes hereof unless and until such payee complies with Section 12.03 in the case of an assignment thereof. Any assignee or transferee of a Note agrees by acceptance thereof to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of any Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange thereof.

Section 12.02. Participations. (a) Permitted Participants; Effect. Any Bank may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Bank, any Note held by such Bank, any Commitment of such Bank (which may include, in the case of the Swing Line Bank, the Swing Line Commitment) or any other interest of such Bank under the Loan Documents in an amount not less than Five Million Dollars (\$5,000,000). In the event of any such sale by a Bank of participating interests to a Participant, such Bank's obligations under the Loan Documents shall remain unchanged, such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, such Bank shall remain the holder of any such Note for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Bank had not sold participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under the Loan Documents.

(b) Voting rights. Each Bank shall with respect to its Participants, if any, retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver with respect to any Loan or Commitment (or Swing Line Commitment, if applicable) in which such Participant has an interest which forgives

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principal, interest or fees (other than Agent's fees) or reduces the interest rate or fees (other than Agent's fees) payable with respect to any such Loan or Commitment (or Swing Line Commitment, if applicable), postpones any date fixed for any regularly scheduled payment of principal of, or interest or fees (other than Agent's fees) on, any such Loan or Commitment (or Swing Line Commitment, if applicable) or releases any Significant Guarantor.

(c) Benefit of set-off. The Borrower agrees that each Participant shall be deemed to have the rights of set-off provided in Sections 2.12 and 8.02 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Bank under the Loan Documents, provided that each Bank shall retain the right of set-off provided in Sections 2.12 and 8.02 with respect to the amount of participating interests sold to each Participant. The Banks agree to share with each Participant, and each Participant, by exercising the right of set-off provided in Section 2.12 or

8.02, agrees to share with each Bank, any amount received pursuant to the exercise of its right of set-off, such amounts to be shared in accordance with Section 10.07 as if each Participant were a Bank.

Section 12.03. Assignments. (a) Permitted assignments. Any Bank may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("Purchasers") all, or any part (but in an amount not less than Five Million Dollars (\$5,000,000) of its Commitment and Loans, which may include, in the case of a Purchaser of an interest from the Swing Line Bank, the Swing Line Commitment and Swing Line Loans), of its rights and obligations under the Loan Documents, provided, however, that, based upon facts and circumstances existing at the time of any such assignment, such assignment does not result in an event described in Sections 2.14, 2.15, or 2.16 hereof. Such assignment shall be substantially in the form of Exhibit I hereto or in such other form as may be agreed to by the parties thereto. The consent of the Borrower and the Agent shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Bank or an Affiliate thereof; provided, however, that if an Event of Default has occurred and is continuing, the consent of the Borrower shall not be required. Such consent shall not be unreasonably withheld.

(b) Effect; Effective date. Upon (i) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit 1 to Exhibit I hereto (a "Notice of Assignment"), together with any consents required by Section 12.03; and (ii) payment (by either the assignor or the assignee) of a \$4,000.00 fee (or, in the case of an assignment to the

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assignor's Affiliate or by reason of the provisions of Section 2.19, a \$2,000 fee) to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. The Notice of Assignment shall contain a representation by the Purchaser to the effect that none of the consideration used to make the purchase of the Commitment and Loans under the applicable assignment agreement are "plan assets" as defined under ERISA and that the rights and interests of the Purchaser in and under the Loan Documents will not be "plan assets" under ERISA. On and after the effective date of such assignment, such Purchaser shall for all purposes be a Bank party to this Agreement and shall have all the rights and obligations of a Bank under the Loan Documents, to the same extent as if it were an original party hereto, and no further consent or action by the Borrower, the Banks or the Agent shall be required to release the transferor Bank with respect to the percentage of the Aggregate Commitments and Loans (and, if applicable, Swing Line Commitments and Swing Line Loans) assigned to such Purchaser. Upon the consummation of any assignment to a Purchaser pursuant to this Section 12.03(b), the transferor Bank, the Agent and the Borrower shall make appropriate arrangements so that replacement Notes are issued to such transferor Bank and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their Commitment, as adjusted pursuant to such assignment.

(c) Bank Acquisitions and Mergers. If, as a result of acquisitions or mergers by Banks (or by entities of which a Bank or Banks are subsidiaries), a Bank or two or more Banks that are, directly or indirectly, subsidiaries of a common parent (collectively, "Merged Banks") hold a Commitment or Commitments in an aggregate amount exceeding the amount of the Commitment held by the Bank that is the Agent hereunder, the Bank that is the Agent may, at its election, but without any obligation to do so, acquire from such Merged Banks a portion of their Commitments and rights and obligations hereunder in an amount necessary to reduce the aggregate amount of the Commitments of the Merged Banks, and to increase the Commitment of the Bank that is Agent, to equal amounts. Such election shall be exercisable by notice from the Agent to the Merged Banks and shall be effected, on a date designated in such notice, by Assignment substantially in the form of Exhibit I hereto or such other form as may be agreed to by the parties. On the date of delivery of such Assignment the assignor shall pay to the assignee an amount equal to the principal balance of the Loans outstanding with respect to the interest so assigned.

Section 12.04. Dissemination of Information. The Borrower authorizes each Bank to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any

prospective Transferee any and all information in such Bank's possession concerning the creditworthiness of the Borrower, each Subsidiary, or each Guarantor, provided that such Transferee or prospective Transferee agrees to be subject to Section 11.15 to the same effect as if it were a Bank.

Section 12.05. Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Bank shall cause such Transferee, concurrently with the effectiveness of such transfer to comply with the provisions of Section 10.08.

#### ARTICLE XIII

##### THE LETTER OF CREDIT FACILITY

Section 13.01. Facility Letters of Credit. (a) Each Issuing Bank agrees, on the terms and conditions set forth in this Agreement, to issue from time to time for the account of the Borrower, through such offices or branches as it and the Borrower may jointly agree, one or more Facility Letters of Credit in accordance with this Article XIII, during the period commencing on the Effective Date and ending on the sixtieth (60th) day prior to the Termination Date.

(b) The Borrower shall not request, and no Issuing Bank shall issue, a Facility Letter of Credit for any purpose other than for purposes for which Loan proceeds may be used.

Section 13.02. Limitations. An Issuing Bank shall not issue, amend or extend, at any time, any Facility Letter of Credit:

(i) if the aggregate maximum amount then available for drawing under Letters of Credit issued by such Issuing Bank, after giving effect to the Facility Letter of Credit or amendment or extension thereof requested hereunder, shall exceed any limit imposed by law or regulation upon such Issuing Bank;

(ii) if, after giving effect to the issuance, amendment or extension of the Facility Letter of Credit requested hereunder, the aggregate principal amount of the Facility Letter of Credit Obligations would exceed \$30,000,000;

(iii) if, after giving effect to the issuance, amendment or extension of the Facility Letter of Credit requested hereunder, Permitted Senior Debt would exceed the

Borrowing Base as of the most recent Inventory Valuation Date;

(iv) if, after giving effect to the issuance, amendment or extension of the Facility Letter of Credit requested hereunder, the sum of (A) the outstanding and unpaid principal amount of the Loans and (B) the Facility Letter of Credit Obligations would exceed the Aggregate Commitments;

(v) if such Issuing Bank receives written notice from the Agent at or before 11:00 A.M. (Chicago time) on the proposed Issuance Date of such Facility Letter of Credit that one or more of the conditions precedent contained in Section 13.03 would not on such Issuance Date be satisfied, unless such conditions are thereafter satisfied or waived and written notice of such satisfaction is given to

such Issuing Bank by the Agent;

(vi) that has an expiration date (taking into account any automatic renewal provisions thereof) later than thirty (30) days prior to the scheduled Termination Date; or

(vii) that is in a currency other than U.S. Dollars.

Section 13.03. Conditions. The issuance, amendment or extension of any Facility Letter of Credit is subject to the satisfaction in full of the following conditions on the Issuance Date:

(i) the Borrower shall have delivered to the Issuing Bank at such times and in such manner as the Issuing Bank may reasonably prescribe a Reimbursement Agreement and such other documents and materials as may be reasonably required pursuant to the terms thereof, and the proposed Facility Letter of Credit shall be reasonably satisfactory to such Issuing Bank in form and content;

(ii) as of the Issuance Date no order, judgment or decree of any court, arbitrator or governmental authority shall enjoin or restrain such Issuing Bank from issuing the Facility Letter of Credit and no law, rule or regulation applicable to the Issuing Bank and no directive from any governmental authority with jurisdiction over the Issuing Bank shall prohibit such Issuing Bank from issuing Letters of Credit generally or from issuing that Facility Letter or Credit;

(iii) The following statements shall be true, and the Agent and such Issuing Bank shall have received a certificate, substantially in the form of the certificate attached hereto as Exhibit G, signed by a duly authorized

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officer of the Borrower dated the Issuance Date stating that:

- (a) The representations and warranties contained in Article IV of this Agreement are correct on and as of such Issuance Date as though made on and as of such Issuance Date except to the extent that any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty is correct as of such earlier date;
- (b) No Default or Event of Default has occurred and is continuing or would result from the issuance, amendment or extension of such Facility Letter of Credit; and
- (c) Upon the issuance, amendment or extension of the requested Facility Letter of Credit on such Issuance Date, the aggregate outstanding amount of Permitted Senior Debt shall not exceed the Borrowing Base as of the most recent Inventory Valuation Date; and

(iv) The Issuing Bank and the Agent shall have received such other approvals, opinions, or documents as either may reasonably request.

Section 13.04. Procedure for Issuance of Facility Letters of Credit. (a) The Borrower shall give the applicable Issuing Bank and the Agent not less than two (2) Business Days' prior written notice of any requested issuance of a Facility Letter of Credit under this Agreement (except that, in lieu of such written notice, the Borrower may give the Issuing Bank and the Agent telephonic notice of such request if confirmed in writing by delivery to such Issuing Bank and the Agent (i) immediately (A) of a telecopy of the written notice required hereunder which has been signed by an authorized officer of the Borrower or (B) of a telex containing all information required to be contained in such written notice and (ii) promptly (but in no event later than the requested Issuance Date) of the written notice required hereunder containing the original signature of an authorized officer of the Borrower). Such notice shall



specify (i) the stated amount of the Facility Letter of Credit requested, which amount shall be in compliance with the requirements of Section 13.02, (ii) the requested Issuance Date, which shall be a Business Day, (iii) the date on which such requested Facility Letter of Credit is to expire, which date shall be in compliance with the requirements of Section 13.02(vi), (iv) the purpose for which such Facility Letter of Credit is to be issued, which purpose shall be in compliance with the requirements of Section 13.01(b), and (v) the Person for whose benefit the requested Facility Letter of Credit is to be issued. At the time such request is made, the Borrower shall also provide the Agent with a

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copy of the form of the Facility Letter of Credit it is requesting be issued. Such notice, to be effective, must be received by the Issuing Bank and the Agent not later than 2:00 p.m. (Chicago time) on the last Business Day on which notice can be given under this Section 13.04(a).

(b) Promptly following receipt of a request for issuance of a Facility Letter of Credit in accordance with Section 13.04(a), such Issuing Bank shall approve or disapprove, in its reasonable discretion, the issuance of such requested Facility Letter of Credit, but the issuance of such approved Facility Letter of Credit shall continue to be subject to the provisions of this Article XIII.

(c) Subject to the terms and conditions of this Article XIII (including, without limitation, Sections 13.02 and 13.03), the applicable Issuing Bank shall, on the Issuance Date, issue the requested Facility Letter of Credit in accordance with such Issuing Bank's usual and customary business practices unless such Issuing Bank has actually received written or telephonic notice from the Borrower specifically revoking the request to issue such Facility Letter of Credit. The Issuing Bank shall give the Agent written notice, or telephonic notice confirmed promptly thereafter in writing, of the issuance of a Facility Letter of Credit, and the Agent shall promptly thereafter so notify all Banks.

(d) No Issuing Bank shall extend or amend any Facility Letter of Credit unless the requirements of this Section 13.04 are met as though a new Facility Letter of Credit were being requested and issued.

(e) Any Bank may, but shall not be obligated to, issue to the Borrower or any of its Subsidiaries Letters of Credit (that are not Facility Letters of Credit) for its own account, and at its own risk. None of the provisions of this Article XIII shall apply to any Letter of Credit that is not a Facility Letter of Credit.

Section 13.05. Duties of Issuing Bank. Any action taken or omitted to be taken by an Issuing Bank under or in connection with any Facility Letter of Credit, if taken or omitted in the absence of willful misconduct or gross negligence, shall not put such Issuing Bank under any resulting liability to any Bank or, assuming that such Issuing Bank has complied in all material respects with the procedures specified in Section 13.04, relieve any Bank of its obligations hereunder to such Issuing Bank. In determining whether to pay under any Facility Letter of Credit, such Issuing Bank shall have no obligation to the Banks other than to confirm that any documents required to be delivered under such Facility Letter of Credit appear to have been

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delivered in compliance and that they appear to comply on their face with the requirements of such Facility Letter of Credit.

Section 13.06. Participation. (a) Immediately upon the Effective Date (in the case of the Facility Letters of Credit outstanding on the Effective Date) and immediately upon issuance after the Effective Date by an Issuing Bank of any Facility Letter of Credit in accordance with Section 13.04, each Bank shall be deemed to have irrevocably and unconditionally purchased and received from such Issuing Bank, without recourse or warranty, an undivided interest and participation ratably (in the proportion of such Bank's Commitment to the Aggregate Commitments) in such Facility Letter of Credit (including, without limitation, all obligations of the Borrower with respect thereto other

than amounts owing to such Issuing Bank under Section 2.15).

(b) In the event that an Issuing Bank makes any payment under any Facility Letter of Credit and the Borrower shall not have repaid such amount to such Issuing Bank on or before the date of such payment by such Issuing Bank, such Issuing Bank shall promptly so notify the Agent, which shall promptly so notify each Bank. Upon receipt of such notice, each Bank shall promptly and unconditionally pay to the Agent for the account of such Issuing Bank the amount of such Bank's ratable share (in the proportion of such Bank's Commitment to the Aggregate Commitments) of such payment in same day funds, and the Agent shall promptly pay such amount, and any other amounts received by the Agent for such Issuing Bank's account pursuant to this Section 13.06(b), to such Issuing Bank. If the Agent so notifies such Bank prior to 11:00 A.M. (Chicago time) on any Business Day, such Bank shall make available to the Agent for the account of such Issuing Bank such Bank's ratable share of the amount of such payment on such Business Day in same day funds. If and to the extent such Bank shall not have so made its ratable share of the amount of such payment available to the Agent for the account of the Issuing Bank, such Bank agrees to pay to the Agent for the account of the Issuing Bank forthwith on demand such amount, together with interest thereon, for each day from the date such payment was first due until the date such amount is paid to the Agent for the account of the Issuing Bank, at the Federal Funds Rate. The failure of any Bank to make available to the Agent for the account of an Issuing Bank such Bank's ratable share of any such payment shall not relieve any other Bank of its obligation hereunder to make available to the Agent for the account of such Issuing Bank its ratable share of any payment on the date such payment is to be made.

(c) The payments made by the Banks to an Issuing Bank in reimbursement of amounts paid by it under a Facility Letter of Credit shall constitute, and the Borrower hereby expressly

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acknowledges and agrees that such payments shall constitute, Loans hereunder (notwithstanding that the amounts thereof may not comply with the provisions of Section 2.01(c)). Such Loans shall be ABR Loans, subject to the Borrower's rights under Article II hereof.

(d) Upon the request of the Agent or any Bank, each Issuing Bank shall furnish to the requesting Agent or Bank copies of any Facility Letter of Credit or Reimbursement Agreement to which such Issuing Bank is party.

(e) The obligations of the Banks to make payments to the Agent for the account of an Issuing Bank with respect to a Facility Letter of Credit shall be irrevocable, not subject to any qualification or exception whatsoever and shall be made in accordance with, but not subject to, the terms and conditions of this Agreement under all circumstances, including, without limitation, the following:

(i) any lack of validity or enforceability of this Agreement or any of the other Loan Documents;

(ii) the existence of any claim, setoff, defense or other right which the Borrower may have at any time against a beneficiary named in a Facility Letter of Credit or any transferee of any Facility Letter of Credit (or any Person for whom any such transferee may be acting), the Issuing Bank, the Agent, any Bank, or any other Person, whether in connection with this Agreement, any Facility Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transactions between the Borrower or any Subsidiary and the beneficiary named in any Facility Letter of Credit);

(iii) any draft, certificate or any other document presented under the Facility Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect of any statement therein being untrue or inaccurate in any respect;

(iv) the surrender or impairment of any security for the performance or observance of any of the terms of any of the Loan Documents;

(v) any failure by the Agent or an Issuing Bank to make any

reports required pursuant to Section 13.08; or

(vi) the occurrence of any Default or Event of Default.

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(f) For purposes of determining the unused portion of the Aggregate Commitments and the unused portion of a Bank's Commitment under Sections 2.02 and 2.09(b), the Aggregate Commitments shall be deemed used to the extent of the aggregate undrawn face amount of the outstanding Facility Letters of Credit and the Bank's Commitment shall be deemed used to the extent of such Bank's ratable share (in the proportion of such Bank's Commitment to the Aggregate Commitments) of the aggregate undrawn face amount of the outstanding Facility Letters of Credit.

Section 13.07. Compensation for Facility Letters of Credit.

(a) The Borrower agrees to pay to the Agent, in the case of the issuance of each Facility Letter of Credit, the Facility Letter of Credit Fee therefor, payable in quarterly installments in advance on the Issuance Date (which installment shall be a pro rata portion of the annual Facility Letter of Credit Fee for the period commencing on the Issuance Date and ending on the last day of the calendar quarter in which the Issuance Date occurs) and on the first day of each calendar quarter after the Issuance Date (which installment shall be a pro rata portion of the annual Facility Letter of Credit Fee for the quarter in which such payment is due). Facility Letter of Credit Fees shall be calculated, on a pro rata basis for the period to which such payment applies, for actual days that will elapse during such period, on the basis of a 360-day year. The Agent shall promptly remit such Facility Letter of Credit Fees, when paid, to the Banks ratably.

(b) The Borrower shall also pay to the applicable Issuing Bank, solely for its own account, a fee with respect to each Facility Letter of Credit issued by such Issuing Bank in an amount per annum equal to the product of (i) 0.125% per annum and (ii) the face amount of such Facility Letter of Credit, which fee shall be payable in advance on or before the issuance of such Facility Letter of Credit. An Issuing Bank shall also have the right to receive, solely for its own account, its out-of-pocket costs of issuing and servicing Facility Letters of Credit, as the Borrower may agree in writing.

Section 13.08. Issuing Bank Reporting Requirements. Each Issuing Bank shall, no later than the tenth day following the last day of each month, provide to the Agent a schedule of the Facility Letters of Credit issued by it showing the Issuance Date, account party, original face amount, amount (if any) paid thereunder, expiration date and the reference number of each Facility Letter of Credit outstanding at any time during such month and the aggregate amount (if any) payable by the Borrower to such Issuing Bank during the month pursuant to Section 2.15. Copies of such reports shall be provided promptly to each Bank by the Agent.

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Section 13.09. Indemnification; Nature of Issuing Bank's Duties. (a) In addition to amounts payable as elsewhere provided in this Article XIII, the Borrower hereby agrees to protect, indemnify, pay and save the Agent, each Issuing Bank and each Bank harmless from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees) arising from the claims of third parties against the Agent, any Issuing Bank or any Bank as a consequence, direct or indirect, of (i) the issuance of any Facility Letter of Credit other than, in the case of an Issuing Bank, as a result of its willful misconduct or gross negligence, or (ii) the failure of an Issuing Bank to honor a drawing under a Facility Letter of Credit as a result of any act or omission, whether rightful or wrongful, of any government, court or other governmental agency or authority.

(b) As among the Borrower, the Banks, the Agent and each Issuing Bank, the Borrower assumes all risks of the acts and omissions of, or misuse of Facility Letters of Credit by, the respective beneficiaries of such Facility Letters of Credit. In furtherance and not in limitation of the foregoing, neither an Issuing Bank nor the Agent nor any Bank shall be responsible: (i) for the form, validity, sufficiency, accuracy, genuineness or

legal effect of any document submitted by any party in connection with the application for and issuance of the Facility Letters of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (ii) for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Facility Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) for failure of the beneficiary of a Facility Letter of Credit to comply fully with conditions required in order to draw upon such Facility Letter of Credit; (iv) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex, facsimile transmission or otherwise; (v) for errors in interpretation of technical terms; (vi) for any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any Facility Letter of Credit or of the proceeds thereof; (vii) for the misapplication by the beneficiary of a Facility Letter of Credit of the proceeds of any drawing under such Facility Letter of Credit; or (viii) for any consequences arising from causes beyond the control of the Agent, such Issuing Bank and the Banks including, without limitation, any act or omission, whether rightful or wrongful, of any government, court or other governmental agency or authority. None of the above shall affect, impair, or prevent the vesting of any of such Issuing Bank's rights or powers under this Section 13.09.

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(c) In furtherance and extension and not in limitation of the specific provisions hereinabove set forth, any action taken or omitted by an Issuing Bank under or in connection with the Facility Letters of Credit or any related certificates, if taken or omitted in good faith, shall not put such Issuing Bank, the Agent or any Bank under any resulting liability to the Borrower or relieve the Borrower of any of its obligations hereunder to any such Person, but the foregoing shall not relieve such Issuing Bank of its obligation to confirm that any documents required to be delivered under a Facility Letter of Credit appear to have been delivered in compliance and that they appear to comply on their face with the requirements of such Facility Letter of Credit.

(d) Notwithstanding anything to the contrary contained in this Section 13.09, the Borrower shall have no obligation to indemnify an Issuing Bank under this Section 13.09 in respect of any liability incurred by an Issuing Bank arising primarily out of the willful misconduct or gross negligence of such Issuing Bank, as determined by a court of competent jurisdiction, or out of the wrongful dishonor by such Issuing Bank of a proper demand for payment made under the Facility Letters of Credit issued by such Issuing Bank, unless such dishonor was made at the request of the Borrower.

Section 13.10. Designation or Resignation of Issuing Bank. (a) Upon request by the Borrower and approval by the Agent, a Bank may at any time agree to be designated as an Issuing Bank hereunder, which designation shall be set forth in a written instrument or instruments delivered by the Borrower, the Agent and such Bank. The Agent shall promptly deliver to the other Banks a copy of such instrument or instruments. From and after such designation and unless and until such Bank resigns as an Issuing Bank in accordance with Section 13.10(b), such Bank shall have all of the rights and obligations of an Issuing Bank hereunder.

(b) An Issuing Bank shall continue to be the Issuing Bank unless and until (i) it shall have given the Borrower and the Agent notice that it has elected to resign as Issuing Bank and (ii) unless there is, at the time of such notice, at least one other Issuing Bank, another Bank shall have agreed to be the replacement Issuing Bank and shall have been approved in writing by the Agent and the Borrower. A resigning Issuing Bank shall continue to have the rights and obligations of the Issuing Bank hereunder solely with respect to Facility Letters of Credit theretofore issued by it notwithstanding the designation of a replacement Issuing Bank hereunder, but upon its notice of resignation (or, if at the time of such notice, there is not at least one other Issuing Bank, then upon such designation of a replacement Issuing Bank), the resigning Issuing Bank shall not

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thereafter issue any Facility Letters of Credit (unless it shall again thereafter be designated as an Issuing Bank in accordance with the provisions of this Section 13.10). The assignment of, or grant of a participation interest in, all or any part of its Commitment or Loans by a Bank that is also the Issuing Bank shall not constitute an assignment or transfer of any of its rights or obligations as an Issuing Bank.

