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

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2019
or

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

Commission File Number 001-12822

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	BZH	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO ☐

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

Large accelerated filer	☐	Accelerated filer	x	Non-accelerated filer	o	Smaller reporting company	o	Emerging growth company	o

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

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

Number of shares of common stock outstanding as of January 28, 2020: 31,384,758

BEAZER HOMES USA, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BEAZER HOMES USA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

in thousands (except share and per share data)	**December 31, 2019**	September 30, 2019
ASSETS		
Cash and cash equivalents	**$ 41,277**	$ 106,741
Restricted cash	**18,759**	16,053
Accounts receivable (net of allowance of $313 and $304, respectively)	**19,439**	26,395
Income tax receivable	**4,612**	4,935
Owned inventory	**1,574,280**	1,504,248
Investments in unconsolidated entities	**3,930**	3,962
Deferred tax assets, net	**247,382**	246,957
Property and equipment, net	**26,623**	27,421
Operating lease right-of-use assets	**12,975**	—
Goodwill	**11,376**	11,376
Other assets	**7,451**	9,556
Total assets	**$ 1,968,104**	$ 1,957,644
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Trade accounts payable	**$ 110,153**	$ 131,152
Operating lease liabilities	**15,158**	—
Other liabilities	**95,451**	109,429
Total debt (net of debt issuance costs of $12,080 and $12,470, respectively)	**1,208,062**	1,178,309
Total liabilities	**1,428,824**	1,418,890
Stockholders’ equity:		
Preferred stock (par value $0.01 per share, 5,000,000 shares authorized, no shares issued)	**—**	—
Common stock (par value $0.001 per share, 63,000,000 shares authorized, 31,383,068 issued and outstanding and 30,933,110 issued and outstanding, respectively)	**31**	31
Paid-in capital	**852,055**	854,275
Accumulated deficit	**(312,806)**	(315,552)
Total stockholders’ equity	**539,280**	538,754
Total liabilities and stockholders’ equity	**$ 1,968,104**	$ 1,957,644

See accompanying notes to condensed consolidated financial statements.

BEAZER HOMES USA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,	
in thousands (except per share data)	**2019**	2018
Total revenue	**$ 417,804**	$ 402,040
Home construction and land sales expenses	**354,667**	340,378
Inventory impairments and abandonments	**—**	1,007
Gross profit	**63,137**	60,655
Commissions	**16,065**	15,737
General and administrative expenses	**39,699**	38,642
Depreciation and amortization	**3,427**	2,770
Operating income	**3,946**	3,506
Equity in loss of unconsolidated entities	**(13)**	(64)
Other expense, net	**(1,340)**	(42)
Income from continuing operations before income taxes	**2,593**	3,400
Benefit from income taxes	**(211)**	(3,922)
Income from continuing operations	**2,804**	7,322
Loss from discontinued operations, net of tax	**(58)**	(11)
Net income	**$ 2,746**	$ 7,311
Weighted average number of shares:		
Basic	**29,746**	31,801
Diluted	**30,138**	32,055
Basic income per share:		
Continuing operations	**$ 0.09**	$ 0.23
Discontinued operations	—	—
Total	**$ 0.09**	$ 0.23
Diluted income per share:		
Continuing operations	**$ 0.09**	$ 0.23
Discontinued operations	—	—
Total	**$ 0.09**	$ 0.23

See accompanying notes to condensed consolidated financial statements.