Section 13.11. Termination of Issuing Bank's Obligation. In the event that the Banks' obligations to make Loans terminate or are terminated as provided in Section 8.01, each Issuing Bank's obligation to issue Facility Letters of Credit shall also terminate.

Section 13.12. Obligations of Issuing Bank and Other Banks. Except to the extent that a Bank shall have agreed to be designated as an Issuing Bank, no Bank shall have any obligation to accept or approve any request for, or to issue, amend or extend, any Letter of Credit, and the obligations of an Issuing Bank to issue, amend or extend any Facility Letter of Credit are expressly limited by and subject to the provisions of this Article XIII.

Section 13.13. Issuing Bank's Rights. All of the representations, warranties, covenants and agreements of the Borrower to the Banks under this Agreement and of the Borrower under any other Loan Document shall inure to the benefit of each Issuing Bank (unless the context otherwise indicates). Without limitation of the foregoing, (a) the provisions of Section 2.15 (relating to capital adequacy) shall apply with respect to each Issuing Bank and its issuance of, or obligation to issue, Facility Letters of Credit; (b) the provisions of Section 2.18 (relating to statements of amounts payable and the survival of obligations) shall apply to each Issuing Bank; and (c) the provisions of Section 11.04 (relating to the Borrower's payment of costs, expenses, taxes, fees and other amounts) shall apply to such costs, expenses, taxes, fees and other amounts relating to the Facility Letters of Credit.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first written.

BEAZER HOMES USA, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Address for Notices

5775 Peachtree Dunwoody Road  
Suite C-550  
Atlanta, Georgia 30342  
Attention: President  
Tel: (404) 250-3420  
Fax: (404) 250-3428

BEAZER MORTGAGE CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BEAZER HOMES CORP.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BEAZER HOMES SALES ARIZONA INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BEAZER REALTY CORP.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BEAZER/SQUIRES REALTY, INC.

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By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

PANITZ HOMES REALTY INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BEAZER HOMES HOLDINGS CORP.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BEAZER HOMES TEXAS HOLDINGS, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BEAZER HOMES TEXAS, L.P.

By: BEAZER HOMES TEXAS HOLDINGS,  
INC., its general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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Address for Notices to all  
Guarantors

c/o Beazer Homes USA, Inc.  
5775 Peachtree Dunwoody Road  
Suite C-550  
Atlanta, Georgia 30342  
Attention: President  
Tel: (404) 250-3420  
Fax: (404) 250-3428

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THE FIRST NATIONAL BANK OF CHICAGO

Commitment:  
\$40,000,000.00

By: \_\_\_\_\_  
Gregory Gilbert  
Vice President

Addresses for Notices

The First National Bank of Chicago  
One First National Plaza  
Mail Suite 0151  
Chicago, Illinois 60670  
Attn: Mr. Gregory Gilbert  
Telephone: (312) 732-5067  
Telecopy: (312) 732-1117

Lending Office for Loans

The First National Bank of Chicago  
One First National Plaza  
Mail Suite 0318  
Chicago, Illinois 60670  
Attention: Mr. Michael Dowling  
Telephone: (312) 732-2517  
Telecopy: (312) 732-1582

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GUARANTY FEDERAL BANK, F.S.B.

Commitment:  
\$40,000,000.00

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Address for Notices

Guaranty Federal Bank, F.S.B.

8333 Douglas Avenue  
Dallas, TX 75225  
Attn: Mr. Randy Reid  
Telephone: (214)360-2735  
Telecopy: (214)360-1661

Lending Office for Loans

Guaranty Federal Bank, F.S.B.  
8333 Douglas Avenue  
Dallas, TX 75225  
Attn: Ms. Martha Fleming  
Telephone: (214) 360-8905  
Telecopy: (214) 360-4854

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BANK UNITED

Commitment:

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$35,000,000.00

Address for Notices

Bank United  
3200 Southwest Freeway  
Suite 2001  
Houston, TX 77027  
Attn: Mr. Max R. Epperson  
Telephone: (713) 543-7802  
Telecopy: (713) 543-6986

Lending Office for Loans

Bank United  
5963 La Place Court  
Suite 202  
Carlsbad, CA 92008  
Attn: Mr. Tom Griffin  
Telephone: (760) 804-8595  
Telecopy: (760) 804-8590

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COMERICA BANK

Commitment:

By: \_\_\_\_\_  
David J. Campbell  
Vice President

\$40,000,000.00

Address for Notices

Comerica Bank  
500 Woodward Avenue, MC: 3256  
Detroit, MI 48226  
Attn: Mr. David J. Campbell  
Telephone: (313)222-9306  
Telecopy: (313)222-9295

Lending Office for Loans



Comerica Bank  
500 Woodward Avenue, MC: 3256  
Detroit, MI 48226  
Attn: Ms. Betsy Branson  
Telephone: (313) 222-5878  
Telecopy: (313) 222-3697

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AMSOUTH BANK

Commitment:

\$25,000,000.00

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address for Notices

AmSouth Bank  
AmSouth/Sonat Tower  
CRE-9th Floor  
1900 5th Avenue North  
Birmingham, AL 35203  
Attn: Mr. Ronny Hudspeth  
Telephone: (205) 307-4427  
Telecopy: (205) 326-4075

Lending Office for Loans

AmSouth Bank  
AmSouth/Sonat Tower  
CRE-9th Floor  
1900 5th Avenue North  
Birmingham, AL 35203  
Attn: Ms. Wanda Pate  
Telephone: (205) 326-4615  
Telecopy: (205) 326-4075

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SUNTRUST BANK, ATLANTA

Commitment:

\$20,000,000.00

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address for Notices

SunTrust Bank, Atlanta

25 Park Place, Mail Code 120  
P.O. Box 4418  
Atlanta, GA 30303  
Attn: Mr. David Edge  
Telephone: (404) 827-6735  
Telecopy: (404) 827-6270

Address for Loans

SunTrust Bank, Atlanta  
25 Park Place  
P.O. Box 4418  
Atlanta, GA 30303  
Attn: Mr. Tra Bradley  
Telephone: (404) 658-4624  
Telecopy: (404) 575-2730

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Exhibit A-1

NOTE

\$ \_\_\_\_\_, ----

FOR VALUE RECEIVED, the undersigned, BEAZER HOMES USA, INC., a Delaware corporation (the "Borrower") HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ (the "Bank") to THE FIRST NATIONAL BANK OF CHICAGO, as Agent, at the Agent's Office located at One First National Plaza, Chicago, IL, for the account of the applicable Lending Office of the Bank, in lawful money of the United States and in immediately available funds, the principal amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) or the aggregate unpaid principal amount of all Loans made to the Borrower by the Bank pursuant to the Credit Agreement and outstanding on the Termination Date, whichever is less, and to pay interest from the date of this Note, in like money, at said office for the account of the applicable Lending Office, at the time and at a rate per annum as provided in the Credit Agreement. The Bank is hereby authorized by the Borrower to endorse on the schedule attached to the Note held by it the amount and type of each Loan and each renewal, conversion, and payment of principal amount received by the Bank for the account of the applicable Lending Office on account of its Loans, which endorsement shall, in the absence of manifest error, be conclusive as to the outstanding balance of the Loans made by the Bank; provided, however, that the failure to make such notation with respect to any Loan or renewal, conversion, or payment shall not limit or otherwise affect the obligations of the Borrower hereunder.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Amended and Restated Credit Agreement, dated as of November 3, 1998, between the Borrower, the Guarantors, the Bank and certain other banks parties thereto (which, as it may be amended, modified, renewed or extended from time to time, is herein called the "Credit Agreement"). Terms used herein which are defined in the Credit Agreement shall have their defined meanings when used herein. The Credit Agreement, among other things, contains provisions for acceleration of the maturity of this Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Note upon the terms and conditions specified in the Credit Agreement.

The Borrower hereby agrees to pay all reasonable costs and expenses (including reasonable attorney's fees and expenses) paid or incurred by the holder of this Note in the collection of any principal or interest payable under this Note or the enforcement of this Note or any other Loan Documents.

This Note shall be governed by the laws of the State of Illinois.

BEAZER HOMES USA, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SCHEDULE TO NOTE

Date Made or Paid	Type of Loan	Amount of Principal Paid	Unpaid Principal Balance of Note	Name of Person Making Notation
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Exhibit A-2

AMENDED AND RESTATED NOTE

\$ \_\_\_\_\_, ----

FOR VALUE RECEIVED, the undersigned, BEAZER HOMES USA, INC., a Delaware corporation (the "Borrower") HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ (the "Bank") to THE FIRST NATIONAL BANK OF CHICAGO, as Agent, at the Agent's Office located at One First National Plaza, Chicago, IL, for the account of the applicable Lending Office of the Bank, in lawful money of the United States and in immediately available funds, the principal amount of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) or the aggregate unpaid principal amount of all Loans made to the Borrower by the Bank pursuant to the Credit Agreement and outstanding on the Termination Date, whichever is less, and to pay interest from the date of this Note, in like money, at said office for the account of the applicable Lending Office, at the time and at a rate per annum as provided in the Credit Agreement. The Bank is hereby authorized by the Borrower to endorse on the schedule attached to the Note held by it the amount and type of each Loan and each renewal, conversion, and payment of principal amount received by the Bank for the account of the applicable Lending Office on account of its Loans, which endorsement shall, in the absence of manifest error, be conclusive as to the outstanding balance of the Loans made by the Bank; provided, however, that the failure to make such notation with respect to any Loan or renewal, conversion, or payment shall not limit or otherwise affect the obligations of the Borrower hereunder.

This Amended and Restated Note amends and restates a certain Note dated \_\_\_\_\_ made by the Borrower payable to the order of the Bank in the principal amount of \$ \_\_\_\_\_, which Note has been cancelled. This Amended and Restated Note is one of the Notes referred to in, and is entitled to the benefits of, the Amended and Restated Credit Agreement, dated as of November 3, 1998, between the Borrower, the Guarantors, the Bank and certain other banks parties thereto (which, as it may be amended, modified, renewed or extended from

time to time, is herein called the "Credit Agreement"). Terms used herein which are defined in the Credit Agreement shall have their defined meanings when used herein. The Credit Agreement, among other things, contains provisions for acceleration of the maturity of this Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Note upon the terms and conditions specified in the Credit Agreement.

The Borrower hereby agrees to pay all reasonable costs and expenses (including reasonable attorney's fees and expenses) paid or incurred by the holder of this Note in the collection of any principal or interest payable under this Note or the enforcement of this Note or any other Loan Documents.

This Note shall be governed by the laws of the State of Illinois.

BEAZER HOMES USA, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SCHEDULE TO AMENDED AND RESTATED NOTE

Date Made or Paid	Type of Loan	Amount of Principal Paid	Unpaid Principal Balance of Note	Name of Person Making Notation
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Exhibit B

COMMITMENT AND ACCEPTANCE

This Commitment and Acceptance (this "Commitment and Acceptance") dated as of \_\_\_\_\_, \_\_\_\_\_, is entered into among the parties listed on the signature pages hereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement (as defined below).

PRELIMINARY STATEMENTS

Reference is made to that certain Amended and Restated Credit

Agreement dated as of November 3, 1998, by and among Beazer Homes USA, Inc., as Borrower, the Guarantors party thereto, The First National Bank of Chicago, as Agent, and the Banks that are parties thereto (as the same may from time to time be amended, modified, supplemented or restated, in whole or in part and without limitation as to amount, terms, conditions or covenants, the "Credit Agreement").

Pursuant to Section 2.22 of the Credit Agreement, the Borrower has requested an increase in the Aggregate Commitments from \$\_\_\_\_\_ to \$\_\_\_\_\_. Such increase in the Aggregate Commitments is to become effective on \_\_\_\_\_, \_\_\_\_\_ (the "Increase Date") [THIS DATE IS TO BE MUTUALLY AGREED UPON BY THE BORROWER, THE ACCEPTING BANK AND THE AGENT IN ACCORDANCE WITH THE PROVISIONS OF SECTION 2.22(c) OF THE CREDIT AGREEMENT]. In connection with such requested increase in the Aggregate Commitments, the Borrower, the Agent and \_\_\_\_\_ (the "Accepting Bank") hereby agree as follows:

1. ACCEPTING BANK'S COMMITMENT. Effective as of the Increase Date, [the Accepting Bank shall become a party to the Credit Agreement as a Bank, shall have all of the rights and obligations of a Bank thereunder, shall agree to be bound by the terms and provisions thereof and shall thereupon have a Commitment under and for purposes of the Credit Agreement in the amount equal to the] [the Commitment of the Accepting Bank under the Credit Agreement shall be increased from \$\_\_\_\_\_ to the ] amount set forth opposite the Accepting Bank's name on the signature pages hereof.

[2. REPRESENTATIONS AND AGREEMENTS OF THE ACCEPTING BANK. The Accepting Bank (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements requested by the Accepting Bank and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into the Commitment and Acceptance, (ii) agrees that it will, independently and without reliance upon the Agent or any Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, (iii) appoints and authorizes the Agent to take such action as Agent on its behalf and to exercise such powers under the Loan Documents as

are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto, (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Bank, (v) agrees that its payment instructions and notice instructions are as set forth in the attachment to Schedule 1, (vi) confirms that none of the funds, monies, assets or other consideration being used to make the commitment and acceptance hereunder are "plan assets" as defined under ERISA and that its rights, benefits and interests in and under the Loan Documents will not be "plan assets" under ERISA, [and (vii) attaches the forms prescribed by the Internal Revenue Service of the United States certifying that the Accepting Bank is entitled to receive payments under the Loan Documents without deduction or withholding of any United States federal income taxes].\*

\*Paragraph 2 to be inserted only if the Accepting Bank is not already a party to the Credit Agreement prior to the Increase Date, and subparagraph 2(vii) to be inserted only if such Accepting Bank is not incorporated under the laws of the United States, or a state thereof.]

3. REPRESENTATION OF BORROWER. The Borrower hereby represents and warrants that as of the date hereof and as of the Increase Date, no event or condition shall have occurred and then be continuing which constitutes a Default or Event of Default.

4. GOVERNING LAW. This Commitment and Acceptance shall be governed by the internal law, and not the law of conflicts, of the State of Illinois.

5. NOTICES. For the purpose of notices to be given under the Credit Agreement, the address of the Accepting Bank (until notice of a change is delivered) shall be the address set forth in Schedule 1.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment AGREEMENT by their duly authorized officers as of the date first above written.

BORROWER:

BEAZER HOMES USA, INC.

By: \_\_\_\_\_

Name:

Title:

AGENT:

THE FIRST NATIONAL BANK OF CHICAGO, as Agent

By: \_\_\_\_\_

Name:

Title:

\$ \_\_\_\_\_

ACCEPTING BANK:

[NAME OF ACCEPTING BANK]

By: \_\_\_\_\_

Name:

Title:

Exhibit C

The opinion of Paul, Hastings, Janofsky & Walker LLP, to be rendered pursuant to Section 3.01(5) of the Credit Agreement dated as of November 3, 1998 (the "Credit Agreement"; any capitalized term used herein and not otherwise defined herein shall have the meaning assigned to such term in the Credit Agreement) among Beazer Homes USA, Inc., the Original Guarantors parties thereto, the banks whose names appear on the signature pages thereof and The First National Bank of Chicago, as Agent, shall be substantially to the following effect:

a) The Borrower and each of Beazer Mortgage Corporation, a Delaware corporation, Beazer Homes Corp., a Tennessee corporation, Beazer Homes Sales Arizona Inc., a Delaware corporation, Beazer Homes Holding Corp., a Delaware corporation, Beazer Homes Texas Holdings, Inc., a Delaware corporation and Beazer Homes Texas, L.P., a Delaware limited partnership (collectively the "Guarantors") is a corporation duly incorporated (or, in the case of Beazer Homes Texas, L.P., a partnership duly formed), validly existing, and in good standing under the laws of the jurisdiction of its incorporation or formation and has all requisite power and authority, corporate or otherwise, to conduct its business, to own its properties and to execute and deliver, and to perform all of its obligations under the Loan Documents.

b) The execution and delivery by the Borrower and each Guarantor of the Loan Documents and the performance of their respective obligations thereunder have been duly authorized by all necessary corporate or other action and do not and will not (i) require any consent or approval of its stockholders, (ii) violate any provision of any law, rule or regulation (including, without limitation, Regulation G, T, U or X of the Board of Governors of the Federal Reserve System), or, to our knowledge, any order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to it which violation would (x) impair its ability to perform its obligations under the Loan Documents or (y) have a material adverse effect on its financial condition, properties, or operations, or on its charter or by-laws, (iii) to our knowledge, result in a breach of or constitute a default under any indenture or lease or loan or credit agreement or any other material agreement or instrument to which it is a party or by which it or its properties may be bound or affected, or (iv) to our knowledge, result in, or require, the creation or imposition of any Lien upon any of the properties now owned or hereafter acquired by it.

c) No authorization, consent, approval, license, exemption of or filing or registration with any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, is or will be necessary for

the valid execution, delivery or performance by the Borrower and each Guarantor of the Loan Documents.

d) Except as have been disclosed to the Agent and the Banks in writing, there are to our knowledge no actions, suits or proceedings pending or threatened against the Borrower or any Subsidiary or their properties before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, the probable outcome of which would have a material adverse effect on the consolidated financial condition, properties, or operations of the Borrower and its Subsidiaries taken as a whole.

In rendering the foregoing opinion with respect to Beazer Homes Corp., we have relied upon the opinion of Tune, Entekin & White as to matters of Tennessee law.

In rendering the foregoing opinion we express no opinion as to the effect (if any) of any laws of any jurisdiction, except those of the General Corporation Law and Revised Uniform Limited Partnership Act of the State of Delaware, the Federal laws of the United States and, to the extent provided for in the preceding paragraph, the laws of Tennessee.

We express no opinion with respect to Beazer Realty Corp., a Georgia corporation, Beazer/Squires Realty, Inc., a North Carolina corporation or Panitz Homes Realty, Inc., a Florida corporation.

Exhibit D

The opinion of Illinois counsel to be rendered pursuant to Section 3.01(5) of the Credit Agreement dated as of November 3, 1998 (the "Credit Agreement"; any capitalized term used herein and not otherwise defined herein shall have the meaning assigned to such term in the Credit Agreement) among Beazer Homes USA, Inc., the Guarantors parties thereto, the banks whose names appear on the signature page thereof and The First National Bank of Chicago, as Agent, shall be substantially to the following effect:

The Loan Documents, when executed and delivered by the parties thereto, will constitute the legal, valid and binding obligations of the

Borrower and each Guarantor enforceable against it in accordance with their respective terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium, fraudulent transfer or similar laws affecting creditors' rights generally or by general equitable principles.

Counsel is a member of the Bar of the State of Illinois.

In rendering the foregoing opinion we express no opinion as to the effect (if any) of any laws of any jurisdiction, except those of the State of Illinois and the Federal laws of the United States.

Exhibit E

The First National Bank of Chicago,  
as Agent  
One First National Plaza  
Chicago, Illinois 60670

Re: Credit Agreement dated as of November  
3, 1998 (the "Credit Agreement")  
among Beazer Homes USA, Inc., the  
Guarantors parties thereto, and  
each of the banks ("Banks")  
parties thereto

Ladies and Gentlemen:

We have acted as your special counsel in connection with the Credit Agreement. Terms used in the Credit Agreement are used herein as defined therein.

We have examined the opinions (the "Opinions") and other documents delivered by the Borrower and the Guarantors pursuant to Article III of the Credit Agreement. We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to the originals of all documents submitted to us as copies and the due authority of all persons executing the same. We have relied as to factual matters on the documents which we have reviewed, and as to matters of law covered by the Opinions on such Opinions. We are qualified to practice law in the State of Illinois and we do not purport to be experts on, or to express any opinion herein concerning, the laws of any other jurisdiction.

Subject to the exceptions expressed in the preceding paragraph and while we have not independently considered the matters covered by the Opinions to the extent necessary to enable us to express the conclusions therein stated, we are of the opinion that the Opinions and other documents

delivered pursuant to Article III of the Credit Agreement are substantially responsive to the requirements of said Section. In that regard, we note that such Section does not require the Opinions to address matters relating to Beazer Realty Corp., a Georgia corporation, Beazer/Squires Realty, Inc., a North Carolina corporation, or Panitz Homes Realty, Inc., a Florida corporation.

Very truly yours,



Exhibit F

The opinion of local counsel to be rendered pursuant to Section 3.01(10) of the Credit Agreement dated as of November 3, 1998, "Credit Agreement"; any capitalized term used herein and not otherwise defined herein shall have the meaning assigned to such term in the Credit Agreement) among Beazer Homes USA, Inc., the Guarantors parties thereto, the banks whose names appear on the signature page thereof and The First National Bank of Chicago, as Agent, shall be substantially to the following effect:

a) The Guarantor is a corporation duly incorporated validly existing, and in good standing under the laws of the jurisdiction of its incorporation, and has all requisite power and authority, corporate or otherwise, to conduct its business, to own its properties and to execute and deliver, and to perform all of its obligations under the Loan Documents.

b) The execution and delivery by the Guarantor of the Credit Agreement and the performance of its obligations thereunder have been duly authorized by all necessary corporate or other action and do not and will not (i) require any consent or approval of its stockholders, or (ii) violate any provision of any law, rule or regulation (including, without limitation, Regulation G, T, U or X of the Board of Governors of the Federal Reserve System), or, to our knowledge, any order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to it which violation would (x) impair its ability to perform its obligations under the Loan Documents (y) have a material adverse effect on its financial condition, properties, or operations, or on its charter or by-laws.

c) No authorization, consent, approval, license, exemption of or filing or registration with any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, is or will be necessary for the valid execution, delivery or performance by the Guarantor of the Credit Agreement.

d) Except as have been disclosed to the Agent and the Banks in writing, there are to our knowledge no actions, suits or proceedings pending or threatened against the Guarantor or its properties before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, the probable outcome of which would have a material adverse effect on the consolidated financial condition, properties, or operations of the Guarantor.

Counsel is a member of the Bar of the State of \_\_\_\_\_.

In rendering the foregoing opinion we express no opinion as to the effect (if any) of any laws of any jurisdiction, except those of the State of \_\_\_\_\_, and the Federal laws of the United States.

Exhibit G

CERTIFICATE

This Certificate is delivered pursuant to the Amended and Restated Credit Agreement dated as of November 3, 1998 among Beazer Homes USA, Inc., The First National Bank of Chicago as Agent, the Banks party thereto and the Guarantors party thereto (the "Credit Agreement"). Capitalized terms used

herein and not defined herein shall have the meanings provided therefor in the Credit Agreement. This Certification is delivered in connection with [a notice requesting a Borrowing under Section 2.03 OR a notice requesting issuance, amendment or extension of a Facility Letter of Credit under Section 13.04]\*.

The undersigned hereby certifies as follows:

1. The representations and warranties contained in Article IV of the Credit Agreement are correct on and as of the [date of such Borrowing OR Issuance Date]\* as though made on and as of such date except to the extent that any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty is correct as of such earlier date.

2. No Default or Event of Default has occurred and is continuing and would result from [such Borrowing OR the issuance, amendment or extension of such Facility Letter of Credit]\*.

3. Upon [such Borrowing OR the issuance, amendment or extension of such Facility Letter of Credit]\*, the Permitted Senior Debt shall not exceed the Borrowing Base as set forth in the Borrowing Base Certificate delivered by the Borrower to the Agent as of the most recent Inventory Valuation Date, which Borrowing Base Certificate is true and correct as of such Inventory Valuation Date.

Date:

-----

-----  
 David J. Weiss  
 Executive Vice President and  
 Chief Financial Officer  
 Beazer Homes USA, Inc.

\*Include appropriate portion of bracketed provision

Exhibit H

Subsidiaries of Borrower

Subsidiary	State of Incorporation	Borrower's % Ownership
Beazer Mortgage Corporation	Delaware	100%
Beazer Homes Corp.	Tennessee	100%
Beazer Home Sales Arizona Inc.	Delaware	100%
Beazer Realty Corp.	Georgia	100%
Beazer/Squires Realty, Inc.	North Carolina	100%
Panitz Homes Realty, Inc.	Florida	100%
Beazer Homes Holdings Corp.	Delaware	100%
Beazer Homes Texas Holdings, Inc.	Delaware	100%
Beazer Homes Texas, L.P.	Delaware	99% (1)
United Home Insurance Corporation	Vermont	100%

- - - - -

(1) The remaining 1% is held by Beazer Homes Texas Holdings, Inc.

ASSIGNMENT AGREEMENT

This Assignment Agreement (this "Assignment Agreement")  
between \_\_\_\_\_ (the "Assignor") and \_\_\_\_\_ (the "Assignee")  
is dated as of \_\_\_\_\_, 19\_\_\_. The parties hereto agree as follows:

1. PRELIMINARY STATEMENT. The Assignor is a party to a Credit Agreement (which, as it may be amended, modified, renewed or extended from time to time, is herein called the "Credit Agreement") described in Item 1 of Schedule 1 attached hereto ("Schedule 1"). Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement.

2. ASSIGNMENT AND ASSUMPTION. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement such that after giving effect to such assignment the Assignee shall have purchased pursuant to this Assignment Agreement the percentage interest specified in Item 3 of Schedule 1 of all outstanding rights and obligations under the Credit Agreement relating to the facilities listed in Item 3 of Schedule 1 and the other Loan Documents. The Commitment (or Loans, if the applicable Commitment has been terminated) purchased by the Assignee hereunder is set forth in Item 3 of Schedule 1.

3. EFFECTIVE DATE. The effective date of this Assignment Agreement (the "Effective Date") shall be the later of the date specified in Item 3 of Schedule 1 or two Business Days (or such shorter period agreed to by the Agent) after a Notice of Assignment substantially in the form of Exhibit 1 attached hereto has been delivered to the Agent. Such Notice of Assignment must include any consents required to be delivered to the Agent by Section 12.03 of the Credit Agreement (including the consent of the Agent). In no event will the Effective Date occur if the payments required to be made by the Assignee to the Assignor on the Effective Date under Sections 4 and 5 hereof are not made on the proposed Effective Date. The Assignor will notify the Assignee of the proposed Effective Date no later than the Business Day prior to the proposed Effective Date. As of the Effective Date, (i) the Assignee shall have the rights and obligations of a Bank under the Loan Documents with respect to the rights and obligations assigned to the Assignee hereunder and (ii) the Assignor shall relinquish its rights and be released from its corresponding obligations under the Loan Documents with respect to the rights and obligations assigned to the Assignee hereunder.

4. PAYMENTS, OBLIGATIONS. On and after the Effective Date, the Assignee shall be entitled to receive from

the Agent all payments of principal, interest and fees with respect to the interest assigned hereby. The Assignee shall advance funds directly to the Agent with respect to all Loans and reimbursement payments made on or after the Effective Date with respect to the interest assigned hereby. [In consideration for the sale and assignment of Loans hereunder, (i) the Assignee shall pay the Assignor on the Effective Date, an amount equal to the principal amount of the portion of all ABR Loans assigned to the Assignee hereunder and (ii) with respect to each LIBOR Loan made by the Assignor and assigned to the Assignee hereunder which is outstanding on the Effective Date, (a) on the last day of the Interest Period therefor or (b) on such earlier date agreed to by the Assignor and the Assignee or (c) on the date on which any such LIBOR Loan either becomes due (by acceleration or otherwise) or is prepaid (the date as described in the foregoing clauses (a), (b) or (c) being hereinafter referred to as the "Payment Date"), the Assignee shall pay the Assignor an amount equal to the principal amounts of the portion of such LIBOR Loan assigned to the Assignee which is outstanding on the Payment Date. If the Assignor and the Assignee agree that the Payment Date for such LIBOR Loan shall be the Effective Date, they shall agree

to the interest rate applicable to the portion of such Loan assigned hereunder for the period from the Effective Date to the end of the existing Interest Period applicable to such LIBOR Loan (the "Agreed Interest Rate") and any interest received by the Assignee in excess of the Agreed Interest Rate shall be remitted to the Assignor. In the event interest for the period from the Effective Date to but not including the Payment Date is not paid by the Borrower with respect to any LIBOR Loan sold by the Assignor to the Assignee hereunder, the Assignee shall pay to the Assignor interest for such period on the portion of such LIBOR Loan sold by the Assignor to the Assignee hereunder at the applicable rate provided by the Credit Agreement. In the event a prepayment of any LIBOR Loan which is existing on the Payment Date and assigned by the Assignor to the Assignee hereunder occurs after the Payment Date but before the end of the Interest Period applicable to such LIBOR Loan, the Assignee shall remit to the Assignor the excess of the prepayment penalty paid with respect to the portion of such LIBOR Loan assigned to the Assignee hereunder over the amount which would have been paid if such prepayment penalty was calculated based on the Agreed Interest Rate. The Assignee will also promptly remit to the Assignor (i) any principal payments received from the Agent with respect to LIBOR Loans prior to the Payment Date and (ii) any amounts of interest on Loans and fees received from the Agent which relate to the portion of the Loans assigned to the Assignee hereunder for periods prior to the Effective Date, in the case of ABR Loans, or the Payment Date, in the case of LIBOR Loans, and not previously paid by the Assignee to the Assignor.]\* In the event that either party hereto receives any payment to which the other party hereto is entitled under this Assignment Agreement, then the party receiving such amount shall promptly remit it to the other party hereto.

\*The parties may insert alternative payment provisions in lieu of the payment terms included in this Exhibit.

5. FEES PAYABLE BY THE ASSIGNEE. [To the extent applicable, the Assignee shall pay to the Assignor a fee on each day on which a payment of interest or commitment fee is made under the Credit Agreement with respect to the amounts assigned to the Assignee hereunder (other than a payment of interest or commitment fee for the period prior to the Effective Date or, in the case of LIBOR Loans, the Payment Date, which the Assignee is obligated to deliver to the Assignor pursuant to Section 4 hereof). The amount of such fee shall be the difference between (i) the interest or fee, as applicable, paid with respect to the amounts assigned to the Assignee hereunder and (ii) the interest or fee, as applicable, which would have been paid with respect to the amounts assigned to the Assignee hereunder if each interest rate was \_\_\_ of 1% less than the interest rate paid by the Borrower or if the commitment fee was \_\_\_\_\_ of 1% less than the commitment fee paid by the Borrower, as applicable. In addition, the Assignee agrees to pay \_\_\_\_\_% of the recordation fee required to be paid to the Agent pursuant to the Credit Agreement in connection with this Assignment Agreement.]\*

\*The parties may insert alternative payment provisions in lieu of the payment terms included in this Exhibit.

6. REPRESENTATIONS OF THE ASSIGNOR: LIMITATIONS ON THE ASSIGNOR'S LIABILITY. The Assignor represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim created by the Assignor. It is understood and agreed that the assignment and assumption hereunder are made without recourse to the Assignor and that the Assignor makes no other representation or warranty of any kind to the Assignee. Neither the Assignor nor any of its officers, directors, employees, agents or attorneys shall be responsible for (i) the due execution, legality, validity, enforceability, genuineness, sufficiency or collectibility of any Loan Documents, including without limitation, documents granting the Assignor and the other Banks a security interest in assets of the Borrower, any Subsidiary, or any Guarantor, (ii) any representation, warranty or statement made in or in connection with any of the Loan Documents, (iii) the financial condition or creditworthiness of the Borrower, any Subsidiary, or any Guarantor, (iv) the performance of or compliance with any of the terms or provisions of any of the Loan Documents, (v) inspecting any of the property, books or records of the Borrower, any

Subsidiary, or any Guarantor, (vi) the validity, enforceability, perfection, priority, condition, value or sufficiency of any collateral securing or purporting to secure the Loans or (vii) any mistake, error of judgment, or action taken or omitted to be taken in connection with the Loans or the Loan Documents.

7. REPRESENTATIONS OF THE ASSIGNEE. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of such financial statements requested by the Assignee and such other documents and information as it has

deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement, (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, (iii) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto, (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Bank, (v) agrees that its payment instructions and notice instructions are as set forth in the attachment to Schedule 1, (vi) confirms that none of the funds, monies, assets or other consideration being used to make the purchase and assumption hereunder are "plan assets" as defined under ERISA and that its rights, benefits and interests in and under the Loan Documents will not be "plan assets" under ERISA, [and (vii) attaches the forms prescribed by the Internal Revenue Service of the United States certifying that the Assignee is entitled to receive payments under the Loan Documents without deduction or withholding of any United States federal income taxes]\* and (viii) represents and warrants that the assignment hereunder does not and will not, as of the effective date of such assignment, result in any increased costs or expenses, including without limitation pursuant to Section 2.14 or 2.15 of the Credit Agreement, payable by the Borrower or any Guarantor.

\*to be inserted if the Assignee is not incorporated under the laws of the United States, or a state thereof.

8. INDEMNITY. The Assignee agrees to indemnify and hold the Assignor harmless against any and all losses, costs and expenses (including, without limitation, reasonable attorneys' fees) and liabilities incurred by the Assignor in connection with or arising in any manner from the Assignee's non-performance of the obligations assumed under this Assignment Agreement.

9. SUBSEQUENT ASSIGNMENTS. After the Effective Date, the Assignee shall have the right pursuant to Section 12.03 of the Credit Agreement to assign the rights which are assigned to the Assignee hereunder to any entity or person, provided that (i) any such subsequent assignment does not violate any of the terms or conditions of the Loan Documents or any law, rule, regulation, order, writ, judgment, injunction or decree and that all consents required under the terms of the Loan Documents have been obtained and (ii) unless the prior written consent of the Assignor is obtained, the Assignee is not thereby released from its obligations to the Assignor hereunder, if any remain unsatisfied, including, without limitation, its obligations under Sections 4, 5 and 8 hereof.

10. REDUCTIONS OF AGGREGATE COMMITMENTS. If any reduction in the Aggregate Commitments (other than pursuant to Section 2.19(c) of the Credit Agreement) occurs between the date of this Assignment Agreement and the Effective Date, the percentage interest specified in Item 3 of Schedule 1 shall remain the same, but the dollar amount purchased shall be recalculated based on the reduced Commitment of the Assignor.

11. ENTIRE AGREEMENT. This Assignment Agreement and the

attached Notice of Assignment embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings between the parties hereto relating to the subject matter hereof.

12. GOVERNING LAW. This Assignment Agreement shall be governed by and construed in accordance with, the laws of the State of Illinois without regard to principles of conflict of laws.

13. NOTICES. Notices shall be given under this Assignment Agreement in the manner set forth in the Credit Agreement. For the purpose hereof the addresses of the parties hereto (until notice of a change is delivered) shall be the addresses set forth in the attachment to Schedule 1.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment Agreement by their duly authorized officers as of the date first above written.

[NAME OF ASSIGNOR]

By: \_\_\_\_\_  
 Title: \_\_\_\_\_

[NAME OF ASSIGNEE]

By: \_\_\_\_\_  
 Title: \_\_\_\_\_

SCHEDULE 1  
 to Assignment Agreement

1. Description and Date of Credit Agreement:
2. Date of Assignment Agreement: \_\_\_\_\_, 19\_\_
3. Amounts (As of Date of Item 2 above):

	Facility 1*	Facility 2*	Facility 3*
a. Total of Commitments (Loans)** under Credit Agreement	\$ _____	\$ _____	\$ _____
b. Assignee's Percentage of each Facility purchased under the Assignment Agreement***	_____ %	_____ %	_____ %
c. Amount of Assigned Share in each Facility purchased under the Assignment Agreement	\$ _____	\$ _____	\$ _____
d. Assignee's aggregate Commitment Amount (Loan Amount)*** Purchased Hereunder:	\$ _____	\$ _____	\$ _____
e. Proposed Effective Date:	_____	_____	_____

Accepted and Agreed:

[NAME OF ASSIGNOR]

[NAME OF ASSIGNEE]

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

- \*Insert specific facility names per Credit Agreement
- \*\*If a Commitment has been terminated, insert outstanding Loans in place of Commitment
- \*\*\*Percentage taken to 10 decimal places

Attachment to SCHEDULE 1 to ASSIGNMENT AGREEMENT

Attach Assignor's Administrative Information Sheet, which must include notice address for the Assignor and the Assignee and the ABR Loan Lending Office address and the LIBOR Loan Lending Office address for the Assignee.

EXHIBIT 1  
to Assignment Agreement

NOTICE  
OF ASSIGNMENT

\_\_\_\_\_, 19\_\_

To: [NAME OF BORROWER]\*  
\_\_\_\_\_  
\_\_\_\_\_

[NAME OF AGENT]  
\_\_\_\_\_  
\_\_\_\_\_

From: [NAME OF ASSIGNOR] (the "Assignor")  
[NAME OF ASSIGNEE] (the "Assignee")

1. We refer to that certain Credit Agreement (the "Credit Agreement") described in Item I of Schedule 1 attached hereto ("Schedule 1"). Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement.

2. This Notice of Assignment (this "Notice") is given and delivered to [the Borrower and]\* the Agent pursuant to Section 12.03 of the Credit Agreement.

3. The Assignor and the Assignee have entered into an Assignment Agreement, dated as of \_\_\_\_\_, 19\_\_ (the "Assignment"), pursuant to which, among other things, the Assignor has sold, assigned, delegated and transferred to the Assignee, and the Assignee has purchased, accepted and assumed from the Assignor the percentage interest specified in Item 3 of

Schedule 1 of all outstanding rights and obligations under the Credit Agreement relating to the facilities listed in Item 3 of Schedule 1. The Effective Date of the Assignment shall be the later of the date specified in Item 5 of Schedule 1 or two Business Days (or such shorter period as agreed to by the Agent) after this Notice of Assignment and any consents and fees required by Section 12.03 of the Credit Agreement have been delivered to the Agent, provided that the Effective Date shall not occur if any condition precedent agreed to by the Assignor and the Assignee has not been satisfied.

\*To be included only if consent must be obtained from the Borrower pursuant to Section 12.03 of the Credit Agreement.

4. The Assignor and the Assignee hereby give to the Borrower and the Agent notice of the assignment and delegation referred to herein. The Assignor will confer with the Agent before the date specified in Item 5 of Schedule 1 to determine if the Assignment Agreement will become effective on such date pursuant to Section 3 hereof, and will confer with the Agent to determine the Effective Date pursuant to Section 3 hereof if it occurs thereafter. The Assignor shall notify the Agent if the Assignment Agreement does not become effective on any proposed Effective Date as a result of the failure to satisfy the conditions precedent agreed to by the Assignor and the Assignee. At the request of the Agent, the Assignor will give the Agent written confirmation of the satisfaction of the conditions precedent.

5. The Assignor or the Assignee shall pay to the Agent on or before the Effective Date the processing fee of \$4,000.00 required by Section 12.03 of the Credit Agreement.

6. If any Notes are outstanding on the Effective Date, the Assignor and the Assignee request and direct that the Agent prepare and cause the Borrower to execute and deliver new Notes or, as appropriate, replacement Notes, to the Assignor and the Assignee. The Assignor and, if applicable, the Assignee each agree to deliver to the Agent the original Note received by it from the Borrower upon its receipt of a new Note (or replacement Note) in the appropriate amount, whereupon such original Note shall be marked "canceled" and returned to the Borrower.

7. The Assignee advises the Agent that notice and payment instructions are set forth in the attachment to Schedule 1.

8. The Assignee hereby represents and warrants that none of the funds, monies, assets or other consideration being used to make the purchase pursuant to the Assignment Agreement are "plan assets" as defined under ERISA and that its rights, benefits, and interests in and under the Loan Documents will not be "plan assets" under ERISA.

9. The Assignee authorizes the Agent to act as its agent under the Loan Documents in accordance with the terms thereof. The Assignee acknowledges that the Agent has no duty to supply information with respect to the Borrower or the Loan Documents to the Assignee until the Assignee becomes a party to the Credit Agreement.\*

\*May be eliminated if Assignee is a party to the Credit Agreement prior to the Effective Date.

NAME OF ASSIGNOR

NAME OF ASSIGNEE

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

ACKNOWLEDGED [AND CONSENTED

ACKNOWLEDGED [AND CONSENTED



TO] BY (NAME OF AGENT]

TO] BY (NAME OF BORROWER]

By: -----

By: -----

Title: -----

Title: -----

[Attach photocopy of Schedule 1 to Assignment)

## EXHIBIT 11

BEAZER HOMES USA, INC.  
 STATEMENT RE COMPUTATION OF PER SHARE EARNINGS  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year ended September 30,		
	1998	1997	1996
Basic:			
Earnings			
Net income	\$23,201	\$11,189	\$18,266
Less: Dividends on preferred shares	4,000	4,000	4,000
Net income applicable to common shareholders	\$19,201	\$7,189	\$14,266
Shares			
Weighted average number of common shares outstanding	5,864	6,088	6,375
Basic net income per share	\$3.27	\$1.18	\$2.24
Diluted:			
Earnings			
Net income applicable to common shareholders	\$19,201	\$ 7,189	\$14,266
Plus: Dividend on preferred shares	4,000	n/a	4,000
Adjusted net income applicable to common shareholders	\$23,201	\$11,189	\$18,266
Shares			
Weighted average number of common shares outstanding	5,864	6,088	6,375
Effect of dilutive securities:			
Assumed conversion of preferred shares	2,625	n/a	2,625
Restricted stock	163	142	99
Options to acquire common stock	79	44	1
Diluted weighted average number of common shares outstanding	8,731	6,274	9,100
Diluted earnings per share	\$2.66	\$1.15	\$2.01

BEAZER HOMES  
1998 ANNUAL REPORT

MAKING IT  
HAPPEN

RECORD RESULTS  
IN OUR FIFTH YEAR AS A PUBLIC COMPANY

GROWTH RE-IGNITED  
IN 1998 WITH KEY ACQUISITIONS  
AND INTERNAL EXPANSION

ROUNDTABLE DISCUSSION  
WITH BEAZER HOMES MANAGEMENT

MAKING IT HAPPEN

Two years ago, Beazer Homes USA began implementing a number of plans to improve profitability. We consciously leveled off our growth and concentrated on four primary initiatives: A focus on beating our cost of capital and creating value. Opening mortgage origination operations. Increasing our use of design centers to improve margins. And implementing new information systems to improve operational efficiency. Our efforts have more than paid off. Fiscal 1998 was a record year for Beazer Homes, and we have entered a new stage of development, characterized by improved profitability and renewed growth. Beazer Homes is "Making It Happen."

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BEAZER HOMES MANAGEMENT

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BUSINESS DESCRIPTION

BeazerHomes USA, Inc., headquartered in Atlanta, Georgia, is one of the nation's largest geographically diversified homebuilders. The Company currently has operations in 12 states: five in the Southeast, three in the Southwest, three in the Mid-Atlantic region and Texas. Beazer Homes focuses on building quality homes that provide value to entry-level and first-move-up home buyers. The Company has been doing business in the United States since 1985 and has been listed on the New York Stock Exchange since 1994. Its common stock is traded under the symbol "BZH."

#### KEY TRENDS AND INITIATIVES

The California homebuilding market came roaring back in 1998. Prices and profit margins expanded by even more than the number of homes closed. The Beazer divisions in both southern (San Diego, Orange County, Riverside/San Bernadino, Ventura and Los Angeles areas) and northern (Sacramento) California took full advantage of the rebound of the California market to post records for volume and profitability in 1998.

#### MARKET POSITION

#2 in Sacramento  
Top 10 in southern California

#### NEVADA

#### KEY TRENDS AND INITIATIVES

Gross margins improved dramatically in Nevada in 1998, as Beazer closed out older, less profitable subdivisions and concentrated on fewer communities and a lower level of investment. With Las Vegas likely near its peak of homebuilding activity, Beazer does not expect to expand significantly in this market in the short term.

#### MARKET POSITION

Top 15 in Las Vegas

#### ARIZONA

#### KEY TRENDS AND INITIATIVES

Phoenix continues to be Beazer's largest market, with 1,336 closings in 1998. Beazer has a strong focus on the affordable end of this market, although it also builds some move-up product there. Beazer is well positioned for future growth in Phoenix, with a low-cost land bank, equivalent to nearly three years of closings and a level of backlog up 82% as it enters fiscal 1999.

#### MARKET POSITION

#4 in Phoenix

#### TEXAS

#### KEY TRENDS AND INITIATIVES

Construction delays, caused by significant labor and raw materials shortages, resulted in a reduced number of closings in Beazer's Texas markets in 1998. Beazer enters 1999, however, with its backlog up over 50% in Texas. Texas' population is projected to have the second largest increase (after Florida) of any state over the next 10 years, fueled in great part by immigration.

#### MARKET POSITION

Top 15 in both Dallas and Houston

#### TENNESSEE

#### Key Trends and Initiatives

Through its Tennessee division, Phillips Builders, Beazer continues to hold the top spots in both Nashville and Knoxville, despite increased competition from national builders. Beazer continues to be very successful in the move-up and luxury segments while exploring more entry-level and first-time move-up opportunities for 1999.

#### MARKET POSITION

#1 in Knoxville  
#1 in Nashville

#### FLORIDA

#### KEY TRENDS AND INITIATIVES

Strong prospects for increases in employment and population, fueled by immigration, makes Florida a significant growth opportunity for Beazer. With two acquisitions, Beazer has now become the fourth largest builder in the Orlando market. Beazer's Panitz Homes division continues to dominate the first and second move-up segments of the Jacksonville market. Beazer is also expanding its presence in Ft. Myers and Tampa and expects significant growth in these markets in 1999.

MARKET POSITION

#3 in Jacksonville  
#4 in Orlando (combined Beazer and Snow Construction)  
Top 10 in Ft. Myers

NORTH AND SOUTH CAROLINA

KEY TRENDS AND INITIATIVES

Through its Carolinas division, Squires Homes, Beazer continues to expand its presence in the Carolinas. In 1998, Beazer achieved growth in its well established markets of Charlotte, Raleigh and Charleston, while increasing its market share in the newer markets of Columbia and Myrtle Beach and closing homes for the first time in Greenville. Beazer expects that its strategy of "satellite" markets leveraging off of a central hub in Charlotte will help provide further profitable growth in the Carolinas.

MARKET POSITION

#1 in Charleston  
#2 in Charlotte  
#4 in Columbia  
#2 in Raleigh  
#5 in Myrtle Beach

GEORGIA

KEY TRENDS AND INITIATIVES

Despite being the largest homebuilding market in the United States, Atlanta is also among the most fragmented and competitive. Beazer scaled back in this market in 1998, reducing its number of active subdivisions and re-deploying capital to other markets. Having reduced its level of investment significantly, Beazer's Atlanta operation is now experiencing an improved return on capital from eight core subdivisions.