BEAZER HOMES USA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended December 31, 2019				
	Common Stock				
in thousands	Shares	Amount	Paid-in Capital	Accumulated Deficit	Total
Balance as of September 30, 2019	30,933	$ 31	$ 854,275	$ (315,552)	$ 538,754
Net income and comprehensive loss	—	—	—	2,746	2,746
Amortization of nonvested stock awards	—	—	2,311	—	2,311
Exercises of stock options	47	—	173	—	173
Shares issued under employee stock plans, net	574	—	—	—	—
Forfeiture and other settlements of restricted stock	(1)	—	(2,058)	—	(2,058)
Common stock redeemed for tax liability	(170)	—	(2,646)	—	(2,646)
Balance as of December 31, 2019	31,383	$ 31	$ 852,055	$ (312,806)	$ 539,280

	Three Months Ended December 31, 2018				
	Common Stock				
in thousands	Shares	Amount	Paid-in Capital	Accumulated Deficit	Total
Balance as of September 30, 2018	33,522	$ 34	$ 880,025	$ (236,032)	$ 644,027
Net income and comprehensive income	—	—	—	7,311	7,311
Amortization of nonvested stock awards	—	—	2,114	—	2,114
Exercises of stock options	1	—	7	—	7
Shares issued under employee stock plans, net	910	—	—	—	—
Forfeiture of restricted stock	(28)	—	—	—	—
Common stock redeemed for tax liability	(176)	—	(1,850)	—	(1,850)
Share repurchases	(1,554)	(1)	(16,499)	—	(16,500)
Balance as of December 31, 2018	32,675	$ 33	$ 863,797	$ (228,721)	$ 635,109

See accompanying notes to condensed consolidated financial statements.

BEAZER HOMES USA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

in thousands	Three Months Ended December 31, 2019	2018
Cash flows from operating activities:		
Net income	**$ 2,746**	$ 7,311
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**3,427**	2,770
Stock-based compensation expense	**2,311**	2,114
Inventory impairments and abandonments	**—**	1,007
Deferred and other income tax benefit	**(228)**	(4,070)
Gain on sale of fixed assets	**(63)**	(35)
Change in allowance for doubtful accounts	**9**	—
Equity in loss of unconsolidated entities	**13**	65
Cash distributions of income from unconsolidated entities	**—**	320
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**6,947**	5,298
Decrease in income tax receivable	**303**	—
Increase in inventory	**(68,999)**	(29,722)
Decrease in other assets	**1,978**	1,430
Decrease in trade accounts payable	**(20,999)**	(26,568)
Decrease in other liabilities	**(11,975)**	(14,610)
Net cash used in operating activities	**(84,530)**	(54,690)
Cash flows from investing activities:		
Capital expenditures	**(2,632)**	(6,354)
Proceeds from sale of fixed assets	**66**	54
Return of capital from unconsolidated entities	**19**	—
Net cash used in investing activities	**(2,547)**	(6,300)
Cash flows from financing activities:		
Repayment of debt	**(1,150)**	(1,479)
Repayment of borrowings from credit facility	**(95,000)**	(75,000)
Borrowings from credit facility	**125,000**	100,000
Debt issuance costs	**—**	(400)
Repurchase of common stock	**—**	(16,500)
Tax payments for stock-based compensation awards	**(2,646)**	(1,850)
Stock option exercises and other financing activities	**(1,885)**	7
Net cash provided by financing activities	**24,319**	4,778
Decrease in cash, cash equivalents, and restricted cash	**(62,758)**	(56,212)
Cash, cash equivalents, and restricted cash at beginning of period	**122,794**	153,248
Cash, cash equivalents, and restricted cash at end of period	**$ 60,036**	$ 97,036

See accompanying notes to condensed consolidated financial statements.

BEAZER HOMES USA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Description of Business

Beazer Homes USA, Inc. (“we,” “us,” “our,” “Beazer,” “Beazer Homes” and the “Company”) is a geographically diversified homebuilder with active operations in 13 states within three geographic regions in the United States: the West, East, and Southeast.

Our homes are designed to appeal to homeowners at different price points across various demographic segments and are generally offered for sale in advance of their construction. Our objective is to provide our customers with homes that incorporate exceptional value and quality, while seeking to maximize our return on invested capital over the course of a housing cycle.

For an additional description of our business, refer to Item 1 within our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 (2019 Annual Report).