MARKET POSITION

Top 15 in Atlanta

MID-ATLANTIC (MARYLAND,  
VIRGINIA AND NEW JERSEY)

KEY TRENDS AND INITIATIVES

In December 1998, Beazer completed its acquisition of Trafalgar House, with operations in Maryland, Virginia and New Jersey. Trafalgar House is the fourth largest builder in the Washington, D.C. metropolitan area, which is the third largest single family homebuilding market in the United States. With annual closings of over 1,000 homes and revenues of over \$200 million, Trafalgar House is expected to contribute significantly to Beazer's growth in 1999.

MARKET POSITION

#4 in Washington, D.C. metropolitan area  
Top 10 in central and southern New Jersey

NOTE: Market position represents a Company estimate based upon the most recent market data available. Market data consists of homes closed or sold.

COMPANY HIGHLIGHTS

DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA

FINANCIAL HIGHLIGHTS

	Year Ended September 30,		
	1998	1997	1996

STATEMENT OF OPERATIONS DATA

Homes closed .....	6,113	5,785	5,935
--------------------	-------	-------	-------

Total revenue .....	\$977,409	\$852,110	\$866,627
Earnings before interest and taxes ("EBIT")	\$ 56,525	\$ 33,051(i)	\$ 45,327
Net income .....	\$ 23,201	\$ 11,189(i)	\$ 18,266
Net income per common share			
Basic .....	\$ 3.27	\$ 1.18(i)	\$ 2.24
Diluted .....	\$ 2.66	\$ 1.15(i)	\$ 2.01

BALANCE SHEET DATA AT YEAR END

Total assets .....	\$525,591	\$399,595	\$356,643
Total debt .....	\$215,000	\$145,000	\$115,000
Stockholders' equity .....	\$199,224	\$179,286	\$178,701

RETURN DATA(ii)

Return on average assets .....	12.2%	8.7%(i)	12.9%
Return on average capital .....	15.3%	10.7%(i)	15.8%
Return on average equity .....	12.3%	6.3%(i)	10.6%

MARKET DATA

Year Ended September 30,

BACKLOG AT YEAR END	CLOSINGS	AVERAGE PRICE OF HOMES CLOSED	NUMBER OF ACTIVE SUBDIVISIONS AT YEAR END
------------------------	----------	-------------------------------------	--

SELECTED INFORMATION BY STATE

Arizona .....	478	1,336	\$ 127.6	32
California .....	182	1,154	\$ 173.4	18
Florida .....	342	677	\$ 178.0	41
Georgia .....	92	166	\$ 170.2	8
Nevada .....	83	491	\$ 161.3	9
North Carolina .....	226	777	\$ 141.8	25
South Carolina .....	182	445	\$ 121.6	16
Tennessee .....	154	428	\$ 196.0	23
Texas .....	318	639	\$ 171.0	31
TOTAL .....	2,057	6,113	\$ 156.4	203

(i) Fiscal 1997 results include the effect of a \$6,326 writedown of inventory in Nevada. EBIT, net income and diluted net income per common share excluding the writedown would be \$39,377, \$15,079 and \$1.70, respectively. Return on average assets, return on average capital and return on average equity excluding the writedown would be 10.4%, 12.7% and 8.4% respectively.

(ii) Return on average assets is defined as earnings before interest and taxes ("EBIT") divided by average total assets for the year. Return on average capital is defined as EBIT divided by average total debt plus stockholders' equity for the year. Return on average equity is defined as net income divided by average stockholders' equity.

BEAZER HOMES USA 1

DEAR SHAREHOLDERS,

WE ARE EXTREMELY PLEASED TO REPORT RECORD RESULTS IN OUR FIFTH FISCAL YEAR AS A PUBLIC COMPANY. BEAZER HOMES IS NOW IN A NEW STAGE OF ITS DEVELOPMENT A STAGE CHARACTERIZED BY IMPROVED PROFITABILITY AND RENEWED GROWTH.

This year's record results illustrate these trends:

IMPROVED PROFITABILITY

- o EBIT up to 5.8% of revenues from 3.9%.
- o Net income up 107% (54% compared to 1997 excluding writedown).
- o EPS up 131% (56% compared to 1997 excluding writedown).
- o Gross margin improved in each of the last six consecutive quarters.

RENEWED GROWTH

- o Revenues up 15%.
- o New orders up 24%.
- o Backlog at year end up 73% in units and 82% in dollar value.
- o Subsequent to year end completed Trafalgar House acquisition.

These results reflect the successful implementation of initiatives that we began two years ago. Now we are "Making It Happen."

CURRENT RESULTS REFLECT SUCCESS OF INITIATIVES STARTED IN 1996

Two years ago, we made a conscious decision to temporarily level off our growth and concentrate more heavily on improving our profitability. We committed to four key initiatives:

- o renewing our focus on beating our cost of capital and creating value,
- o opening mortgage origination operations at all locations,
- o increasing our use of design centers to better serve home buyers and improve margins and
- o implementing new information systems to assist in all these efforts.

We are proud to report on the success of all these efforts. In fiscal 1998:

- o our "Value Created" incentive compensation plan, implemented at the Corporate level in 1997, was extended throughout the Company,
- o Beazer Mortgage originated mortgages for all Beazer divisions,
- o we sold upgrades and options through 11 design centers and
- o our Executive Information System was used by all key operating managers.

The successful implementation of these initiatives has produced six consecutive quarters of gross margin improvement, and we currently project future improvements in margins based on the profitability in our record backlog.

GROWTH IS RE-IGNITED

Having achieved the results that we strove for with our profitability initiatives, we have now re-ignited the growth that characterized our early years as a public company.

During fiscal 1998, we completed the acquisition of an Orlando homebuilder and added to that with another acquisition in Orlando subsequent to year end. We began our joint venture with the largest homebuilder in Mexico to build affordable housing in the United States. We also increased our number of active subdivisions during the year and our investment in our ongoing operations.

These moves, as well as a buoyant U.S. economy, contributed to a dramatic increase in our backlog at year end. This increased backlog gives us confidence of further growth in 1999.

Subsequent to 1998 year end, we acquired the U.S. homebuilding operations of Trafalgar House, in Virginia, Maryland and New Jersey. Through this acquisition we will become the fourth largest builder in the Washington, D.C. metropolitan area. We believe that this is an excellent acquisition that expands our presence into a new region and should be accretive to our shareholders in fiscal 1999.

[Photograph Page 3]

- (l) BRIAN C. BEAZER
- (r) IAN J. MCCARTHY

[Bar Charts Page 3]

BACKLOG  
(in millions of dollars)

98	\$347.3
97	\$212.2
96	\$210.6
95	\$190.4
94	\$143.4

"At September 30, 1998 the dollar value of our backlog is up over 80%..."

2Q 97	14.3%
3Q 97	15.2%
4Q 97	15.8%
1Q 98	16.2%
2Q 98	16.3%
3Q 98	17.2%
4Q 98	17.7%

...and our gross margin, which has increased for the last six consecutive quarters, continues to improve."

BEAZER ENDS YEAR IN STRONGEST FINANCIAL POSITION EVER

While achieving record results and growth, we nevertheless continued to follow our conservative financial policies. We ended fiscal 1998 with a very strong financial position and significant liquidity. This gave us the ability to complete the acquisition of Trafalgar House using funds under our bank revolving credit facility, while still maintaining a conservative capital structure.

As we ended fiscal 1998, capital markets were extremely volatile. While we believe strongly in the fundamental trends that will provide long-term growth in housing, we understand that short-term volatility will create challenges and opportunities. The acquisition of Trafalgar House was one such opportunity. We intend to continue to have the financial flexibility to address these challenges and to take advantage of future opportunities.

LOOKING FORWARD TO CONTINUING IMPROVED PERFORMANCE

The initiatives that we have implemented over the last two years have produced excellent results in 1998. We expect to improve on them in 1999. At September 30, 1998, the dollar value of our backlog is up over 80% and our gross margin, which has increased for the last six consecutive quarters, continues to improve.

While we benefited from a strong U.S. economy in 1998, we believe that successfully implementing our plans provided most of the impetus for improved profitability. We are extremely optimistic about our future. Our strong backlog and continued improving margins provide momentum for growth in earnings in 1999. Our strong financial position has given us the financial flexibility to take advantage of an attractive acquisition opportunity and will continue to serve us well in a period of economic volatility, should it materialize. Most importantly we have given an extremely strong and experienced management team the tools they need to manage our business prudently and profitably for future growth.

Following this letter is a roundtable discussion with Beazer management. In that section, our executive management team answers questions about our performance in 1998 and plans for the future.

We are proud of the success that we have achieved in 1998, and are particularly grateful to all of our employees who implemented our profitability initiatives. Our employees, subcontractors, suppliers, lenders and investors have collectively produced this year's results. Based on their efforts, we expect, absent significant adverse economic changes, to exceed 1998 record results in 1999.

Sincerely,

/S/BRIAN C. BEAZER  
 Brian C. Beazer  
 Non-Executive Chairman of the Board

/S/IAN J. MCCARTHY  
 Ian J. McCarthy  
 President and Chief Executive Officer



ROUNDTABLE DISCUSSION WITH BEAZER HOMES MANAGEMENT

THE FOLLOWING IS A ROUNDTABLE DISCUSSION IN WHICH BEAZER'S EXECUTIVE MANAGEMENT ANSWER QUESTIONS ABOUT THE COMPANY AND THE HOMEBUILDING INDUSTRY. ANSWERING THE QUESTIONS WERE (LEFT TO RIGHT ABOVE) IAN MCCARTHY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, DAVID WEISS, EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, AND MICHAEL FURLOW, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER.

Q: WHAT FACTORS HAVE CONTRIBUTED TO BEAZER'S RECENT IMPROVED EARNINGS PERFORMANCE?

A: IAN: We believe that the principal factor driving our improved earnings performance is the successful implementation of the profitability initiatives that we began two years ago - our Value Created Incentive Plan, the opening of design centers and mortgage origination operations and the integration of our information systems. Certainly we were also helped by a very strong economic environment; however, the majority of our 56% increase in earnings during the last year, from \$1.70 per share (before writedown) to \$2.66 per share, was from the initiatives that I just mentioned.

Q: DO YOU KNOW HOW MUCH OF THIS ADDITIONAL PROFIT CAME FROM EACH INITIATIVE?

A: DAVID: Yes we do, although some are easier to quantify than others. Our EBIT [earnings before interest and taxes] margin increased 190 basis points from 3.9% in 1997 to 5.8% in 1998. Of this increase approximately 50 basis points came from our design centers and another 60 from our mortgage origination operations. Both would have been higher, except that many of the design centers and mortgage operations are new and were not open the entire year. The contribution from our Value Created Incentive Plan is more difficult to quantify; however, it was very positive.

WHAT WE PROMISE

"DURING THE COMING YEAR, WE WILL BEGIN TO IMPLEMENT A NUMBER OF PLANS TO IMPROVE PROFITABILITY."

- 1996 ANNUAL REPORT

MAKING IT HAPPEN

DURING 1997 WE STARTED OPENING DESIGN CENTERS AND MORTGAGE ORIGINATION OPERATIONS AND DESIGNED AN INCENTIVE PLAN BASED ON VALUE CREATED. IN 1998 DESIGN CENTERS WERE OPEN IN ALL MAJOR MARKETS, BEAZER MORTGAGE ORIGINATED MORTGAGES FOR THE MAJORITY OF OUR HOME BUYERS AND OUR VALUE CREATED INCENTIVE PLAN WAS IMPLEMENTED AT ALL OPERATIONS.

4 BEAZER HOMES USA

MIKE: I'd like to add that, while its impact may be difficult to measure, it's the Value Created incentive plan that will produce the largest continuing improvements in profitability in the future. Through this plan the concept of creating value has spread to every level in the organization.

Q: HOW DOES THE VALUE CREATED INCENTIVE PLAN WORK?

A: DAVID: Well first let me define what we mean by Value Created. Value Created is the amount of profit over our cost of capital. In other words, it is the amount of profit that we earn after we have paid our banks and bondholders their interest and after we have provided our shareholders with the minimum profit that they require to continue investing in the Company. Only after we have earned this excess profit can we share it among our employees and our shareholders.

MIKE: That's a good technical definition. For our operating managers the plan simply means that they need to make more than a 14% return on all the money that Beazer has invested in their operations. In basic terms, they need to keep their profits up and their asset base down. The results of this can be seen in 1998 profits are up over 50%, while our total capital employed (debt plus equity) is up only 28%. Capital employed at year end also includes \$68 million of cash on hand. Our operating managers improved profits while still freeing up capital.

DAVID: Bonuses under our incentive plan are a percentage of actual performance and are not based upon performance against a budget. This eliminates the negotiations that often characterize a budget process. Under the Value Created incentive plan, managers set aggressive targets so that we will allocate to their operation the amount of capital they need. The plan also encourages long-term thinking, since half of each year's potential bonus is put into a bank that may be paid out over three years. The banked bonus is always at risk and can be reduced by future negative performance. Finally, because bonuses are paid both on the absolute level of Value Created and on the improvement over the prior year, the plan encourages long-term, profitable growth.

[Photograph Page 5]

"IT'S THE VALUE CREATED INCENTIVE PLAN THAT WILL PRODUCE THE LARGEST CONTINUING IMPROVEMENTS IN PROFITABILITY IN THE FUTURE. THROUGH THIS PLAN THE CONCEPT OF CREATING VALUE HAS SPREAD TO EVERY LEVEL IN THE ORGANIZATION."

BEAZER HOMES USA

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[Photograph Page 6]

Q: WHAT FINANCIAL MEASURES DOES BEAZER USE TO EVALUATE ITS PERFORMANCE AND HOW ARE THEY RELATED TO THE VALUE CREATED INCENTIVE PLAN?

A: IAN: Our principal measure is return on capital. We concentrate on the combination of asset turnover and profit margin to yield a superior return on capital. We seek to maintain an above average level of asset turnover by controlling our investment in land. We control approximately a three-year supply of lots, but own only half of those. The other half we control through options.

Our land policy generates a higher level of asset turnover, but at slightly lower margins than if we invested in long-term land. The end result, however, is a higher return on capital with considerably less risk. Our return on capital has increased dramatically this year as we have continued to maintain a conservative land policy and a high level of asset turnover, even as we have focused on improving our profit margin.

DAVID: As Ian points out, we don't feel that profit margin is the most important measure of a homebuilder's success. We believe it's return on capital. Our performance in this area must exceed our cost of capital if we are to create value for our shareholders. Internally we use a weighted average, pre-tax, cost of capital of 14% as part of our Value Created incentive plan. For fiscal 1998 our overall return on average capital employed was 15% - in excess of our internal gauge. We expect to continue to improve on this performance.

Breaking return on capital down into its components, we have a short-term target of improving our annual EBIT margin to 6.5% while continuing to maintain in excess of 2.7 times capital turnover. If we achieve both of these in 1999, we will improve on both the return on overall capital and the return on equity that we achieved in 1998.

Q: DOES THE VALUE CREATED PLAN MAKE A DIFFERENCE IN OPERATING DECISIONS?

A: MIKE: It certainly does. Let me give you an example: In making the decision whether or not to start a home before it is sold, a manager realizes that for every additional dollar spent he or she needs to make not just additional profit, but enough profit to cover a 14% charge on the amount invested. Choosing which house plan to put on which lot rather than letting the home buyer make these choices, however, makes it more difficult to achieve a maximum profit margin on the home. Under an incentive plan based on a short-term profit budget, this could be overridden by the fact that starting the home increases the likelihood of selling it

[Photograph Page 7]

"WE BELIEVE [THE RESURGENCE OF CALIFORNIA'S ECONOMY] WILL CONTINUE FOR SOME TIME AND WE ARE ALL WELL POSITIONED TO TAKE ADVANTAGE OF IT, WITH A FULL THREE-YEAR SUPPLY OF LOTS UNDER CONTROL IN SOUTHERN CALIFORNIA."

this year. The Value Created plan makes you think twice about investing money in starting unsold homes. This has contributed to an over 50% reduction in our number of unsold finished homes, from 2.2 per community at September 30, 1997 to 1.0 at September 30, 1998.

Q: MANY REGARD HOMEBUILDING AS A MATURE INDUSTRY. DO YOU AGREE WITH THIS ASSESSMENT?

A: IAN: No, I don't. Long-term growth in homebuilding is tied closely to population growth. The U.S. Census Bureau projects that the population of the United States will increase by over 40 million people over the next 20 years. Much of this increase, over 800,000 per year, is projected to come from immigration. People who immigrate to the United States have a strong desire to own their own home and their homeownership rate increases dramatically with the length of their stay in the U.S. The housing boom of the 1990s has been fueled in great part by population growth through immigration and the growth of minorities.

According to a report on "The State of the Nation's Housing" published by the Joint Center for Housing Studies at Harvard University in 1998, "minorities contributed 42 percent of the growth in homeowners between 1994 and 1997." Our joint venture with Corporacion GEO is intended to address this significant trend.

Q: HOW IS BEAZER'S VENTURE WITH CORPORACION GEO INTENDED TO WORK AND WHAT ARE YOUR EXPECTATIONS FOR IT?

A: IAN: Our joint venture with Corporacion Geo is expected to build homes initially priced from under \$40,000 to \$55,000. The construction techniques

WHAT WE PROMISE

"OVERALL WE MAINTAIN A TWO- TO THREE-YEAR SUPPLY OF LOTS UNDER CONTROL, WITH UNDER TWO YEARS OWNED."

- 1995 ANNUAL REPORT

MAKING IT HAPPEN

AT THE END OF EACH OF ITS FIVE FISCAL YEARS AS A PUBLIC COMPANY, BEAZER HAS CONTROLLED UNDER A THREE-YEAR SUPPLY OF LOTS. AT SEPTEMBER 30, 1998 WE CONTROLLED OVER 18,500 LOTS, A 3.0 YEAR SUPPLY (BASED UPON 1998 HOMES CLOSED), WITH 45% (A 1.4 YEAR SUPPLY) OWNED AND THE REST UNDER OPTION.

and community designs will be based on those which GEO has been using very successfully and profitably in Mexico for over 20 years. GEO is the largest builder of affordable housing in the Americas.

The venture, which markets under the name Premier Communities, recently opened its first community in El Paso, Texas. After proving its success in El Paso, the venture is expected to expand rapidly to other markets. Markets that we are currently considering are Phoenix, Houston, South Florida and Puerto Rico.

We have very ambitious plans for Premier Communities. We believe that it will tap into a large, under-served and growing segment of the market, the Hispanic community. The U.S. Census Bureau projects that by the year 2005, Hispanics will be the largest minority group in the U.S. and that by the year 2015, the number of Hispanics in the U.S. will exceed the total of all people over age 65. While many homebuilders have been concentrating on the aging population, this group, which is expected to be larger, has been nearly ignored.

The venture is owned 60% by GEO and 40% by Beazer. It receives land acquisition and construction funding from Fannie Mae's Housing Impact Fund at very attractive rates and our qualifying home buyers will receive down payment assistance from the Texas State Affordable Housing Corporation, backed by the U.S. Department of Housing and Urban Development. We believe that it represents a unique private venture in which U.S. and Mexican companies are sharing ideas and expertise to address a very serious issue in the U.S. - the lack of affordable housing for a growing population. We are extremely excited about it.

[Photograph Page 8]  
"THERE WILL ALWAYS BE A  
DEMAND FOR HOUSING  
THROUGHOUT THE ECONOMIC  
CYCLE, ESPECIALLY IN THE  
ENTRY-LEVEL SEGMENT."

8 BEAZER HOMES USA

[Bar Chart Page 9]

TOTAL PROJECTED U.S. POPULATION(i)  
(in millions)

2000	274.6
2005	286.0
2010	297.7
2015	310.1

(i) U.S. CENSUS BUREAU FIGURES

OVER THE LONG-TERM, HOUSING GROWTH  
WILL BE DRIVEN BY POPULATION GROWTH...

PROJECTED POPULATION GROWTH  
1995-2025(i)

1 California	7,696,000
2 Texas	8,459,000
3 Florida	6,544,000
4 Georgia	2,699,000
5 Washington	2,377,000
6 Arizona	2,195,000
7 North Carolina	2,154,000
8 Virginia	1,848,000
9 New York	1,694,000
10 New Jersey	1,613,000
11 Illinois	1,610,000
12 Colorado	1,442,000
13 Tennessee	1,409,000
14 Maryland	1,232,000
15 Oregon	1,209,000
16 South Carolina	972,000

(i) U.S. CENSUS BUREAU FIGURES

...AND BEAZER IS WELL POSITIONED, WITH  
OPERATIONS IN 11 OF THE 16 LARGEST  
GROWTH STATES.

Q: HOW DOES BEAZER CHOOSE ITS MARKETS AND WHAT POSITION DOES IT TRY TO MAINTAIN IN THEM?

A: IAN: We absolutely want to be in growth markets - that is, markets with positive prospects for long-term population and employment growth. If you have population and employment growth, you will have a strong housing market. Of the twelve states in which we are now doing business, eleven of them are among the top states for population growth from 1995 to 2025, as projected by the U.S. Census Bureau. This is based on the absolute level of population growth and not just percentages, since we want to be doing business in large markets.

MIKE: To expand on Ian's comments, we also intend to be among the top five players in all of the markets that we serve. We believe that you need to be a major player to get the best land deals offered to you and to get the best subcontractors to steadily work for you. You do not have to be number one, but you need to have a major presence. That is one of the reasons why we are so proud of our two acquisitions in Orlando this past year, Calton Homes and Snow Construction. Through these two acquisitions, we have gone from not being in Orlando at all to being the number four builder in that market.

IAN: We also like to have a major presence in the first-time buyer and first move-up segments of most of our markets. We are not, however, exclusively in the entry-level segment. In some markets, where this segment is particularly competitive, we target other market niches. In Jacksonville, for example, we market to the first and second move-up and the move-down segments. We believe, however, that the entry-level buyer is the most stable segment of the housing market. New families and households will always need homes, whereas the decision to purchase a luxury home is more discretionary.

[Logo]

PREMIER COMMUNITIES

JOINT VENTURE POSITIONS BEAZER IN GROWING AFFORDABLE-HOUSING MARKET.

In December 1997, Beazer formed a joint venture with Corporacion GEO, the largest homebuilder in Mexico, to build affordable housing in the United States targeted at the growing Hispanic market.

At the ground breaking of Premier Communities' first development, Oasis Ranch in El Paso, Miguel Gomez-Mont, GEO's Chief Executive Officer, said, "WE ARE EXTREMELY PROUD THAT WE ARE JOINING FORCES WITH BEAZER TO ADDRESS THE VERY SERIOUS ISSUE OF AFFORDABLE HOUSING IN THE UNITED STATES. THROUGH THIS VENTURE WE BELIEVE WE WILL DO NOTHING LESS THAN REVOLUTIONIZE THE U.S. HOMEBUILDING INDUSTRY."

BEAZER HOMES USA

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Q: WHAT ARE THE MOST SIGNIFICANT REGIONAL GROWTH PATTERNS AFFECTING BEAZER?

A: IAN: The most significant is the resurgence of California. After a downturn in the late 1980s, California's economy experienced minimal growth from 1991 to 1996. Now it has begun to grow dramatically, releasing a huge pent-up demand for housing with corresponding increased pricing. We believe this trend will continue for some time and we are well positioned to take advantage of it, with a full three-year supply of lots under control in southern California.