(2) Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. The unaudited condensed consolidated financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. As such, the accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2019 Annual Report. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation have been included in the accompanying unaudited condensed consolidated financial statements. The results of the Company's consolidated operations presented herein for the three months ended December 31, 2019 are not necessarily indicative of the results to be expected for the full fiscal year due to seasonal variations in our operations and other factors.

Basis of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Beazer Homes USA, Inc. and its consolidated subsidiaries. Intercompany transactions and balances have been eliminated in consolidation. Our net income (loss) is equivalent to our comprehensive income (loss), so we have not presented a separate statement of comprehensive income (loss).

In the past, we have discontinued homebuilding operations in various markets. Results from certain of these exited markets are reported as discontinued operations in the accompanying unaudited condensed consolidated statements of operations for all periods presented (see Note 17 for a further discussion of our discontinued operations).

Our fiscal year 2020 began on October 1, 2019 and ends on September 30, 2020. Our fiscal year 2019 began on October 1, 2018 and ended on September 30, 2019.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make informed estimates and judgments that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Accordingly, actual results could differ from these estimates.

Share Repurchase Program

During the first quarter of fiscal 2019, the Company's Board of Directors approved a share repurchase program that authorizes the Company to repurchase up to $50.0 million of its outstanding common stock. As part of this program, the Company repurchased common stock during fiscal 2019 through open market transactions, 10b5-1 plans, and accelerated share repurchase (ASR) agreements.

All shares have been retired upon repurchase during fiscal 2019. The aggregate reduction to stockholders’ equity related to share repurchases during the fiscal year ended September 30, 2019 was $34.6 million. The Company made no share repurchases during the three months ended December 31, 2019. As of December 31, 2019, the remaining availability of the share repurchase program was $15.4 million.

Inventory Valuation

Inventory assets are assessed for recoverability no less than quarterly in accordance with the policies described in Notes 2 and 5 to the audited consolidated financial statements within our 2019 Annual Report. Homebuilding inventories that are accounted for as held for development (projects in progress) include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest, and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. For communities that have been idled (land held for future development), all applicable interest and real estate taxes are expensed as incurred, and the inventory is stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We record land held for sale at the lower of the carrying value or fair value less costs to sell.

Revenue Recognition

We recognize revenue upon the transfer of promised goods to our customers in an amount that reflects the consideration to which we expect to be entitled by applying the following five-step process specified in Accounting Standards Codification Topic 606.

- Identify the contract(s) with a customer
- Identify the performance obligations
- Determine the transaction price
- Allocate the transaction price
- Recognize revenue when the performance obligations are met

The following table presents our total revenue disaggregated by revenue stream:

	Three Months Ended December 31,	
in thousands	**2019**	2018
Homebuilding revenue	**$ 417,399**	$ 400,982
Land sales and other revenue	**405**	1,058
Total revenue [(a)]	**$ 417,804**	$ 402,040

[(a)] Please see Note 15 for total revenue disaggregated by reportable segment.

Homebuilding revenue

Homebuilding revenue is reported net of any discounts and incentives and is generally recognized when title to and possession of the home are transferred to the buyer at the closing date. The performance obligation to deliver the home is generally satisfied in less than one year from the original contract date. Home sale contract assets consist of cash from home closings held in escrow for our benefit, typically for less than five days, and are considered deposits in-transit and classified as cash. Contract liabilities include customer deposits related to sold but undelivered homes and totaled 13.9 million and 11.5 million as of December 31, 2019 and September 30, 2019, respectively. Of the customer liabilities outstanding as of September 30, 2019, $6.1 million was recognized in revenue during the three months ended December 31, 2019 upon closing of the related homes, and $0.2 million was refunded to or forfeited by the buyer. The remaining balance of $5.2 million remains included within customer deposits as of December 31, 2019.

Land sales and other revenue

Land sales revenue relates to land that does not fit within our homebuilding programs and strategic plans. Land sales typically require cash consideration on the closing date, which is generally when performance obligations are satisfied. In some periods, we also have other revenue related to broker fees as well as fees received for general contractor services that we perform on behalf of third parties. Revenue for broker and general contractor services are typically immaterial and are generally recognized as performance obligations are satisfied.