MIKE: We also see future strong growth in Texas and Florida. Although Texas was affected this year by construction delays, caused both by unusually hot and wet weather and by a shortage of both building materials and skilled tradespeople, we forecast strong growth in Texas in 1999. Florida, as an immigration point into the United States, continues to grow at a dramatic pace, and we expect our operations there to grow significantly along with the increasing demand.

No region in which we operate was particularly slow during the year, although we did reduce our levels of investment in Las Vegas and Atlanta, two very competitive markets. We have used the capital taken out of these two markets to help fund our expansion in the growing markets in California, Florida and Texas.

DAVID: Mike points out one of the great advantages of being a geographically diversified homebuilder. We can adapt by changing our level of investment in our various markets. During 1998, no one market accounted for more than 18% of our consolidated revenues. With the addition of Trafalgar House, we will be even more diversified. We expect that no individual market will comprise more than 13% of our consolidated revenues in 1999.

Q: WHY SHOULD AN INVESTOR INVEST IN A CYCLICAL INDUSTRY LIKE HOMEBUILDING?

A: IAN: In my opinion, there are two principal reasons. The first is the long-term growth factor which I mentioned before, population growth fueled by immigration and growth of minority markets. Over the long term this will create strong demand for new housing.

The second reason is more specific to Beazer. There will always be a demand for housing throughout the economic cycle, especially in the entry-level segment. Companies with a strong financial position can take advantage of their superior position to grow - both through timely, opportunistic purchases of land and through acquisitions. The homebuilding industry is consolidating and we believe that this will accelerate in a downturn. We have a track record of successfully integrating acquisitions into our company and we intend to have the financial flexibility to take advantage of that strength.

Expansion through acquisition has always been a part of our strategy and we have timed our acquisitions to act counter-cyclically - taking advantage of the cycles to extract value. Our 1993 acquisition of Watt Housing, a significant builder in southern California, Phoenix and Las Vegas, was a great example of that. In 1993, California was at the depth of a housing recession. We bought that business at a significant discount, just as we did in Texas in 1995 with our acquisition of Bramalea and have now done with Trafalgar House. Since 1993, the growth of our acquired operations has been dramatic. Improved profitability from being integrated into Beazer's systems has made the earnings growth at these operations even more significant. We expect the same to be true of Trafalgar.

Q: HOW DOES THE TRAFALGAR HOUSE ACQUISITION FIT INTO BEAZER'S STRATEGY?

A: IAN: It fits perfectly into our strategy of being a major player in a significant growth market. Through this acquisition we will become the fourth largest builder in the Washington, D.C. metropolitan area. This is one of the reasons we like to expand to new markets through acquisition. We immediately get a significant presence with an experienced management team.

WHAT WE PROMISE

"PRUDENT FINANCIAL MANAGEMENT IS THE BACKBONE OF OUR OPERATIONS AND WILL CONTINUE TO SUCCESSFULLY LEAD BEAZER HOMES THROUGH THE CYCLICALITY OF OUR INDUSTRY."

- 1994 ANNUAL REPORT

MAKING IT HAPPEN

IN 1998 WE ENDED THE YEAR WITH A NET DEBT TO TOTAL CAPITALIZATION LEVEL OF 43%, THE SAME CONSERVATIVE LEVEL AS IN MARCH 1994 WHEN WE WENT PUBLIC.

10 BEAZER HOMES USA

[Photographs Page 11]

"DURING THE YEAR ENDED SEPTEMBER 30, 1998, BEAZER REDUCED ITS NUMBER OF UNSOLD, FINISHED HOMES BY MORE THAN 50%, FROM 2.2 TO 1.0 PER ACTIVE SUBDIVISION."

DAVID: The Trafalgar House acquisition also absolutely fits into our strategy of being an opportunistic acquirer of businesses. Over recent years, our acquisition activity had been relatively limited. We believed that acquisition prices were too expensive. Now, with volatility in international capital markets and a bit of a capital crunch in the United States, we are seeing more opportunities. Trafalgar House is one such opportunity. Trafalgar's parent company, the Norwegian construction company, Kvaerner, needed to dispose of some of its businesses to repay debt and sought to divest of its U.S. homebuilding operations. We paid approximately \$90 million for Trafalgar, less than 50% of its annual historical revenues and a significant discount to its book value. This is exactly the type of opportunistic acquisition of a quality company that we seek to complete.

Q: HOW DOES THE TRAFALGAR HOUSE ACQUISITION AFFECT BEAZER'S FINANCIAL POSITION?

A: DAVID: We were and will continue to be in a very strong financial position, both before and after the acquisition. At September 30, 1998, before the acquisition, we had no borrowings outstanding under our \$200 million revolving credit facility and \$68 million of cash on hand. After the acquisition our debt to total capitalization will still be in the conservative mid 50% range - much lower than the average builder. We will continue to maintain significant

liquidity and a conservative financial position.

Q: WHAT IS THE MOST SIGNIFICANT CHALLENGE IN THE HOMEBUILDING INDUSTRY TODAY AND WHAT IS BEAZER DOING TO ADDRESS IT?

A: IAN: The most significant challenge to homebuilders is a lack of an adequate skilled workforce in the industry. It is becoming increasingly difficult to get

#### "VALUE CREATED" AFFECTS OPERATING DECISIONS

The impact of Beazer's Value Created Incentive Plan on operating decision making is reflected in an increase in "presales" (homes sold before commencement of construction) at Beazer Homes. This resulted in a corresponding reduction of the number of unsold homes under construction between 1997 and 1998.

The Value Created Incentive Plan creates an acute awareness of the cost of capital. As a result managers try to reduce the capital employed in the business while improving its profitability. Reducing the dollars invested in unsold homes (speculative inventory or "spec" as it is sometimes referred to) is one of the most dramatic ways to reduce capital employed.

During the year ended September 30, 1998, Beazer reduced its number of unsold, finished homes by more than 50%, from 2.2 to 1.0 per active subdivision.

BEAZER HOMES USA

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[Photographs Page 12]  
ED SNIDER CONDUCTS "BOOT  
CAMPS" TO TRAIN NEW CON-  
STRUCTION SUPERINTENDENTS.

#### BEAZER "BOOT CAMPS" PROVIDE TOP-QUALITY TRAINING FOR SUPERINTENDENTS

One of the biggest challenges in the homebuilding industry is the lack of trained construction professionals. To address this issue, Beazer conducts construction training programs, referred to as "Boot Camps," for new construction superintendents. Classes are given by experienced personnel like Ed Snider.

In addition to having over 20 years of experience in homebuilding construction, Ed also runs the in-house insurance company that insures Beazer's 10-year structural warranty on its homes. Beazer was the first major U.S. homebuilder to have a captive insurance company approved by the state of Vermont to insure its warranty obligations.

skilled tradespeople in home construction. We are addressing this issue through training and attempting to retain the best of our people. Mike is heavily involved in these two efforts.

MIKE: That's right. One of my major objectives since joining Beazer has been to spread the knowledge base of our top operating management to employees throughout the Company. Our top managers have an average of over 20 years experience in homebuilding, the bulk of it in their local markets. To share that knowledge base, we have established a training council to develop functional training programs in all major areas of the business. Our top construction managers, for instance, conduct training programs, which we refer to as "Boot Camps," to train our newer employees.

We also have pushed down the Value Created incentive plan to the majority of our employees, including the construction managers. This reinforces the entrepreneurial spirit of our company and helps employees share in the profits that they create. Over the long term, I believe that this will be a significant factor in our ability to retain the best people.

IAN: I would add that another challenge facing homebuilders is the increasing difficulty and delay in getting zoning. Growth restrictions are also making land more difficult to entitle and develop. In the short term, this will benefit builders with an adequate supply of entitled lots, like Beazer. Over the long term, however, it will increase the cost of housing to the consumer.

Q: BEAZER HAS ALWAYS DESCRIBED ITSELF AS A VERY DECENTRALIZED COMPANY. HAS THAT CHANGED?

A: IAN: No, it has not changed. The vast majority of our operating decisions are still made in the field by operating managers who are very experienced in their local markets. Our basic approach, which we described in 1994 as our "Formula For Success," remains intact - decentralized operations combined with strong centralized financial controls.

We have, however, added certain controls and strengthened the oversight function at the Corporate office. Adding two highly experienced homebuilding executives, Cory Boydston, our Vice President of Administration and Treasurer, and Mike, has helped us do this.

MIKE: Thanks. Following up on our "Formula for Success," one of the key areas where there is a balance between decentralized operations and centralized controls is in land purchasing. While our operating managers in the field identify, research and negotiate land purchases, every proposed purchase is reviewed by a Land Committee, on which both Ian and I serve. In addition to evaluating the merits of each land purchase, this committee also sees how it fits into our overall strategy and land position. Further, any land purchase involving significant development costs is reviewed by an independent engineering consulting firm as a "second opinion."

Land purchasing is one of the most important decisions in homebuilding. Accordingly, we regard it as a shared responsibility between Corporate and operations.

#### WHAT WE PROMISE

"IN THE FOURTH QUARTER OF THIS YEAR OUR EBIT MARGIN INCREASED BY 20 BASIS POINTS. WE ARE ONLY PART OF THE WAY THERE AND EXPECT FURTHER IMPROVEMENTS IN FISCAL 1998."

- 1997 ANNUAL REPORT

#### MAKING IT HAPPEN

THE QUARTER ENDED SEPTEMBER 30, 1998 WAS OUR SIXTH CONSECUTIVE QUARTER WITH AN IMPROVEMENT IN GROSS PROFIT MARGIN. OUR EBIT MARGIN FOR THE 1998 FOURTH FISCAL QUARTER WAS 7.1%, A 160 BASIS POINT IMPROVEMENT OVER THE COMPARABLE QUARTER OF THE PRIOR YEAR.

Q: HOW MUCH INSIDER OWNERSHIP IS THERE IN BEAZER?

A: IAN: Beazer went public in 1994 as a spin off from a larger public company. Unlike many other homebuilders, it was not a privately owned business when it went public. Insider ownership, however, has been steadily increasing since that time. It has gone from 1.2%, as reported in our 1994 Proxy Statement, to approximately 8% currently. Two of the factors that have contributed to this increase are programs that we have put in place to encourage employee stock ownership. The first is a 401(k) plan that includes Company contributions in Beazer stock. The second is a program that allows top managers to take a portion of their

[Photograph Page 14]

TOM MEYER,  
President  
Homebuilders Financial Network

#### THE SUCCESS OF BEAZER MORTGAGE

In fiscal 1997, Beazer Homes began opening mortgage origination operations. By the fourth quarter of fiscal 1998, Beazer Mortgage originated mortgages for the



majority of Beazer's home buyers. Beazer's relationship with Homebuilders Financial Network (HFN) has been a major contributor to this success.

HFN provided Beazer with the system to establish mortgage operations and arranged a national network of mortgage lenders.

Tom Meyer, President of HFN, said, "THROUGH ALL OUR YEARS OF WORKING WITH HOMEBUILDERS, WE HAVE HAD OUR GREATEST SUCCESS WITH BEAZER HOMES. THEIR ENTREPRENEURIAL SPIRIT HAS MADE BEAZER MORTGAGE A SUCCESS BOTH FOR BEAZER AND FOR HFN."

annual bonus in Company stock, which is restricted for three years. Over 20% of the incentive compensation earned in 1998 by executive corporate management and division presidents was paid in Company stock under this plan.

Q: NOW THAT BEAZER IS IN THE MORTGAGE BUSINESS, HOW DO YOU DEAL WITH THE RISKS ASSOCIATED WITH THAT BUSINESS?

A: DAVID: We only originate mortgages, we do not hold or service them. As a result our exposure to and level of risk in the business is extremely controlled. All mortgages are funded and held by lenders who commit at the time that we originate the loan. In addition, nearly all of the mortgages that we originate are for Beazer Homes home buyers. We regard the mortgage business principally as an extension of and support for our homebuilding operations.

Q: DO YOU INTEND TO EXPAND INTO OTHER ANCILLARY BUSINESSES, SUCH AS YOU HAVE DONE WITH BEAZER MORTGAGE?

A: IAN: We will continue to evaluate other opportunities to expand our services to our customer base. Both mortgage operations and design centers are natural extensions. Another one could be arrangement of title or other insurance. We will enter these businesses when we believe we can receive adequate returns by providing additional value to our home buyers, without taking on significant financial risk.

DAVID: One thing that we often do when evaluating entry into a new line of business is "partner" with a company that has true expertise in the area. This is not necessarily a partnership in the legal sense, but it is a partnership in terms of the sharing of expertise and risks. In the case of Beazer Mortgage, for instance, we used Homebuilders Financial Network, out of Miami, to help us set up our mortgage operations. They also arranged the network of lenders that we use and participate in the ongoing management of the operation. For this they receive a fee based on profits of the business. This arrangement has worked out extremely well both for them and for us.

Q: WHAT IS THE MOST SIGNIFICANT TREND IN HOME CONSTRUCTION TODAY?

A: MIKE: The most significant trend in homebuilding is the growing tendency of home buyers to customize their homes through the use of options and upgrades. It used to be that there was a clear distinction between a custom builder and a production builder. That distinction has become less clear as home buyers have added more and more to their home through options.

Our use of design centers has done a lot to allow us to capitalize on this trend. Further, by offering options through our design center that might have been included as standards previously, we are able to keep our base home price low. This allows more home buyers to afford Beazer homes.

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[Photograph Page 15]

Q: WHERE DO YOU SEE BEAZER HOMES GOING IN THE FUTURE?

A: IAN: Having attained the profitability improvements that we set out to achieve two years ago, we will now re-ignite our growth. We expect to continue to grow through three means - growth in our existing markets, expansion through

acquisitions and entry into new, related lines of business. Our venture in affordable housing is just one example of how that growth will be achieved.

While expanding we will continue to maintain a strong financial position. This will allow us to thrive throughout the economic cycle. We will continue to focus on return on capital and creating value for our shareholders. Most importantly we expect to maintain a position as one of the most profitable of the top 10 homebuilders in the United States.

INTERIOR DESIGN PROFESSIONALS ARE AVAILABLE IN EACH MARKET TO ASSIST HOMEBUYERS IN "CUSTOMIZING" THEIR NEW HOMES. COMMON UPGRADES INCLUDE:

- o APPLIANCE PACKAGES
- o CABINETRY
- o CARPETING
- o COUNTER TOPS AND BACKSPLASHES
- o EXTERIOR MATERIALS AND COLOR
- o LIGHT FIXTURES
- o PLUMBING FIXTURES
- o TILE/HARDWOOD FLOORING
- o WALLCOVERINGS

BEAZER HOMES USA

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[Photograph Page 16]

DIRECTORY OF HOMEBUILDERS

"THE MOST SIGNIFICANT TREND IN HOMEBUILDING IS THE GROWING TENDENCY OF HOME BUYERS TO CUSTOMIZE THEIR HOMES THROUGH THE USE OF OPTIONS AND UPGRADES. OUR USE OF DESIGN CENTERS HAS DONE A LOT TO ALLOW US TO CAPITALIZE ON THIS TREND."

BEAZER HOMES ARIZONA  
2005 West 14th Street  
Tempe, AZ 85281

BEAZER HOMES CALIFORNIA  
Southern California Division  
1100 Town and Country  
Orange, CA 92868

Northern California Division  
3009 Douglas Boulevard  
Roseville, CA 95661

BEAZER HOMES FLORIDA  
Panitz Homes (Jacksonville)  
3020 Hartley Avenue  
Jacksonville, FL 32257

Mid-Florida Division  
Gulfcoast Homes office  
11934 Fairway Lakes Drive  
Ft. Myers, FL 33913

Mid-Florida Division  
Tampa office  
1211 N. Westshore Boulevard  
Tampa, FL 33607

Mid-Florida Division  
Treasure Coast office  
871 Island Club Square  
Vero Beach, FL 33963

Orlando Division  
380 S. North Lake Boulevard  
Altamonte Springs, FL 32701

BEAZER HOMES GEORGIA

3790 Data Drive  
Norcross, GA 30092

BEAZER HOMES NEVADA  
Las Vegas Division  
770 East Warm Springs Road  
Las Vegas, NV 89119

Reno/Sparks Division  
4480 Scott Peak Circle  
Sparks, NV 89434

BEAZER HOMES TEXAS  
Houston Division  
10235 West Little York  
Houston, TX 77040

Dallas/Ft. Worth Division  
1231 Greenway Drive  
Irving, TX 75038

PHILLIPS BUILDERS (TENNESSEE)  
Nashville Division  
2910 Kraft Drive  
Nashville, TN 37204

Knoxville Division  
1645 Downtown West Blvd.  
Knoxville, TN 37919

SQUIRES HOMES (CAROLINAS)  
Charlotte Division  
5501 Executive Center  
Charlotte, NC 28212

Raleigh Division  
3701 National Drive  
Raleigh, NC 27612

Coastal Carolina Division  
Charleston office  
7410 Northside Drive  
North Charleston, SC 29420

Coastal Carolina Division  
Myrtle Beach office  
710 21st Avenue North  
Hampton Park  
Myrtle Beach, SC 29577

Columbia Division  
2001 Assembly Street  
Columbia, SC 29201

TRAFALGAR HOUSE (MID-ATLANTIC)  
Maryland Division  
8965 Guildford Road  
Columbia, MD 21046

New Jersey Division  
250 Phillips Boulevard  
Trenton, NJ 08618

Virginia Division  
8300 Greensboro Drive  
McLean, VA 22102

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MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL REPORTING AND SYSTEM OF INTERNAL CONTROL

FINANCIAL STATEMENTS

The accompanying consolidated financial statements are the responsibility of the Company's management. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and, as such, include amounts based on management's best estimates and judgments.

The Company's consolidated financial statements have been audited by Deloitte & Touche LLP, independent auditors, who were given unrestricted access to all financial records and related data. The Company believes that all representations made to the independent auditors during their audit were valid and appropriate. Deloitte & Touche LLP's audit report included on page 30 provides an independent opinion as to the fairness of presentation of the consolidated financial statements.

SYSTEM OF INTERNAL CONTROLS

The Company maintains a system of internal controls over financial recording and reporting which is designed to provide reasonable assurance that assets are safeguarded and transactions are recorded in accordance with the Company's policies and procedures and which ultimately will result in the preparation of reliable financial statements. The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective internal control system has inherent limitations - including the possibility of the overriding of controls - and therefore can provide only reasonable, not absolute, assurance with respect to financial statement preparation.

The Company assessed its internal control system as of September 30, 1998 in relation to criteria for effective internal control over preparation of its published annual (and interim) financial statements described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company believes that, as of September 30, 1998, its system of internal controls over the preparation of its published annual (and interim) financial statements met these criteria. Deloitte & Touche LLP also reviews and tests the effectiveness of these systems to the extent they deem necessary to determine the extent of audit procedures needed in connection with their audit of the consolidated

financial statements.

The Audit Committee of the Board of Directors, which is composed of Directors who are not officers or employees of the Company, provides oversight to the financial reporting process. The independent auditors have unrestricted access to the Audit Committee.

/S/IAN J. MCCARTHY  
 Ian J. McCarthy  
 President and Chief Executive Officer

/S/DAVID S. WEISS  
 David S. Weiss  
 Executive Vice President and Chief Financial Officer

/S/MICHAEL T. RAND  
 Michael T. Rand  
 Vice President and Controller

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SELECTED FINANCIAL DATA

(dollars in thousands, except per share data)

	Year Ended September 30,				
	1998	1997	1996	1995	1994
STATEMENT OF OPERATIONS DATA:					
Total revenue .....	\$977,409	\$852,110	\$866,627	\$647,828	\$536,526
Writedown of inventory .....	\$ 6,326				
Operating income .....	\$ 36,916	\$ 17,656(i)	\$ 30,122	\$ 18,629	\$ 27,377
Net income .....	\$ 23,201	\$ 11,189(i)	\$ 18,266	\$ 11,352	\$ 16,468
Net income per common share:					
Basic .....	\$ 3.27	\$ 1.18(i)	\$ 2.24	\$ 1.26	\$ 1.78(iv)
Diluted .....	\$ 2.66	\$ 1.15(i)	\$ 2.01	\$ 1.23	\$ 1.76(iv)
BALANCE SHEET DATA:					
Cash .....	\$ 67,608	\$ 1,267	\$ 12,942	\$ 40,407	\$ 35,980
Inventory .....	\$405,095	\$361,945	\$320,969	\$285,268	\$253,356
Total assets .....	\$525,591	\$399,595	\$356,643	\$345,240	\$314,941
Total debt .....	\$215,000	\$145,000	\$115,000	\$115,000	\$115,000
Stockholders' equity .....	\$199,224	\$179,286	\$178,701	\$164,544	\$150,406
SUPPLEMENTAL FINANCIAL DATA:					
EBIT(ii) .....	\$ 56,525	\$ 33,051(i)	\$ 45,327	\$ 32,188	\$ 37,169
EBITDA(ii) .....	\$ 59,794	\$ 35,272(i)	\$ 46,855	\$ 33,542	\$ 38,384
Interest incurred .....	\$ 21,259	\$ 16,159	\$ 14,176	\$ 14,737	\$ 11,306
EBIT/interest incurred .....	2.66x	2.05x	3.20x	2.18x	3.29x
EBITDA/interest incurred .....	2.81x	2.18x	3.31x	2.28x	3.40x
FINANCIAL STATISTICS(iii):					
Total debt as a percentage of total debt and stockholders' equity .....	51.9%	44.7%	39.2%	41.1%	43.3%
Asset Turnover .....	2.11x	2.25x	2.47x	1.96x	1.92x
EBIT Margin .....	5.8%	3.9%(i)	5.2%	5.0%	6.9%
Return on Assets .....	12.2%	8.7%(i)	12.9%	9.8%	13.3%
Return on Capital .....	15.3%	10.7%(i)	15.8%	11.8%	15.5%
Return on Equity .....	12.3%	6.3%(i)	10.6%	7.2%	13.4%

<FN>

(i) Fiscal 1997 results include the effect of a \$6,326 writedown to inventory in Nevada. Excluding the effect of the writedown, operating income, net income and diluted net income per share for fiscal 1997 are \$23,982, \$15,079, and \$1.70, respectively. Excluding the effect of the writedown, EBIT and EBITDA for fiscal 1997 are \$39,377 and \$41,598, respectively. Excluding the effect of the writedown, EBIT margin, return on asset, return on capital and return on equity for fiscal 1997 are 4.6%, 10.4%, 12.7% and 8.4%, respectively.

(ii) EBIT and EBITDA: EBIT (earnings before interest and taxes) equals net income before (a) previously capitalized interest amortized to costs and expenses; (b) income taxes; and (c) cumulative effect of change in accounting principle. EBITDA (earnings before interest, taxes, depreciation, and amortization) is calculated by adding depreciation and amortization for the period to EBIT. EBITDA is commonly used to analyze companies on the basis of operating performance, leverage, and liquidity. EBIT and EBITDA are not intended to represent cash flows for the period nor have they been presented as an alternative to net income as an indicator of operating performance.

(iii) Asset turnover = (total revenue divided by average total assets); EBIT margin = (EBIT divided by total revenues); Return on average asset = (EBIT divided by average total assets); Return on average capital = (EBIT divided by average total debt plus stockholders' equity); Return on average equity = (net income divided by average stockholders' equity).