Recent Accounting Pronouncements

Leases. On October 1, 2019, we adopted Accounting Standards Update (ASU) No. 2016-02, *Leases* (ASU 2016-02) and related amendments, collectively codified in ASC 842, *Leases* (ASC 842). ASC 842 requires lessees to record most leases on their balance sheets by recognize a right-of-use asset, representing the right to use the identified asset during the lease term, and a corresponding lease liability, representing the present value of the lease payments over the lease term. Lessor accounting will be largely similar to that under the previous accounting rules. ASC 842 also requires significantly enhanced disclosures around an entity's leases and the related accounting. As part of our adoption of ASC 842, we applied a modified retrospective approach, whereby prior year financial statements were not recast. We also elected the package of transition practical expedients, which allowed us to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) the initial direct costs for any existing leases. In addition, we elected the practical expedient that allows lessees to account for lease and non-lease components together as a single component for all leases. Upon adoption of ASC 842, we recorded net operating lease right-of-use (ROU) assets of 13.9 million and operating lease liabilities of 16.0 million. Existing prepaid rent and accrued rent were recorded as an offset to the gross operating lease ROU assets. The adoption of ASC 842 did not have any impact on our retained earnings. See Note 8 for additional discussion of our operating leases.

Fair Value Measurements. In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework* (ASU 2018-13). The updated guidance improves the disclosure requirements for fair value measurements. The updated guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted for any removed or modified disclosures. We are currently assessing the impact of adopting the updated provisions.

Internal-Use Software. In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* (ASU 2018-15). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This new guidance will be effective for public companies for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect that the new guidance will have on its consolidated financial statements and related disclosures.

(3) Supplemental Cash Flow Information

The following table presents supplemental disclosure of non-cash and cash activity as well as a reconciliation of total cash balances between the condensed consolidated balance sheets and condensed consolidated statements of cash flows for the periods presented:

	Three Months Ended December 31,	
in thousands	**2019**	2018
Supplemental disclosure of non-cash activity:		
Beginning operating lease right-of-use asset (ASC 842 adoption)	**$ 13,895**	—
Beginning operating lease right-of-use liability (ASC 842 adoption)	**16,028**	—
Supplemental disclosure of cash activity:		
Interest payments	**$ 15,954**	$ 13,986
Income tax payments	**—**	121
Tax refunds received	**303**	1,148
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	**$ 41,277**	$ 84,399
Restricted cash	**18,759**	12,637
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	**$ 60,036**	$ 97,036

(4) Investments in Unconsolidated Entities

Unconsolidated Entities

As of December 31, 2019, the Company participated in certain joint ventures and had investments in unconsolidated entities in which it had less than a controlling interest. The following table presents the Company's investment in these unconsolidated entities as well as the total equity and outstanding borrowings of these unconsolidated entities as of December 31, 2019 and September 30, 2019:

in thousands	December 31, 2019	September 30, 2019
Investment in unconsolidated entities	**$ 3,930**	$ 3,962
Total equity of unconsolidated entities	**8,501**	9,969
Total outstanding borrowings of unconsolidated entities	**12,618**	12,658

Equity in income from unconsolidated entity activities included in income from continuing operations is as follows for the periods presented:

	Three Months Ended December 31,	
in thousands	**2019**	2018
Equity in loss of unconsolidated entities	**$ (13)**	$ (64)

For the three months ended December 31, 2019 and 2018, there were no impairments related to investments in unconsolidated entities.

Guarantees

Historically, the Company's joint ventures typically obtained secured acquisition, development, and construction financing. In addition, the Company and its joint venture partners provided varying levels of guarantees of debt and other debt-related obligations for these unconsolidated entities. However, as of December 31, 2019 and September 30, 2019, the Company had no outstanding guarantees or other debt-related obligations related to our investments in unconsolidated entities.