(iv) Pro forma to give effect to the initial public offering and related transactions, as if such transactions were effected as of October 1, 1993.  
</FN>

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATING AND FINANCIAL DATA

The following tables present certain operating and financial data for the years discussed (dollars in thousands):

	Year Ended September 30,					
	1998		1997		1996	
	Amount	% Change	Amount	% Change	Amount	
NUMBER OF NEW ORDERS, NET OF CANCELLATIONS (i):						
SOUTHEAST REGION:						
Georgia .....	215	30.3%	165	(34.8)%	253	
North Carolina .....	831	36.7	608	(9.4)	671	
South Carolina .....	518	31.8	393	29.7	303	
Tennessee .....	501	21.3	413	(9.6)	457	
Florida .....	823	111.0	390	7.1	364	
TOTAL SOUTHEAST .....	2,888	46.7	1,969	(3.9)	2,048	
SOUTHWEST REGION:						
Arizona .....	1,552	22.8	1,264	(24.8)	1,681	
California .....	1,258	23.7	1,017	0.9	1,008	
Nevada .....	435	(18.8)	536	11.0	483	
TOTAL SOUTHWEST .....	3,245	15.2	2,817	(11.2)	3,172	
CENTRAL REGION:						
Texas .....	749	(2.1)	765	90.8	401	
TOTAL .....	6,882	24.0%	5,551	(1.2)%	5,621	

NUMBER OF HOMES IN BACKLOG AT END OF YEAR:

SOUTHEAST REGION:						
Georgia .....	92	114.0%	43	(17.3)%	52	
North Carolina .....	226	31.4	172	(10.4)	192	
South Carolina .....	182	67.0	109	1.9	107	
Tennessee .....	154	90.1	81	(35.2)	125	
Florida .....	342	242.0	100	(3.8)	104	
TOTAL SOUTHEAST .....	996	97.2	505	(12.9)	580	
SOUTHWEST REGION:						
Arizona .....	478	82.4	262	(36.7)	414	
California .....	182	133.3	78	(18.8)	96	
Nevada .....	83	(40.3)	139	(18.2)	170	
TOTAL SOUTHWEST .....	743	55.1	479	(29.6)	680	
CENTRAL REGION:						
Texas .....	318	52.9	208	25.3	166	

TOTAL .....	2,057	72.6%	1,192	(16.4)%	1,426
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SALES VALUE OF HOMES IN BACKLOG AT END OF YEAR:

Southeast region .....	\$169,261	107.1%	\$ 81,720	(16.7)%	\$ 98,092
Southwest region .....	122,345	66.8	73,346	(15.2)	86,539
Central region .....	55,698	57.5	35,373	36.0	26,006
TOTAL .....	\$347,304	82.4%	\$190,439	(9.6)%	\$210,637

SEE FOOTNOTES, PAGE 21

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year Ended September 30,

	1998		1997		1996
	Amount	% Change	Amount	% Change	Amount
NUMBER OF CLOSINGS:					
SOUTHEAST REGION:					
Georgia .....	166	(4.6)%	174	(43.5)%	308
North Carolina .....	777	23.7	628	(9.9)	697
South Carolina .....	445	13.8	391	41.7	276
Tennessee .....	428	(6.3)	457	(13.1)	526
Florida .....	677	71.8	394	(2.7)	405
TOTAL SOUTHEAST .....	2,493	22.0	2,044	(7.6)	2,212
SOUTHWEST REGION:					
Arizona .....	1,336	(5.6)	1,416	(23.5)	1,852
California .....	1,154	11.5	1,035	1.7	1,018
Nevada .....	491	(13.4)	567	19.9	473
TOTAL SOUTHWEST .....	2,981	(1.2)	3,018	(9.7)	3,343
CENTRAL REGION:					
Texas .....	639	(11.6)	723	90.8	379
NEW JERSEY .....	--	n/m	--	n/m	1
TOTAL .....	6,113	5.7%	5,785	(2.5)%	5,935
TOTAL REVENUES:					
Southeast region .....	\$401,671	20.2 %	\$334,069	0.6%	\$332,159
Southwest region .....	461,434	13.9	405,095	(14.8)	475,662
Central region .....	114,304	1.2	112,946	92.7	58,621
New Jersey .....	--	n/m	--	n/m	185
TOTAL .....	\$977,409	14.7%	\$852,110	(1.7)%	\$866,627
AVERAGE SALES PRICE PER HOME CLOSED:					
Southeast region .....	\$ 159.2	(2.5)%	\$ 163.2	9.0%	\$ 149.7
Southwest region .....	150.1	12.1	133.9	(5.9)	142.3
Central region .....	171.0	9.7	155.9	1.2	154.1
New Jersey .....	--	n/m	--	n/m	185.0
TOTAL .....	\$ 156.4	6.5%	\$ 146.8	0.7%	\$ 145.8
NUMBER OF ACTIVE SUBDIVISIONS AT YEAR END:					
Southeast region .....	113	8.7%	104	5.1%	99
Southwest region .....	59	(1.7)	60	(3.2)	62
Central region .....	31	(6.1)	33	6.5	31

TOTAL .....	203	3.0%	197	2.6 %	192
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<FN>  
 See "Results of Operations" for a discussion of certain fluctuations considered to be significant in both absolute value and percentage amount.

n/m Percentage change not meaningful

(i) New orders for 1998 and 1996 do not include 96 and 256 homes in backlog, respectively, from acquired operations.

</FN>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

GENERAL

Beazer Homes designs, builds and sells single family homes in the Southeast, Southwest and Central regions of the United States. The Company's Southeast Region includes Georgia, North Carolina, South Carolina, Tennessee and Florida; its Southwest Region includes Arizona, California and Nevada, and its Central Region includes Texas. The Company intends, subject to market conditions, to expand in its current markets and to consider entering new markets through expansion from existing markets ("satellite expansion") or through acquisitions of established regional homebuilders.

The Company's homes are designed to appeal primarily to entry-level and first time move-up home buyers, and are generally offered for sale in advance of their construction. The majority of homes are sold pursuant to standard sales contracts entered into prior to commencement of construction. Once a contract has been signed, the Company classifies the transaction as a "new order." Such sales contracts are usually subject to certain contingencies such as the buyer's ability to qualify for financing. Homes covered by such sales contracts are considered by the Company as its "backlog." The Company does not recognize revenue on homes in backlog until the sales are closed and the risk of ownership has been transferred to the buyer.

During fiscal 1996, the Company began providing mortgage origination services for its customers through Beazer Mortgage Company ("Beazer Mortgage"). Beazer Mortgage originates, processes and sells mortgages to third-party investors on behalf of the homebuilding operations of the Company. Beazer Mortgage does not retain or service the mortgages that it originates and an investor is secured prior to origination.

During the first quarter of fiscal 1998, the Company entered into a joint venture agreement with Corporacion GEO, the largest builder of affordable homes in Mexico, to build homes in the United States. The joint venture will focus exclusively on the development, construction and sale of affordable housing throughout the U.S. The joint venture is owned 60% by Corporacion GEO and 40% by Beazer. Development has begun on the venture's first project; however, no homes have been delivered as of September 30, 1998. The venture did not have a significant impact on Beazer's operating results during fiscal 1998.

NEW ORDERS AND BACKLOG - Each of the Company's Southeast and Southwest regions experienced substantial growth in new orders during fiscal 1998 compared to the prior year period. The most noteworthy markets of growth include Florida - up 111% (up 34% excluding the impact of the Orlando operations entered via acquisition in December 1997) - and California - up 24%. The Company believes the increase in new orders is attributable to generally strong economic conditions in each of the markets that it operates and the Company's increased investment in those markets where Beazer believes it can significantly exceed its cost of capital.

Backlog levels correspond directly with the new order and closing trends experienced by the Company. Backlog at September 30, 1998 was substantially in excess of that at September 30, 1997 in each of the Company's markets, excluding Nevada, in terms of both units and aggregate dollar value. The decrease in backlog in Nevada is indicative of the Company scaling back operations in that market. The Company expects to deliver substantially all of the homes in backlog during the first six months of fiscal 1999.



The Company experienced fewer new orders during the year ended September 30, 1997 than the year ended September 30, 1996. The principal reason for this decrease was a reduction in the number of active subdivisions in the Company's Arizona operations. Excluding the Company's Arizona operations, new orders increased by 347 homes in fiscal 1997. The principal increase was in the Company's Texas operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The decreased level of total new orders contributed to lower backlog levels at September 30, 1997 compared to September 30, 1996.

The Company has historically experienced fluctuations in new order activity in periods of significant mortgage rate changes. Additional factors that impact the Company's new order trends include the ability to react to changing customer preferences through product mix and pricing, local economic conditions and product supply (as measured by the number of active subdivisions).

SEASONALITY AND QUARTERLY VARIABILITY - The Company has historically experienced significant seasonality and quarter-to-quarter variability in homebuilding activity levels. The annual operating cycle generally reflects escalating new orders in the Company's second and third fiscal quarters. Since closings usually trail home sales by four to six months, closings typically are lowest in the first quarter of the fiscal year, and revenues from home closings usually peak in the third and fourth quarters of the fiscal year. The Company believes that this seasonality reflects the preference of home buyers to shop for a new home in the spring, as well as the scheduling of construction to accommodate seasonal weather conditions. This trend, however, may be altered in periods of extreme fluctuations in economic conditions, such as interest rates and general confidence. The Company's operations can also be affected by inflation. All costs and expenses including land, raw materials, subcontracted labor and interest would increase in an inflationary period and, as a result, the Company's margins could decrease unless the increased costs were recovered through higher sales prices.

The following table presents certain unaudited quarterly financial and operating data for the Company's last eight fiscal quarters. These historical results are not necessarily indicative of results to be expected for any future period.

(dollars in thousands)

	Quarter Ended							
	SEPTEMBER 30, 1998	JUNE 30, 1998	MARCH 31, 1998	DECEMBER 31, 1997	SEPTEMBER 30, 1997	JUNE 30, 1997	MARCH 31, 1997	DECEMBER 31, 1996
Total revenue .....	\$365,649	\$234,811	\$221,323	\$155,626	\$317,273	\$195,991	\$177,762	\$161,083
NUMBER OF NEW ORDERS, NET:								
Southeast .....	763	767	941	417	472	555	573	369
Southwest .....	643	971	1,058	573	750	789	733	545
Central .....	130	245	278	96	167	250	228	120
TOTAL .....	1,536	1,983	2,277	1,086	1,389	1,594	1,534	1,034
NUMBER OF CLOSINGS:								
Southeast .....	909	608	561	415	716	493	457	378
Southwest .....	1,099	750	663	469	1,140	651	627	600
Central .....	197	139	149	154	274	171	143	135
TOTAL .....	2,205	1,497	1,373	1,038	2,130	1,315	1,227	1,113

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

RESULTS OF OPERATIONS

The following table provides additional details of revenues and certain expenses included in the Company's consolidated statements of operations (in thousands).

	Year Ended September 30,		
	1998	1997	1996
<b>REVENUES:</b>			
Home sales .....	\$ 956,018	\$ 849,520	\$ 865,355
Land and lot sales .....	16,834	1,581	1,272
Mortgage originations .....	8,295	1,767	100
Intercompany elimination - mortgage .....	(3,738)	(758)	(100)
<b>TOTAL REVENUE .....</b>	<b>\$ 977,409</b>	<b>\$ 852,110</b>	<b>\$ 866,627</b>
<b>COST OF HOME CONSTRUCTION AND LAND SALES:</b>			
Home sales .....	\$ 799,425	\$ 720,390	\$ 731,554
Land and lot sales .....	15,516	1,552	941
Intercompany elimination - mortgage .....	(3,738)	(758)	(100)
<b>Total cost of home construction and land sales .....</b>	<b>\$ 811,203</b>	<b>\$ 721,184</b>	<b>\$ 732,395</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE:</b>			
Homebuilding operations .....	\$ 105,946	\$ 90,860	\$ 88,776
Mortgage origination operations .....	4,313	1,227	200
<b>TOTAL SELLING, GENERAL AND ADMINISTRATIVE ....</b>	<b>\$ 110,259</b>	<b>\$ 92,087</b>	<b>\$ 88,976</b>

The following table shows certain items in the Company's statements of income expressed as a percentage of certain components of revenue.

	Year Ended September 30,		
	1998	1997	1996
<b>AS A PERCENTAGE OF TOTAL REVENUE:</b>			
Cost of home construction and land sales .....	83.0%	84.7%	84.5%
Amortization of previously capitalized interest .....	1.9%	1.7%	1.7%
<b>Selling, general and administrative:</b>			
Homebuilding operations.....	10.8%	10.7%	10.2%
Mortgage originations.....	0.4%	0.1%	0.0%
<b>AS A PERCENTAGE OF HOME SALE REVENUE:</b>			
Cost of home construction.....	83.6%	84.8%	84.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

REVENUES - The 12.5% increase in revenues from home sales for the year ended September 30, 1998 compared to the year ended September 30, 1997 is the result of both an increase in the average price per home closed and an increase in the number of homes closed. The increase in average price is largely attributable to sales price increases during fiscal 1998 in several markets and higher revenue contributions from options sold through the Company's design centers than those recognized during fiscal 1997.

The 1.8% decrease in revenues from home sales for the year ended September 30, 1997 compared to the year ended September 30, 1996 is the result of a 3% decrease in the number of homes closed offset by a 1% increase in average sales price. The principal reason for the decrease was a decline in home closings in Arizona, the Company's largest market. This decrease was partially offset by the continued expansion of the Company's Texas operations. The slight increase in

the average sales price is the result of the decrease in closings in Arizona where the average sales price was below the Company average.

Consistent with the Company's stated policy of reducing its investment in markets and projects that are not exceeding the Company's overall cost of capital, the Company had several land sales during fiscal 1998. The Company did not realize any significant profit or loss on these land sales. The Company did not have any significant land and lot sales during fiscal 1997 or 1996.

**COST OF HOME CONSTRUCTION AND LAND SALES** - The decrease in homebuilding cost of home construction and land sales ("COS") as a percentage of homebuilding revenues for the year ended September 30, 1998 compared to September 30, 1997 is principally the result of continued savings from the Company's profitability initiatives, specifically design centers. Additionally, a strong general economic environment during the year resulted in sales price increases in most of the Company's markets contributing to the overall decrease in homebuilding COS as a percentage of homebuilding revenues.

The improvement in total COS as a percentage of total revenues for the year ended September 30, 1998 compared to the same period in 1997 exceeded the improvement in the homebuilding percentage because of the benefit to total COS provided by the mortgage origination operations. That benefit is the result of Beazer Mortgage receiving revenues for costs previously paid by Beazer's homebuilding operations to third-party lenders. These payments are eliminated against the corresponding revenue recognized by the mortgage origination operations thus reducing total COS.

The principal reason for the increase in both homebuilding COS and total COS in fiscal 1997 compared to fiscal 1996 relates to issues in the Company's Nevada operations. For the fiscal year ended September 30, 1997, the COS as a percentage of revenues was 91.2% for the Nevada operations compared to 84.8% for the total Company. During fiscal 1997, the Company experienced development issues in two subdivisions in Nevada, resulting in a writedown to inventory and reduced margins in other subdivisions in Nevada. The Company made management changes and implemented additional controls around projects involving significant development expenditures.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSE** - The increase in homebuilding selling, general and administrative expense ("SG&A") for the year ended September 30, 1998 compared to the year ended September 30, 1997 is primarily attributable to the ramp up of design centers, a full year of amortization of information systems costs and higher incentive compensation during fiscal 1998.

The increase in homebuilding SG&A in fiscal 1997 compared to fiscal 1996 is principally the result of increased sales and marketing expenses relating to the opening of new subdivisions within the Company's existing markets. The sales and marketing component of total SG&A as a percentage of revenues increased to 6.5% from 6.1% in fiscal 1996. The general and administrative component of total SG&A was 4.2% for both fiscal 1997 and 1996.

BEAZER HOMES USA

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The increase in mortgage origination SG&A is the result of the opening of Beazer Mortgage branches in each of the Company's markets. As of September 30, 1998 the Company had mortgage originator operations in each of the nine states which it operates compared to five states at September 30, 1997.

**WRITE-DOWN OF INVENTORY** - During the year ended September 30, 1997, the Company recorded a pretax charge of \$6.3 million (\$3.9 million after tax) to write down two properties located in Nevada to their fair market value (estimated based on the sales prices of comparable projects). The two Nevada properties, Craig Ranch in North Las Vegas and Promontory in Reno, had incurred significant development costs that were not anticipated at the beginning of the project. As a result, the estimated future undiscounted cash flows of the projects were less than their respective current book values.

**MORTGAGE ORIGINATION OPERATIONS** - As of September 30, 1998, Beazer Mortgage was operating in each state that the Company does business. Beazer Mortgage originated approximately 3,100 mortgages on behalf of Beazer home buyers during

fiscal 1998, a capture rate of 51% on total Company closings. During fiscal 1997, Beazer Mortgage originated approximately 960 mortgages, a capture rate of approximately 17% on total Company closings. Prior to intercompany eliminations, the mortgage origination operations generated operating income of approximately \$4,000,000 and \$500,000 in fiscal 1998 and 1997, respectively. The results of operations for the year ended September 30, 1996 were not significant.

INCOME TAXES - Income taxes for fiscal 1998, 1997 and 1996, were provided at effective rates of 38.1%, 38.5% and 39.5%, respectively. The decline over the three years results principally from tax savings strategies the Company implemented in fiscal 1996.

#### FINANCIAL CONDITION AND LIQUIDITY

In March 1998, the Company issued \$100 million of 8 7/8% Senior Notes, due in April 2008 (the "8 7/8% Senior Notes") at a price of 99.183% of their face amount (before underwriting discount and other issuance costs). The net proceeds of the Senior Note offering were used to repay short-term borrowings under the Company's revolving credit facility. Interest on the 8 7/8% Senior Notes is payable semiannually. The Company may, at its option, redeem the 8 7/8% Senior Notes in whole or in part at any time after March 2003, initially at 104.438% of the principal amount, declining to 100% of the principal amount after March 2006.

The Company also has outstanding \$115 million of Senior Notes which mature in March 2004 (the "9% Senior Notes"). Interest on the 9% Senior Notes is payable semiannually. The Company may, at its option, redeem the 9% Senior Notes in whole or in part at any time after February 1999, initially at 102.571% of the principal amount, declining to 100% of the principal amount after February 2001.

The 9% Senior Notes and the 8 7/8% Senior Notes are unsecured obligations of the Company ranking pari passu with all other existing and future senior indebtedness of the Company.

At September 30, 1998, the Company had no outstanding borrowings under its \$200 million unsecured revolving credit facility (the "Credit Facility"). The Company fulfills its short-term cash requirements with cash generated from its operations and unused funds available from the Credit Facility. Available borrowings under this credit agreement are limited to certain percentages of homes under contract, unsold homes, substantially improved lots and accounts receivable. At September 30, 1998 the Company had available additional borrowings of \$47 million under the Credit Facility.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

On November 3, 1998, the Company amended and restated the credit facility (the "New Credit Facility") to extend the maturity from February 2001 to November 2002 and modify certain provisions, including the determination of available borrowings. At September 30, 1998, the Company would have had available additional borrowings of \$90 million under the New Credit Facility.

During the year ended September 30, 1998, the Company utilized borrowings under the Credit Facility of approximately \$16.7 million for the acquisition of the Orlando, Florida operations of Calton Homes of Florida, Inc. All such borrowings were repaid as of September 30, 1998.

All significant subsidiaries of Beazer Homes USA, Inc. are guarantors of the Notes and the Company's obligations under the Credit Facility and are jointly and severally liable for the Company's obligations under the Notes and the Credit Facility. Separate financial statements and other disclosures concerning each of the significant subsidiaries are not included, as the aggregate assets, liabilities, earnings and equity of the subsidiaries equal such amounts for the Company on a consolidated basis and separate subsidiary financial statements are not considered material to investors. The total assets, revenues and operating profit of the non-guarantor subsidiaries are in the aggregate immaterial to the Company on a consolidated basis. Neither the Credit Facility nor the Notes restrict distributions to Beazer Homes USA, Inc. by its subsidiaries.

The Company has utilized, and will continue to utilize, land options as a method of controlling and subsequently acquiring land. At September 30, 1998, the

Company had 10,496 lots under option. At September 30, 1998, the Company had commitments with respect to option contracts with specific performance obligations of approximately \$39.0 million. The Company expects to exercise all of its option contracts with specific performance obligations and, subject to market conditions, substantially all of its options contracts without specific performance obligations.

The Company's Series A Convertible Exchangeable Preferred Stock (the "Preferred Stock") is convertible into common stock at an exchange rate of \$19.05 per common share and became callable by the Company on September 1, 1998 at a 5% premium. The Company intends to call its Preferred Stock at the earliest date that it believes it is likely that the majority of holders would convert into common stock.

Management believes that the Company's current borrowing capacity, cash on hand at September 30, 1998, and anticipated cash flows from operations are sufficient to meet liquidity needs for the foreseeable future. There can be no assurance, however, that amounts available in the future from the Company's sources of liquidity will be sufficient to meet the Company's future capital needs. The amount and types of indebtedness that the Company may incur may be limited by the terms of the indentures governing the senior notes and the New Credit Facility. The Company continually evaluates expansion opportunities through acquisition of established regional homebuilders, and such opportunities may require the Company to 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.

In October 1998, the Company acquired the assets of Snow Construction, Inc. in Orlando, Florida for \$1.8 million. In December 1998, the Company acquired the assets of the homebuilding operations of Trafalgar House Property, Inc. for a purchase price of approximately \$90 million. The Company funded this acquisition with borrowings under the New Credit Facility.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

##### YEAR 2000 COMPLIANCE AND READINESS DISCLOSURES

GENERAL - The Company recognizes the importance of the Year 2000 issue and is taking a proactive approach intended to facilitate an appropriate transition into the Year 2000. This proactive approach includes the following phases:

- o Allocation of Company resources to manage the approach,
- o Evaluation of the Company's information technology ("IT") systems and non-IT systems that include imbedded microprocessors (together, the Company's "Internal Systems"),
- o Evaluation of IT and non-IT systems for principal vendors (principally subcontractors) and other service providers (together, the Company's "External Systems"),
- o Evaluation of risk associated with Internal and External Systems compliance efforts,
- o Test of all material Internal and External Systems as practicable,
- o Creation of contingency plans for non-compliance of either Internal or External Systems, and
- o Determination of the expected total cost of a complete state of readiness for the Company.

STATE OF READINESS - During fiscal 1996, the Company began a series of profitability initiatives including a streamlining of all Internal Systems. These efforts included updating the hardware and software being used by a majority of the Company's employees. All such purchases contemplated future Year 2000 issues and are considered compliant. As such, the Company's Year 2000 initiative has not required substantial investments as of September 30, 1998 and the Company does not believe it will require a substantial future investment.

The Company has allocated resources to the phased approach outlined above and has completed an inventory of Internal Systems and substantially completed an

inventory of External Systems to determine those that do not properly recognize dates after December 31, 1999.

The Company's principal Internal Systems include its general systems architecture (local and wide area networks), financial accounting system, executive information system, payroll services system and cash management system. The Company is currently operating on the latest version of each of the listed systems (excluding architecture) and has received representations from the vendors indicating that they are Year 2000 compliant. The Company is in the process of evaluating the compliance of its general systems architecture. Despite the certifications from the software vendors the Company will test compliance on its principal Internal Systems during fiscal 1999.

The Company's principal External Systems include those of its subcontractors, significant raw material vendors, and general service providers such as telecommunications and power. The Company has substantially completed its evaluation of its significant subcontractors and raw material providers via inquiry. The Company has not performed its own tests on these systems, and no assurance can be given as to the compliance of these systems. Based on the information currently available, the Company is not aware of any material non-compliance by its general service providers; however, the Company does not control these systems and cannot assure their compliance.