The Company and its joint venture partners generally provide unsecured environmental indemnities to land development joint venture project lenders. These indemnities obligate the Company to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the three months ended December 31, 2019 and 2018, the Company was not required to make any payments related to environmental indemnities.

In assessing the need to record a liability for these guarantees, the Company considers its historical experience in being required to perform under the guarantees, the fair value of the collateral underlying these guarantees, and the financial condition of the applicable unconsolidated entities. In addition, the fair value of the collateral of unconsolidated entities is monitored to ensure that the related borrowings do not exceed the specified percentage of the value of the property securing the borrowings. As of December 31, 2019, no liability was recorded for the contingent aspects of any guarantees that were determined to be reasonably possible but not probable.

(5) Inventory

The components of our owned inventory are as follows as of December 31, 2019 and September 30, 2019:

in thousands	**December 31, 2019**	September 30, 2019
Homes under construction	**$ 580,580**	$ 507,542
Development projects in progress	**732,380**	738,201
Land held for future development	**28,531**	28,531
Land held for sale	**11,443**	12,662
Capitalized interest	**137,010**	136,565
Model homes	**84,336**	80,747
Total owned inventory	**$ 1,574,280**	$ 1,504,248

Homes under construction include homes substantially finished and ready for delivery and homes in various stages of construction, including the cost of the underlying lot. We had 267 (with a cost of $90.2 million) and 238 (with a cost of $82.2 million) substantially completed homes that were not subject to a sales contract (spec homes) as of December 31, 2019 and September 30, 2019, respectively.

Development projects in progress consist principally of land acquisition, land development and other common costs. These land related costs are allocated to individual lots on a pro-rata basis, and the lot costs are transferred to homes under construction when home construction begins for the respective lots. Certain of the fully developed lots in this category are reserved by a customer deposit or sales contract.

Land held for future development consists of communities for which construction and development activities are expected to occur in the future or have been idled and are stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. All applicable interest and real estate taxes on land held for future development are expensed as incurred.

Land held for sale includes land and lots that do not fit within our homebuilding programs and strategic plans in certain markets, and land is classified as held for sale once certain criteria are met (refer to Note 2). These assets are recorded at the lower of the carrying value or fair value less costs to sell.

The amount of interest we are able to capitalize depends on our qualified inventory balance, which considers the status of our inventory holdings. Our qualified inventory balance includes the majority of our homes under construction and development projects in progress but excludes land held for future development and land held for sale (see Note 6 for additional information on capitalized interest).

Total owned inventory by reportable segment is presented in the table below as of December 31, 2019 and September 30, 2019:

in thousands	Projects in Progress [a]	Land Held for Future Development	Land Held for Sale	Total Owned Inventory
December 31, 2019				
West Segment	**$ 733,525**	**$ 3,483**	**$ 4,235**	**$ 741,243**
East Segment	**270,930**	**14,077**	**3,810**	**288,817**
Southeast Segment	**333,623**	**10,971**	**3,398**	**347,992**
Corporate and unallocated [b]	**196,228**	**—**	**—**	**196,228**
Total	**$ 1,534,306**	**$ 28,531**	**$ 11,443**	**$ 1,574,280**
September 30, 2019				
West Segment	$ 723,094	$ 3,483	$ 5,160	$ 731,737
East Segment	228,937	14,077	4,104	247,118
Southeast Segment	318,737	10,971	3,398	333,106
Corporate and unallocated [b]	192,287	—	—	192,287
Total	$ 1,463,055	$ 28,531	$ 12,662	$ 1,504,248

[a] Projects in progress include homes under construction, development projects in progress, capitalized interest, and model home categories from the preceding table.

[b] Projects in progress amount includes capitalized interest and indirect costs that are maintained within our Corporate and unallocated segment.

Inventory Impairments

When conducting our community level review for the recoverability of inventory related to projects in progress, we establish a quarterly “watch list” comprised of communities that carry profit margins in backlog or in our forecast that are below a minimum threshold of profitability, as well as recent closings that have gross margins less than a specified threshold. Each community is first evaluated qualitatively to determine if there are temporary factors driving the low profitability levels. Following our qualitative evaluation, communities with more than ten homes remaining to close are subjected to additional financial and operational review that considers the competitive environment and other factors contributing to gross margins below our watch list threshold. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. For certain communities, it may be prudent to reduce sales prices or further increase sales incentives in response to a variety of factors, including competitive market conditions in those specific submarkets for the product and locations of these communities. For communities where the current competitive and market dynamics indicate that assets may not be recoverable, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative considerations and quantitative analyses reflecting market and asset specific information.

As of December 31, 2019, there were four communities on our quarterly watch list. However, none of these communities required further analysis to be performed after considering certain quantitative and qualitative factors.

As of December 31, 2018, there were four communities on our quarterly watch list that required further analysis to be performed after considering the lots remaining in each community and certain other qualitative factors. This additional analysis led to a $1 million impairment charge for one of these communities, principally due to a reduction in price that is other than temporary based on competitive and market dynamics.

Impairments on land held for sale generally represent write downs of these properties to net realizable value and are based on current market conditions and our review of recent comparable transactions. Our assumptions related to land sales prices require significant judgment because the real estate market is highly sensitive to changes in economic conditions, and our estimates of sale prices could differ significantly from actual results.

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

Lot Option Agreements and Variable Interest Entities (VIE)

As previously discussed, we also have access to land inventory through lot option contracts, which generally enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our lot option. The majority of our lot option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land for the right to acquire lots during a specified period of time at a specified price. Under lot option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers. Our liability under option contracts is generally limited to forfeiture of the non-refundable deposits, letters of credit, and other non-refundable amounts incurred. We expect to exercise, subject to market conditions and seller satisfaction of contract terms, most of our remaining option contracts. Various factors, some of which are beyond our control, such as market conditions, weather conditions, and the timing of the completion of development activities, will have a significant impact on the timing of option exercises or whether lot options will be exercised at all.

The following table provides a summary of our interests in lot option agreements as of December 31, 2019 and September 30, 2019:

in thousands	Deposits & Non-refundable Pre-acquisition Costs Incurred	Remaining Obligation
As of December 31, 2019		
Unconsolidated lot option agreements	**$ 74,836**	**$ 386,762**
As of September 30, 2019		
Unconsolidated lot option agreements	$ 78,202	$ 389,705

(6) Interest

Interest capitalized during the three months ended December 31, 2019 and 2018 was limited by the balance of inventory eligible for capitalization. The following table presents certain information regarding interest for the periods presented:

	Three Months Ended December 31,	
in thousands	**2019**	2018
Capitalized interest in inventory, beginning of period	**$ 136,565**	$ 144,645
Interest incurred	**21,556**	24,921
Capitalized interest impaired	**—**	(115)
Interest expense not qualified for capitalization and included as other expense [(a)]	**(1,442)**	(242)
Capitalized interest amortized to home construction and land sales expenses [(b)]	**(19,669)**	(17,323)
Capitalized interest in inventory, end of period	**$ 137,010**	$ 151,886

[(a)] The amount of interest capitalized depends on the qualified inventory balance, which considers the status of the Company's inventory holdings. The qualified inventory balance includes the majority of homes under construction and development projects in progress but excludes land held for future development and land held for sale.