COSTS - As of September 30, 1998, less than \$100,000 of outside consulting costs have been incurred related specifically to the Company's Year 2000 initiatives. The Company will incur capital expenditures and internal staff costs as well as additional outside consulting expenditures related to this process. Based on currently available information, the Company does not expect the costs of these initiatives to exceed \$500,000.

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BEAZER HOMES USA

#### MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

RISKS PRESENTED BY THE YEAR 2000 ISSUE - The failure by the Company to appropriately address a material Year 2000 issue within its Internal Systems, or the failure by any third party to address an External System could have a material adverse impact on the Company's financial condition, liquidity or results of operations. To date, however, the Company has not identified any material Internal or External System that presents a significant risk of not being Year 2000 ready or for which a suitable alternative does not exist. With continued evaluation, however, the Company may identify an Internal or External System that presents a risk for a Year 2000 disruption in operations. The homebuilding construction process by nature is labor intensive and could operate for a limited time in a manual environment. At this time, the Company believes the most likely worst-case scenario would result if there were a significant disruption in services provided by banking institutions, mortgage lenders, utility service providers, or certain government agencies which could inhibit the ability of the Company to deliver finished homes to its customers.

CONTINGENCY PLANS - The Company is in the process of identifying contingency plans that would allow for the construction and delivery of homes to customers should any of the Company's Internal or External Systems fail. These contingency plans will consist of construction and raw material scheduling arrangements and potential alternative financing options for homebuyers.

All statements relating to the Year 2000 issue made in Forms 10-K, 10-Q or Registration Statements filed by the Company with the Securities and Exchange Commission after January 1, 1996 are hereby incorporated by reference and designated as Year 2000 Readiness Disclosures.

#### OUTLOOK

The Company is optimistic about its prospects for fiscal 1999. As a result of increased backlog at September 30, 1998, the Company expects home closings to be strong for the first six months of fiscal 1999 compared to the same period in fiscal 1998. In addition, the Company believes the current strong economic environment combined with its profitability initiatives will result in a continued reduction of its cost of home construction and land sales as a percentage of revenues in the first half of fiscal 1999.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued Statement No. 131, "Disclosures about Segments of

an Enterprise and Related Information" ("SFAS 131"). SFAS 131 becomes effective for fiscal years beginning after December 15, 1997. The Company does not believe this statement will have an effect on the Company's results of operations or financial position.

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 is effective for periods beginning after June 15, 1999. The Company has not yet completed an analysis of the effect of this statement on its financial statements.

BEAZER HOMES USA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Beazer Homes USA, Inc.

We have audited the accompanying consolidated balance sheets of Beazer Homes USA, Inc. as of September 30, 1998 and 1997 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1998. These consolidated financial statements are the responsibility of the management of Beazer Homes USA, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Beazer Homes USA, Inc. at September 30, 1998 and 1997 and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 1998 in conformity with generally accepted accounting principles.

Atlanta, Georgia  
November 3, 1998  
(December 4, 1998 as to Note 14)

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CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share amounts)

	Year Ended September 30,		
	1998	1997	1996
Total revenue .....	\$ 977,409	\$ 852,110	\$ 866,627
Costs and expenses:			
Home construction and land sales .....	811,203	721,184	732,395
Amortization of previously capitalized interest .....	19,031	14,857	15,134
Selling, general and administrative .....	110,259	92,087	88,976
Writedown of inventory .....	6,326		
Operating income .....	36,916	17,656	30,122
Other income .....	578	538	71

Income before income taxes .....	37,494	18,194	30,193
Provision for income taxes .....	14,293	7,005	11,927
Net income .....	\$ 23,201	\$ 11,189	\$ 18,266
Preferred dividends .....	\$ 4,000	\$ 4,000	\$ 4,000
Net income applicable to common shareholders ....	\$ 19,201	\$ 7,189	\$ 14,266
Net income per common share:			
Basic .....	\$ 3.27	\$ 1.18	\$ 2.24
Diluted .....	\$ 2.66	\$ 1.15	\$ 2.01
Weighted average number of shares :			
Basic .....	5,864,182	6,088,195	6,374,961
Diluted .....	8,730,863	6,274,250	9,099,839

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BEAZER HOMES USA

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CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	September 30,	
	1998	1997
<b>ASSETS</b>		
Cash and cash equivalents .....	\$ 67,608	\$ 1,267
Accounts receivable .....	16,949	7,114
Inventory .....	405,095	361,945
Deferred tax asset .....	3,283	3,142
Property, plant and equipment, net .....	12,332	11,592
Goodwill, net .....	8,853	5,664
Other assets .....	11,471	8,871
Total Assets .....	\$ 525,591	\$ 399,595
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Trade accounts payable .....	\$ 61,942	\$ 44,443
Other liabilities .....	49,425	30,866
Revolving credit facility .....		30,000
Senior Notes .....	215,000	115,000
Total Liabilities .....	326,367	220,309
<b>Stockholders' Equity:</b>		
Preferred stock (par value \$.01 per share, 5,000,000 shares authorized, 2,000,000 issued and outstanding, \$50,000 aggregate liquidation preference) ..	20	20
Common stock (par value \$.01 per share, 30,000,000 shares authorized, 9,559,200 and 9,355,957 issued, 6,267,423 and 6,064,180 outstanding) .....	93	93
Paid-in-capital .....	192,729	187,798
Retained earnings .....	64,003	44,802
Unearned restricted stock .....	(5,638)	(1,444)
Treasury stock, at cost (3,291,777 shares) .....	(51,983)	(51,983)
Total Stockholders' Equity .....	199,224	179,286
Total Liabilities and Stockholders' Equity .....	\$ 525,591	\$ 399,595

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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BEAZER HOMES USA

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY



(dollars in thousands)

	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Restricted Stock	Treasury Stock	Total
Balance, September 30, 1995	\$ 20	\$ 93	\$187,698	\$ 23,347	\$ (1,907)	(44,707)	\$164,544
Purchase of treasury stock (25,000 shares)				(349)	(349)		
Issuance of restricted stock (46,500 shares)			482	(482)			
Cancellation of restricted stock (38,417 shares)			(458)	458			
Remeasurement of unearned restricted stock			(228)	228			
Amortization of unearned restricted stock				257		257	
Preferred stock dividends paid				(4,000)			(4,000)
Other			(17)	(17)			
Net income				18,266			18,266
Balance, September 30, 1996	\$ 20	\$ 93	\$187,477	\$ 37,613	\$ (1,446)	\$(45,056)	\$178,701
Purchase of treasury stock (517,510 shares)				(6,927)	(6,927)		
Issuance of restricted stock (50,757 shares)			321	(321)			
Amortization of unearned restricted stock				323		323	
Preferred stock dividends paid				(4,000)			(4,000)
Net income				11,189			11,189
Balance, September 30, 1997	\$ 20	\$ 93	\$187,798	\$ 44,802	\$ (1,444)	\$(51,983)	\$179,286
Issuance of restricted stock (238,000 shares)			4,805	(4,805)			
Amortization of unearned restricted stock				611		611	
Preferred stock dividends paid				(4,000)			(4,000)
Other shares issued			126	126			
Net income				23,201			23,201
Balance, September 30, 1998	\$ 20	\$ 93	\$192,729	\$ 64,003	\$ (5,638)	\$(51,983)	\$199,224

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BEAZER HOMES USA

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended September 30,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$23,201	\$ 11,189	\$ 18,266
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	3,269	2,221	1,528
Provision for deferred income taxes	340	(1,280)	588
Writedown of inventory	6,326		
Changes in operating assets and liabilities, net of effects from acquisitions:			
Increase in inventory	(26,220)	(47,302)	(11,603)
Increase (decrease) in trade accounts payable	15,824	13,012	(9,024)
Increase (decrease) in other accrued liabilities	18,344	(645)	1,698
Other	(7,609)	(3,988)	(1,346)
Net cash provided (used) by operating activities	27,149	(20,467)	107
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(5,775)	(9,445)	(1,866)
Investment in unconsolidated joint venture	(1,200)		
Acquisitions, net of cash acquired	(16,766)		(21,357)
Net cash used by investing activities	(23,741)	(9,445)	(23,223)

Cash flows from financing activities			
Proceeds from issuance of 8 7/8% Senior Notes ....	100,000		
Net borrowings under revolving credit facility ...	(30,000)	30,000	
Debt issuance costs .....	(3,067)	(836)	
Cash dividends paid on preferred stock .....	(4,000)	(4,000)	(4,000)
Share repurchases .....	(6,927)	(349)	
Net cash provided (used) by financing activities .	62,933	18,237	(4,349)
Increase (decrease) in cash and cash equivalents .	66,341	(11,675)	(27,465)
Cash and cash equivalents at beginning of year ...	1,267	12,942	40,407
Cash and cash equivalents at end of year .....	\$ 67,608	\$ 1,267	\$ 12,942
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid .....	\$ 20,379	\$ 15,659	\$ 13,885
Income taxes paid .....	\$ 14,533	\$ 5,399	\$ 11,581

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - Beazer Homes USA, Inc. ("Beazer" or the "Company") is one of the largest single-family home builders in the United States. Beazer designs, builds and sells single family homes in 24 markets located in Arizona, California, Florida, Georgia, Nevada, North Carolina, South Carolina, Tennessee and Texas and provides mortgage origination services to its homebuyers through Beazer Mortgage Corp. ("Beazer Mortgage").

BASIS OF PRESENTATION - The accompanying consolidated financial statements include the accounts of Beazer Homes USA, Inc., and its wholly owned subsidiaries. Intercompany balances have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS - The Company considers cash investments with maturities of three months or less when purchased to be cash equivalents.

INVENTORY - Inventory consists of residential real estate developments including interest, real estate taxes and development costs capitalized to land and construction costs during the development and construction period.

INVESTMENT IN JOINT VENTURE - During fiscal 1998, the Company entered into a joint venture agreement with Corporacion GEO, a Mexican homebuilder, to build affordable homes in the United States. The Company has a non-controlling 40% ownership interest in the joint venture. Accordingly, the joint venture is accounted for under the equity method. Development of the joint venture's first project began during October 1998. Through September 30, 1998, the results of operations of the joint venture were not significant. During fiscal 1998, the Company advanced approximately \$1.2 million to the joint venture and at September 30, 1998 has a remaining funding commitment of \$3.6 million over the next two years. The investment is classified with other assets on the consolidated balance sheet.

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are recorded at cost. Depreciation is computed on a straight line basis at rates based on estimated useful lives as follows:

Building .....	15 YEARS
Machinery and equipment .....	3 - 12 YEARS
Information systems .....	3 - 5 YEARS
Furniture and fixtures .....	3 - 5 YEARS

INCOME TAXES - Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

INCOME RECOGNITION AND CLASSIFICATION OF COSTS - Income from the sale of residential units or land parcels is recognized when closings have occurred and

the risk of ownership is transferred to the buyer. Sales commissions are included in selling, general and administrative expense.

Revenues for fees paid to Beazer Mortgage from third-party lenders are recognized concurrent with the closing on the sale of the residential unit. All general and administrative expenses of operating Beazer Mortgage are included in selling, general and administrative expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**GOODWILL** - Goodwill represents the excess of the purchase price over the fair value of assets acquired and is being amortized over a 15-year period. Amortization expense was \$736,000, \$541,000, and \$541,000, for the years ended September 30, 1998, 1997 and 1996, respectively. Accumulated amortization was \$3,185,000 and \$2,449,000 at September 30, 1998 and 1997, respectively. In the event that facts and circumstances indicate that the carrying value of goodwill may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required.

**WARRANTY COSTS** - 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 range from 0.5% to 1.0% of total revenue and, based upon experience, have been sufficient to cover costs incurred.

**OTHER LIABILITIES** - Other liabilities includes home buyer deposits, accrued compensation and various other accrued expenses.

**FAIR VALUE OF FINANCIAL INSTRUMENTS** - The historical carrying amount of short-term financial instruments approximates fair value. The fair values of the Company's publicly held debt are estimated based on the quoted bid prices for these debt instruments. The fair values of the Company's publicly held debt approximates their book values at September 30, 1998 and 1997.

**EARNINGS PER SHARE** - During fiscal 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." As a result, all previously reported earnings per share data has been restated to conform with SFAS No. 128. The computation of basic earnings per common share is determined by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share additionally gives effect to dilutive common stock equivalent units, including (i) the assumed conversion of 2,000,000 shares of the Company's Series A Cumulative Convertible Exchangeable Preferred Stock (see Note 11) into 2,624,672 shares of Common Stock (in fiscal 1996 and 1998) and (ii) stock options and awards.

**STOCK-BASED COMPENSATION** - As described in Note 12, the Company has elected to follow the intrinsic value method to account for compensation expense related to the award of stock options and to furnish the pro forma disclosures required under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Since the Company's stock option awards are granted at prices no less than the fair-market value of the shares at the date of grant, no compensation expense is recognized. Compensation expense, if any, related to restricted stock awards is determined at the date of grant, recorded as unearned compensation expense and amortized over the vesting period of the awarded shares. The unearned compensation expense related to such awards is reflected as a reduction of stockholder's equity.

**USE OF ESTIMATES** - The preparation of financial statements in conformity with generally accepted accounting principles 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.

**RECLASSIFICATIONS** - Certain items in prior period financial statements have been reclassified to conform to the current presentation.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

RECENT ACCOUNTING PRONOUNCEMENTS - In June 1997, the FASB issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 becomes effective for fiscal years beginning after December 15, 1997 with early adoption permitted. The statements will have no effect on the Company's results of operations or financial position.

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 is effective for periods beginning after June 15, 1999. The Company has not yet completed an analysis of the effect of this statement on its financial statements.

## NOTE 2 - ACQUISITIONS

Since October 1, 1995, the Company has acquired substantially all of the assets or all of the outstanding capital stock of each of the following businesses (also see Note 14):

BUSINESS ACQUIRED	CONSIDERATION (IN THOUSANDS)	ACQUISITION DATE
Calton Homes of Florida .....	\$16,700	November 1997
Trendmaker Homes - Dallas .....	21,000	June 1996
Gulfcoast Homes .....	3,200	May 1996

Consideration includes cash paid plus certain borrowings assumed and repaid immediately subsequent to the acquisitions. These acquisitions have been recorded using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and the liabilities assumed based on their estimated fair values as of the date of acquisitions. The allocations of purchase price resulted in approximately \$3.9 million of goodwill, principally from the acquisition of Calton Homes of Florida. The operating results of the acquired businesses are included in the Company's consolidated statements of income from their respective dates of acquisition. The pro forma effect on the Company's operating results of acquired businesses prior to their acquisition date would not be significant.

## NOTE 3 - INVENTORY

Inventory at September 30 includes (in thousands):

	1998	1997
Homes under construction .....	\$194,566	\$169,459
Development projects in progress	165,218	131,842
Unimproved land held for future development .....	18,605	34,792
Model homes .....	26,706	25,852
	\$405,095	\$361,945

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. At September 30, 1998 the Company had 208 completed homes (\$30.7 million) that were not subject to a sales contract, not including model homes. At September 30, 1997 the Company had 426 completed homes (\$49.8 million) that were not subject to a sales contract, not including

model homes.

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.

Inventory located in California, the state with the Company's largest concentration of inventory, totaled \$97.7 million and \$74.5 million at September 30, 1998 and 1997, respectively.

In March 1997 the Company recorded a pre-tax charge of \$6.3 million to write down two properties located in Nevada to their estimated fair market value (based on the sales prices of comparable projects). The two Nevada properties had incurred significant development costs that were not anticipated at the beginning of the projects. As a result, the estimated future undiscounted cash flows of the projects at that time were less than their respective book values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company acquires 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 without specific performance obligations, the Company's liability is generally limited to forfeiture of the non-refundable deposits, which aggregated approximately \$10.6 million and \$10.3 million at September 30, 1998 and 1997, respectively, and is included in development projects in process. Under option contracts, both with and without specific performance, purchase of the properties is contingent upon satisfaction of certain requirements by the Company and the sellers. Below is a summary of amounts (in thousands) committed under all options:

	AGGREGATE PURCHASE PRICE AS OF SEPTEMBER 30, 1998
	-----
Options with specific performance .....	\$ 38,968
Options without specific performance ..	204,087
	-----
Total options .....	\$ 243,055
	-----

NOTE 4 - INTEREST

Information regarding interest (in thousands) is as follows.

	Year Ended September 30,		
	-----	-----	-----
	1998	1997	1996
	-----	-----	-----
Capitalized interest in inventory, beginning of year	\$ 6,855	\$ 5,553	\$ 6,511
Interest incurred and capitalized .....	21,259	16,159	14,176
Capitalized interest amortized to cost of sales .	(19,031)	(14,857)	(15,134)
	-----	-----	-----
Capitalized interest in inventory, end of the year .	\$ 9,083	\$ 6,855	\$ 5,553
	-----	-----	-----

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

	September 30,	
	1998	1997
Land and buildings .....	\$ 935	\$ 1,041
Leasehold improvements .....	883	660
Machinery and equipment .....	3,467	4,050
Information systems .....	9,354	4,232
Furniture and fixtures .....	5,103	6,517
	19,742	16,500
Less: Accumulated depreciation ...	7,410	4,908
Property, plant and equipment, net	\$12,332	\$11,592

NOTE 6 - REVOLVING CREDIT FACILITY

The Company maintains a revolving line of credit with a group of banks. The credit agreement at September 30, 1998, provides for up to \$200 million of unsecured borrowings. Borrowings under the credit agreement generally bear interest payable monthly at a fluctuating rate based upon the corporate base rate of interest announced by the lead bank, the federal funds rate or LIBOR. All outstanding borrowings under the credit agreement are due in February 2001. The credit agreement contains various operating and financial covenants. Each of the Company's significant subsidiaries is a guarantor under the credit agreement.

Available borrowings under the Credit Agreement are limited to certain percentages of homes under contract, unsold homes, substantially improved lots and accounts receivable. At September 30, 1998, the Company had no borrowings outstanding, and had available additional borrowings of \$47 million under the credit agreement.

On November 3, 1998, the Company amended and restated the credit facility (the "New Credit Facility") to extend the maturity from February 2001 to November 2002 and modify certain

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

provisions, including the determination of available borrowings. At September 30, 1998, the Company would have had available additional borrowings of \$90 million under the New Credit Agreement.

NOTE 7 - SENIOR NOTES

In March 1998, the Company issued \$100 million of 8 7/8% Senior Notes, due in April 2008 (the "8 7/8% Senior Notes") at a price of 99.183% of their face amount (before underwriting discount and other issuance costs). The net proceeds of the Senior Note offering were used to repay short-term borrowings under the Company's revolving credit facility. Interest on the 8 7/8% Senior Notes is payable semiannually. The Company may, at its option, redeem the 8 7/8% Senior Notes in whole or in part at any time after March 2003, initially at 104.438% of the principal amount, declining to 100% of the principal amount after March 2006. A portion of such notes may also be redeemed prior to April 2001 under certain conditions.

The Company also has outstanding \$115 million of Senior Notes which mature in March 2004 (the "9% Senior Notes"). Interest on the 9% Senior Notes is payable semiannually. The Company may, at its option, redeem the 9% Senior Notes in

whole or in part at any time after February 1999, initially at 102.571% of the principal amount, declining to 100% of the principal amount after February 2001.

The 9% Senior Notes and the 8 7/8% Senior Notes are unsecured obligations of the Company ranking pari passu with all other existing and future senior indebtedness of the Company.

The indentures under which the 9% Senior Notes and the 8 7/8% Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At September 30, 1998, under the most restrictive covenants of each indenture, approximately \$37.1 million of the Company's retained earnings was available for cash dividends and for the acquisition by the Company of its common stock. Each indenture provides that, in the event of defined changes in control or if the Company's consolidated tangible net worth falls below a specified level or in certain circumstances upon sale of assets, the Company is required to offer to repurchase certain specified amounts of outstanding senior notes.

NOTE 8 - INCOME TAXES

The provision for income taxes consists of (in thousands):

	Year Ended September 30,		
	1998	1997	1996
Current:			
Federal.....	\$12,297	\$ 7,507	\$ 9,579
State .....	1,656	778	1,760
Deferred .....	340	(1,280)	588
Total .....	\$14,293	\$ 7,005	\$ 11,927

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

	Year Ended September 30,		
	1998	1997	1996
Income tax computed			
at statutory rate ....	\$ 13,123	\$ 6,368	\$ 10,568
State income taxes,			
net of federal benefit	1,077	506	1,143
Goodwill amortization ..	189	189	189
Other, net .....	(96)	(58)	27
Total .....	\$ 14,293	\$ 7,005	\$ 11,927

Deferred tax assets relate principally to differences between book and tax bases of inventory as a result of the various acquisitions, and to the timing and deductibility of accrued warranty costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 - LEASES

The Company is obligated under various noncancelable operating leases for office facilities and equipment. Rental expense under these agreements amounted to approximately \$4,400,000, \$2,258,000 and \$2,485,000 for the years ended

September 30, 1998, 1997 and 1996, respectively. As of September 30, 1998 future minimum lease payments under noncancelable operating lease agreements are as follows (in thousands):

YEAR ENDING SEPTEMBER 30,

1999 .....	\$2,999
2000 .....	2,156
2001 .....	1,280
2002 .....	619
2003 .....	200
Thereafter .....	2
	-----
Total .....	\$7,256
	-----

NOTE 10 - STOCKHOLDERS' EQUITY

PREFERRED STOCK - The Company has 2,000,000 shares of its Series A Cumulative Convertible Exchangeable Preferred Stock (Liquidation Preference \$25.00 per share), par value \$0.01 issued and outstanding. The Preferred Stock pays dividends quarterly at an annual rate of 8%, is convertible at the holder's option into the Company's Common Stock at a conversion price of \$19.05 per Common Share, is exchangeable at the Company's option into 8% Convertible Subordinated Debentures due 2005 and became callable by the Company beginning in September 1998 at a 5% premium.

COMMON STOCK REPURCHASE PLAN - In June 1996, the Company's Board of Directors approved a stock repurchase plan authorizing the purchase of up to 10% of the Company's then outstanding common stock. Such repurchases, if completed, would be affected at various prices from time to time in the open market. As of September 30, 1998 the Company had purchased 542,510 shares for an aggregate purchase price of approximately \$7.3 million under this repurchase plan.

SHAREHOLDER RIGHTS PLAN - In June 1996, the Company's Board of Directors adopted a Shareholder Rights Plan and distributed a dividend of one preferred share purchase right (a "Right") to purchase one one-hundredth of a share of Series B Junior Participating Preferred Stock, par value \$0.01 per share (the "Junior Preferred Shares"), of the Company. The Rights become exercisable in certain limited circumstances involving principally the acquisition of over 20% of the Company's outstanding common stock by any one individual or group. The Rights are initially exercisable at a price of \$80 per one hundredth of a Junior Preferred Share subject to adjustment. Following certain other events after the Rights have become exercisable, each Right entitles its holder to purchase at the Right's then-current exercise price, a number of shares of the Company's common stock having a market value of twice such price, or, in certain circumstances, securities of the acquirer, having a then-current market value of two times the exercise price of the right.

The Rights are redeemable and may be amended at the Company's option before they become exercisable. Until a Right is exercised, the holder of a Right has no rights as a shareholder of the Company. The Rights expire in June 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 - EARNINGS PER SHARE

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

	Year Ended September 30,		
	-----		
	1998	1997	1996



EARNINGS			
Net income .....	\$23,201	\$11,189	\$18,266
Less: Dividends on preferred shares .....	4,000	4,000	4,000
Net income applicable to common shareholders .....	\$19,201	\$ 7,189	\$14,266
BASIC:			
Net income applicable to common shareholders .....	\$19,201	\$ 7,189	\$14,266
Weighted average number of common shares outstanding .....	5,864	6,088	6,375
Basic earnings per share .....	\$ 3.27	\$ 1.18	\$ 2.24
DILUTED:			
Net income applicable to common shareholders .....	\$19,201	\$ 7,189	\$14,266
Plus: Dividends on preferred shares .....	4,000	n/a	4,000
Net income applicable to common shareholders .....	\$23,201	\$ 7,189	\$18,266
Weighted average number of common shares outstanding .....	5,864	6,088	6,375
Effect of dilutive securities - Assumed conversion of preferred shares .....	2,625	n/a	2,625
Restricted stock .....	163	142	99
Options to acquire common stock .....	79	44	1
Diluted weighted average number of common shares outstanding .....	8,731	6,274	9,100
Diluted earnings per share .....	\$ 2.66	\$ 1.15	\$ 2.01

The computation of diluted earnings per share for the year ended September 30, 1997 excludes the assumed conversion of 2.0 million shares of the Company's Series A Cumulative Convertible Exchangeable Preferred Stock into 2.6 million shares of common stock at the conversion price of \$19.05 since the effect of such conversion is antidilutive for this period. Options to purchase 228,500 and 306,000 shares of common stock were not included in the computation of diluted EPS for the years ending September 30, 1997 and 1996, respectively, because the options' exercise price was greater than the average market price of the common shares during those years.

#### NOTE 12 - RETIREMENT PLAN AND INCENTIVE AWARDS

401(k) RETIREMENT PLAN - The Company sponsors a 401(k) Retirement Savings and Investment Plan (the "Plan"). Substantially all employees are eligible for participation in the Plan after completing six months of service with the Company. Participants may defer and contribute to the Plan from 1% to 17% of their salary with certain limitations on highly compensated individuals. The Company matches 50% of the first 6% of the participant's contributions. The participant's contributions vest 100% immediately, while the Company's contributions vest after five years. The Company's total contributions for the years ended September 30, 1998, 1997 and 1996 were approximately \$876,000, \$620,000 and \$587,000, respectively.

STOCK OPTION AWARDS - The Company has issued several stock option awards to officers, key employees and non-employee directors under its 1994 Stock Incentive Plan and to non-employee directors pursuant to the Company's Non-Employee Director Stock Option Plan. Stock options are generally exercisable at the fair market value of the Company's common stock on the grant date and may be exercised between three to 10 years from the date such options are granted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information regarding activity under the Company's stock option plans is summarized as follows:

	Year Ended September 30,					
	1998		1997		1996	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Options outstanding at beginning of year .....	560,500	\$ 17.57	346,000	\$ 16.07	352,000	\$ 15.90
Granted .....	248,000	20.19	214,500	20.06	42,000	17.72
Forfeited .....					(48,000)	16.09
Options outstanding at end of year .....	808,500	\$ 17.81	560,500	\$ 17.57	346,000	\$ 16.07
Options exercisable at end of year .....	312,000	\$ 15.90	165,000	\$ 17.50	--	--
Weighted average fair value of options granted during the year ..		\$ 8.53		\$ 10.17		\$ 9.09

The Company applies Accounting Principle Board Option No. 25 in accounting for its stock option plans and, accordingly, no compensation cost has been recognized for stock options in the accompanying financial statements. SFAS 123 requires disclosure of pro forma net earnings and pro forma net earnings per share as if the fair value based method had been applied in measuring compensation expense for awards granted since 1996. Reported and such pro forma net earnings (in thousands) and net income per share amounts are set forth below:

	Year Ended September 30,		
	1998	1997	1996
REPORTED:			
Net income .....	\$ 23,201	\$ 11,189	\$ 18,266
Basic net income per share	\$ 3.27	\$ 1.18	\$ 2.24
Diluted net income			
per share .....	\$ 2.66	\$ 1.15	\$ 2.01
Pro forma:			
Net income .....	\$ 22,733	\$ 11,137	\$ 18,266
Basic net income per share	\$ 3.19	\$ 1.17	\$ 2.24
Diluted net income			
per share .....	\$ 2.60	\$ 1.14	\$ 2.01

The fair values of the options granted were estimated on the date of their grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

	Year Ended September 30,		
	1998	1997	1996
Expected volatility .....	29.7%	39.3%	42.4%
Expected dividend yield ....	NONE	none	none
Risk-free interest rate ....	5.3%	6.1%	6.0%
Expected life (in years) ...	6.5	6.5	6.5

The 808,500 stock options outstanding at September 30, 1998 have exercise prices ranging from \$13.375 to \$20.1875, with a weighted average remaining contractual

life of 8.3 years.

OTHER STOCK AWARDS - The Company has made several restricted stock awards to officers and key employees under the 1994 Stock Incentive Plan. All restricted stock is awarded in the name of each participant, who has all the rights of other common stockholders subject to restrictions and forfeiture provisions which lapse over time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Stock is included in common stock outstanding when awarded and included in basic weighted average shares outstanding when vested. Compensation expense recognized for such awards total \$611,000, \$323,000 and \$257,000 for the years ended September 30, 1998, 1997 and 1996, respectively.

Activity relating to such restricted stock awards is summarized as follows:

	Year Ended September 30,		
	1998	1997	1996
Restricted shares, beginning of period .....	186,500	170,500	171,750
Shares awarded .....	238,000	16,000	33,000
Shares forfeited .....			(34,250)
Shares vested .....	(52,876)		
Restricted shares, end of period	371,624	186,500	170,500

During 1998, the Company extended its incentive compensation plan (called the Value Created Incentive Plan), modeled under the concepts of economic profit or economic value added, to all key operating managers within the organization. Participants may receive a portion of their earned incentive compensation under the plan in Company common stock (the "Bonus Restricted Stock"). Such shares are issued after a three-year vesting period at a discount to the stock's market value at the time the bonus is earned. Should the employee terminate for any reason during the vesting period, this portion of the incentive compensation is settled in cash. The Company had 118,408, 69,689 and 67,918 shares of Bonus Restricted Stock issuable as of September 30, 1998, 1997 and 1996, respectively.

At September 30, 1998, the Company has reserved 1,265,599 shares of common stock for issuance under its various stock incentive plans and has 109,401 shares available for future grants.

NOTE 13 - CONTINGENCIES

The Company had outstanding letters of credit and performance bonds of approximately \$10.9 and \$68.6 million, respectively, at September 30, 1998 related principally to its obligations to local governments to construct roads and other improvements in various developments. The Company does not believe that any such letters of credit or bonds are likely to be drawn upon.

The Company is a defendant or plaintiff in various legal actions which have arisen in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

NOTE 14 - SUBSEQUENT EVENTS

In October 1998, the Company acquired the assets of Snow Construction, Inc. in Orlando, Florida for approximately \$1.8 million. On December 4, 1998, the Company acquired the assets of the homebuilding operations of Trafalgar House Property, Inc. for a purchase price of approximately \$90 million. The Company funded this acquisition with borrowings under the New Credit Facility.

## QUARTERLY DATA

## QUARTERLY FINANCIAL DATA:

Summarized quarterly financial information (unaudited) (in thousands, except per share data)

QUARTER ENDED	SEPTEMBER 30	JUNE 30	MARCH 31	DECEMBER 31
<b>FISCAL 1998:</b>				
Total revenue .....	\$ 365,649	\$ 234,811	\$ 221,323	\$ 155,626
Operating income .....	19,158	8,814	6,135	2,808
Net income .....	11,956	5,621	3,805	1,819
Net income per common share:				
Basic .....	\$ 1.86	\$ 0.79	\$ 0.48	\$ 0.14
Diluted .....	\$ 1.37	\$ 0.67	\$ 0.44	\$ 0.14
<b>FISCAL 1997:</b>				
Total revenue .....	\$ 317,273	\$ 195,991	\$ 177,762	\$ 161,083
Operating income (loss) .....	12,147	5,438	(4,133)	4,199
Net income (loss) .....	7,537	3,434	(2,460)	2,677
Net income (loss) per common share:				
Basic .....	\$ 1.12	\$ 0.41	\$ (0.55)	\$ 0.27
Diluted .....	\$ 0.87	\$ 0.40	\$ (0.55)	\$ 0.26
<b>FISCAL 1996:</b>				
Total revenue .....	\$ 294,828	\$ 217,065	\$ 196,505	\$ 158,230
Operating income .....	11,228	7,979	6,084	4,833
Net income .....	6,888	4,817	3,663	2,900
Net income per common share:				
Basic .....	\$ 0.92	\$ 0.60	\$ 0.42	\$ 0.30
Diluted .....	\$ 0.76	\$ 0.53	\$ 0.40	\$ 0.29

## QUARTERLY STOCK PRICE INFORMATION:

	HIGH	LOW
<b>1998 PERIOD:</b>		
July 1, 1998 through September 30, 1998 ...	\$ 26.875	\$ 20.125
April 1, 1998 through June 30, 1998 .....	\$ 27.125	\$ 21.00
January 1, 1998 through March 31, 1998 ....	\$ 26.00	\$ 19.875
October 1, 1997 through December 31, 1997 .	\$ 20.00	\$ 17.6875
<b>1997 PERIOD:</b>		
July 1, 1997 through September 30, 1997 ...	\$ 20.4375	\$ 16.00
April 1, 1997 through June 30, 1997 .....	\$ 17.25	\$ 12.75
January 1, 1997 through March 31, 1997 ....	\$ 18.50	\$ 14.75
October 1, 1996 through December 31, 1996 .	\$ 18.50	\$ 13.75

	Year Ended September 30,						TEN MONTHS ENDED SEPTEMBER 30,
	1998	1997	1996	1995	1994	1993	1992 (ii)
FINANCIAL DATA							
STATEMENT OF OPERATIONS DATA							
Total revenue .....	\$977,409	\$852,110	\$866,627	\$647,828	\$536,526	\$275,054	\$111,429
Earnings before interest and taxes ("EBIT") .....	\$ 56,525	\$ 33,051	\$ 45,327	\$ 32,188	\$ 37,169	\$ 22,713	\$ 8,595
Net income .....	\$ 23,201	\$ 11,189	\$ 18,266	\$ 11,352	\$ 16,468	\$ 16,046	\$ 6,415
Net income per common share:							
Basic .....	\$ 3.27	\$ 1.18	\$ 2.24	\$ 1.26	\$ 1.78 (i)	n/m	n/m
Diluted .....	\$ 2.66	\$ 1.15	\$ 2.01	\$ 1.23	\$ 1.76 (i)	n/m	n/m
BALANCE SHEET DATA AT YEAR END							
Total assets .....	\$525,591	\$399,595	\$356,643	\$345,240	\$314,941	\$245,349	\$ 65,964
Total debt .....	\$215,000	\$145,000	\$115,000	\$115,000	\$115,000	\$119,925	\$ 11
Stockholders' equity .....	\$199,224	\$179,286	\$178,701	\$164,544	\$150,406	\$ 95,595	\$ 58,816
RETURN DATA (i)							
Return on average assets .....	12.2%	8.7%	12.9%	9.8%	13.3%	14.6%	n/m
Return on average capital .....	15.3%	10.7%	15.8%	11.8%	15.5%	20.8%	n/m
Return on average equity .....	12.3%	6.3%	10.6%	7.2%	13.4%	16.6%	n/m
OPERATING DATA							
NUMBER OF NEW ORDERS, NET OF CANCELLATIONS							
Southeast region .....	2,888	1,969	2,048	2,083	1,726	1,392	1,263
Southwest region .....	3,245	2,817	3,172	2,660	1,902	1,071	5
Central region .....	749	765	401	98	--	--	--
New Jersey .....	--	--	--	--	48	80	--
Total .....	6,882	5,551	5,621	4,841	3,676	2,543	1,268
BACKLOG AT END OF PERIOD							
Southeast region .....	996	505	580	708	478	437	357
Southwest region .....	743	479	680	722	506	677	5
Central region .....	318	208	166	53	--	--	--
New Jersey .....	--	--	--	1	3	74	--
Total .....	2,057	1,192	1,426	1,484	987	1,188	362
NUMBER OF CLOSINGS							
Southeast region .....	2,493	2,044	2,212	1,853	1,734	1,312	1,182
Southwest region .....	2,981	3,018	3,343	2,444	2,073	775	--
Central region .....	639	723	379	64	--	--	--
New Jersey .....	--	--	1	2	119	6	--
Total .....	6,113	5,785	5,935	4,363	3,926	2,093	1,182
AVERAGE SALES PRICE PER HOME CLOSED .....							
	\$ 156.4	\$ 146.8	\$ 145.8	\$ 148.5	\$ 136.7	\$ 131.4	\$ 108.0

<FN>

n/m Not meaningful

(i) See definitions on page 1 for return data and page 19 for 1994 EPS data.

(ii) Periods presented are those periods subsequent to the acquisition of Beazer PLC (the Company's former parent) by Hanson PLC in December 1991.

</FN>

BEAZER HOMES USA

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#### NOTE REGARDING FORWARD-LOOKING STATEMENTS

#### CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain of the statements contained in this report, including those under "Outlook," "Financial Condition," and "Year 2000 compliance" constitute "forward-looking statements" within the meaning of the federal securities laws. While the Company believes that these statements are accurate, Beazer's business is dependent upon general economic conditions and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. The most significant factors that could cause actual results to differ materially from those expressed in the forward-looking statements include, but are not limited to, the following:

- o Economic changes nationally or in one of the Company's local markets
- o Volatility of mortgage interest rates
- o Increased competition in certain of the Company's local markets
- o Increased prices for labor, land and raw materials used in the production of houses
- o Increased land development cost on projects under development
- o Any delays in reacting to changing consumer preference in home design
- o Delays or difficulties in implementing the Company's initiatives to reduce its production and overhead cost structure
- o Delays in land development or home construction resulting from adverse weather conditions in one of the Company's local markets

## OPERATING AND CORPORATE MANAGEMENT

## OPERATING MANAGEMENT

	NAME	TITLE	YEARS IN HOMEBUILDING	YEARS IN MARKET
SOUTHEAST REGION				
FLORIDA.....	LEON J. PANITZ, JR.	President, Panitz Homes	23	20
	CHRISTIN CUPP	President, Mid-Florida Division	16	16
	DONALD W. KNUTSON	President, Orlando Division	12	5
GEORGIA.....	JAMES M. LIGHTFOOT	Senior Vice President, Georgia Division	1	1
NORTH AND SOUTH CAROLINA.....	GARY N. BAUCOM	Regional Manager and President, Squires Homes	27	27
NORTH CAROLINA.....	SCOTT K. THORSON	President, Squires Homes - Charlotte	15	4
	ROBERT J. POLANCO	President, Squires Homes - Raleigh	21	6
SOUTH CAROLINA.....	FRANK FINLAW	President, Coastal Carolina Division - Charleston Office	21	6
	WILLIAM J. MAZAR	President, Coastal Carolina Division - Columbia Office	16	4
TENNESSEE.....	H. EDDIE PHILLIPS	Regional Manager and President, Phillips Builders	31	31
SOUTHWEST REGION				
ARIZONA.....	JOSEPH C. THOMPSON	Regional Manager, Arizona Division	24	24
CALIFORNIA.....	ANTHONY R. TONSO	President, Northern California Division	30	9
	GERALD A. GATES	President, Southern California Division	26	11
NEVADA.....	WARREN D. KIGGINS, JR.	President, Nevada Division	26	2
CENTRAL REGION				
TEXAS.....	KURT S. WATZEK	Regional Manager	21	21
	S. RANDOLF ALFORD	President, Houston Division	25	25
	WILLIAM HAMMERSLEY	President, Dallas Division	21	1
MID-ATLANTIC REGION				
MARYLAND.....	DAVID L. CARNEY	President, Trafalgar Maryland Division	20	12
VIRGINIA.....	LAURENCE L. CREEMER	President, Trafalgar Virginia Division	29	10
NEW JERSEY.....	MICHAEL J. NEILL	President, Trafalgar New Jersey Division	22	12
	AVERAGE		21	12

## CORPORATE MANAGEMENT

IAN J. MCCARTHY

President and Chief Executive Officer

DAVID S. WEISS

Executive Vice President and Chief Financial Officer

MICHAEL H. FURLOW

Executive Vice President and Chief Operating Officer

JOHN SKELTON

Senior Vice President, Operations

PETER H. SIMONS

Senior Vice President, Corporate Development

CORY J. BOYDSTON

Vice President, Administration and Treasurer

JENNIFER P. JONES

Vice President, Human Resources

ROBERT M. KAGENSKI

Vice President, Information Systems

DAVID T. ROOT

Vice President, Operating and Safety Services

MICHAEL T. RAND

Vice President, Corporate Controller

BRIAN C. BEAZER  
Non-Executive Chairman of the Board  
Beazer Homes USA, Inc.

Mr. Beazer has served as a non-executive Chairman since March 1994. He began work in the construction industry in the late 1950s. He served as Chief Executive Officer of Beazer PLC from 1968 to 1991, and Chairman of that company from 1983 to 1991. Mr. Beazer is also a Director of Beazer Japan, Ltd., Seal Mint Ltd., Jade Holdings Pte Ltd., Jade Technologies Singapore Pte Ltd., FSM Europe B.V., United Pacific Industries Limited and U.S. Industries, Inc.

THOMAS B. HOWARD, JR.  
Former Chairman and Chief Executive Officer  
Gifford-Hill & Company

Mr. Howard has been Director of the Company since 1995. He held various positions with Gifford-Hill & Company, a construction and aggregates company, from 1969 to 1986 and served as its Chairman and Chief Executive Officer from 1986 to 1989. Gifford-Hill & Co. was acquired by Beazer PLC in 1989 and Mr. Howard served as Chairman and Chief Executive Officer of the successor company until 1992. During the period 1957 to 1969, Mr. Howard held various positions with Vulcan Materials Company. Mr. Howard currently serves as a Director of Lennox International, Inc. and on the Board of Trustees of the Methodist Hospitals Foundation.

IAN J. MCCARTHY  
President and Chief Executive Officer  
Beazer Homes USA, Inc.

Mr. McCarthy has served as a Director and Chief Executive Officer since November 1993. Mr. McCarthy served as President of Beazer Homes, Inc. ("BHI") since October 1992 and as President of Beazer Homes Holdings, Inc. ("BHH") since April 1993. From January 1991 to October 1992, he served as Executive Vice President of BHI, responsible for all U.S. residential home building operations. During the period May 1981 to January 1991, Mr. McCarthy was employed in Hong Kong and Thailand as a Director of Beazer Far East, and from January 1980 to May 1981 was employed by Kier Limited, a company engaged in the U.K. construction industry. Mr. McCarthy currently serves as a Director of LADD Furniture, Inc.

GEORGE W. MEFFERD  
Former Group Vice President  
Fluor Corporation

Mr. Mefferd has served as a Director since March 1994. Beginning in 1986, Mr. Mefferd served as Group Vice President and a Director of Fluor Corporation, an engineering and construction company. From 1974 to 1986, Mr. Mefferd held various positions with Fluor Corporation, an engineering and construction company, including Senior Vice President - Finance, Treasurer, Group Vice President and Chief Financial Officer.

D. E. MUNDELL  
Chairman  
ORIX USA Corporation

Mr. Mundell has served as a Director since March 1994. Mr. Mundell has served as Chairman of ORIX USA Corporation, a financial services company, since January 1991. During the period 1959 to 1990, Mr. Mundell held various positions within United States Leasing International, Inc., retiring as Chairman in 1990. He is also a Director of Varian Associates and Stockton Holding, Ltd.

LARRY T. SOLARI  
Chairman and Chief Executive Officer  
BSI Holdings, Inc.

Mr. Solari has served as a Director since March 1994. He is currently the Chairman and CEO of BSI Holdings, Inc. Prior to joining BSI, Mr. Solari was the Chairman and CEO of Sequentia, Inc., the President of the Building Materials Group of Domtar, Inc., and the President of the Construction Products Group for Owens-Corning Fiberglass. Mr. Solari currently is a Director of Pacific Coast Building Products, Inc., BSI Holdings, Inc. and Therma-Tru, Inc. He has also

been a Director of the Policy Advisory Board of the Harvard Joint Center for Housing Studies and an Advisory Board Member of the National Home Builders Association.

DAVID S. WEISS  
Executive Vice President and Chief Financial Officer  
Beazer Homes USA, Inc.

Mr. Weiss has served as a Director and as Executive Vice President and Chief Financial Officer since November 1993. Previously he was Assistant Corporate Controller of Hanson Industries from February 1993. He was Manager of Financial Reporting for Colgate-Palmolive Company from November 1991 to February 1993 and was with the firm Deloitte & Touche from 1982 to 1991 at which time he served as a Senior Audit Manager.

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#### SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS  
Beazer Homes USA, Inc.  
5775 Peachtree Dunwoody Road  
Suite 200  
Atlanta, Georgia 30342  
Telephone: (404) 250-3420

GENERAL COUNSEL  
Paul, Hastings, Janofsky & Walker LLP

INQUIRIES  
Individuals seeking financial data should contact David S. Weiss, Executive Vice President and Chief Financial Officer or Scott M. McKelvey, Director of External Reporting and Investor Relations.

Others seeking information about the Company and its operations should contact Ian J. McCarthy, President and Chief Executive Officer.

FORM 10 - K  
Copies of Beazer Homes USA, Inc.'s Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission will be furnished upon written request to David S. Weiss, Executive Vice President and Chief Financial Officer.

ANNUAL MEETING  
The Annual Shareholders' meeting will be held at 9:00 am EST on February 4, 1999 at The Westin Atlanta North at Perimeter, 7 Concourse Parkway, Atlanta, Georgia 30328.

TRANSFER AGENT  
First Chicago Trust Company of New York  
525 Washington Boulevard  
Jersey City, New Jersey 07303-2536  
(201) 324-1225

INDEPENDENT AUDITORS  
Deloitte & Touche LLP

TRADING INFORMATION  
Beazer Homes USA, Inc. lists its common shares on the New York Stock Exchange, reading under the symbol BZH, and its preferred shares under the symbol BZH.PrA. On December 7, 1998, the last reported sales price of Company's Common Stock on the New York Stock Exchange was \$24.625.



OWNERSHIP

On December 7, 1998, Beazer Homes USA, Inc. had approximately 63 shareholders of record and 6,267,423 shares of Common Stock outstanding.

DUPLICATE MAILINGS

If you are receiving duplicate or unwanted copies of our publications, please contact the First Chicago Trust Company of New York at the numbers listed or contact Scott M. McKelvey, Director of External Reporting and Investor Relations, at Beazer Homes.

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BEAZER HOMES USA

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VISIT OUR WEB SITE AT [WWW.BEAZER.COM](http://WWW.BEAZER.COM)

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BEAZER HOMES USA, INC.  
5775 PEACHTREE DUNWOODY ROAD  
SUITE 200  
ATLANTA, GA 30342  
(404) 250-3420

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-91904 and No. 333-24765 of Beazer Homes USA, Inc. ("Beazer Homes") on Form S-8 of our report dated November 3, 1998 (December 4, 1998 as to Note 14) appearing in Beazer Homes' 1998 Annual Report to Shareholders and incorporated by reference in this Annual Report on Form 10-K of Beazer Homes for the year ended September 30, 1998.

/s/ Deloitte & Touche

Atlanta, Georgia  
December 23, 1998

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<F1>The Company presents a condensed balance sheet.

</FN>