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

(7) Borrowings

The Company's debt, net of unamortized debt issuance costs consisted of the following as of December 31, 2019 and September 30, 2019:

in thousands	Final Maturity Date	December 31, 2019	September 30, 2019
Senior Unsecured Term Loan (Term Loan)	September 2022	**$ 150,000**	$ 150,000
6 3/4% Senior Notes (2025 Notes)	March 2025	**229,555**	229,555
5 7/8% Senior Notes (2027 Notes)	October 2027	**394,000**	394,000
7 1/4% Senior Notes (2029 Notes)	October 2029	**350,000**	350,000
Unamortized debt issuance costs		**(12,080)**	(12,470)
Total Senior Notes, net		**1,111,475**	1,111,085
Junior Subordinated Notes (net of unamortized accretion of $34,186 and $34,703, respectively)	July 2036	**66,587**	66,070
Revolving Credit Facility	February 2022	**30,000**	—
Other Secured Notes payable	Various Dates	**—**	1,154
Total debt, net		**$ 1,208,062**	$ 1,178,309

Secured Revolving Credit Facility

The Secured Revolving Credit Facility (the Facility) provides working capital and letter of credit capacity of $250.0 million with four lenders. For additional discussion of the Facility, refer to Note 8 to the audited consolidated financial statements within our 2019 Annual Report.

As of December 31, 2019, $30.0 million of borrowings and no letters of credit were outstanding under the Facility, resulting in a remaining capacity of $220.0 million. As of September 30, 2019, no borrowings and no letters of credit were outstanding under the Facility. The Facility requires compliance with certain covenants, including negative covenants and financial maintenance covenants. As of December 31, 2019, the Company was in compliance with all such covenants.

Senior Unsecured Term Loan

On September 9, 2019, the Company entered into a term loan agreement, which provides for a Senior Unsecured Term Loan (the Term Loan) in an aggregate principal amount of up to $150.0 million. The Term Loan will (1) mature in September 2022, with $50.0 million annual repayment installments in September 2020 and September 2021; (2) bears interest at a fixed rate of 4.875%; and (3) includes an option to prepay, subject to certain conditions and the payment of certain premiums. The Term Loan contains covenants generally consistent with the covenants contained in the Facility. As of December 31, 2019, the Company was in compliance with all such covenants.

Letter of Credit Facilities

The Company has entered into stand-alone, cash-secured letter of credit agreements with banks to maintain pre-existing letters of credit and to provide for the issuance of new letters of credit (in addition to the letters of credit issued under the Facility). As of December 31, 2019 and September 30, 2019, the Company had letters of credit outstanding under these additional facilities of $16.6 million and $14.1 million, respectively, all of which were secured by cash collateral in restricted accounts. The Company may enter into additional arrangements to provide additional letter of credit capacity.

In May 2018, the Company entered into a reimbursement agreement, which provides for the issuance of performance letters of credit, and an unsecured credit agreement that provides for the issuance of up to $50.0 million of standby letters of credit to backstop the Company's obligations under the reimbursement agreement (collectively, the "Bilateral Facility"). The Bilateral Facility will terminate on June 10, 2021. As of December 31, 2019, the total stated amount of performance letters of credit issued under the reimbursement agreement was $33.8 million (and the stated amount of the backstop standby letter of credit issued under the credit agreement was $40.0 million). The Company may enter into additional arrangements to provide greater letter of credit capacity.

Senior Notes

The Company's Senior Notes are unsecured obligations ranking pari passu with all other existing and future senior indebtedness. Substantially all of the Company's significant subsidiaries are full and unconditional guarantors of the Senior Notes and are jointly and severally liable for obligations under the Senior Notes and the Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes. See Note 16 for further information.

All unsecured Senior Notes rank equally in right of payment with all existing and future senior unsecured obligations, senior to all of the Company's existing and future subordinated indebtedness and effectively subordinated to the Company's existing and future secured indebtedness, including indebtedness under the Facility, if outstanding, to the extent of the value of the assets securing such indebtedness. The unsecured Senior Notes and related guarantees are structurally subordinated to all indebtedness and other liabilities of all of the Company's subsidiaries that do not guarantee these notes but are fully and unconditionally guaranteed jointly and severally on a senior basis by the Company's wholly-owned subsidiaries party to each applicable indenture.

The Company's Senior Notes are issued under indentures that contain certain restrictive covenants which, among other things, restrict our ability to pay dividends, repurchase our common stock, incur certain types of additional indebtedness, and make certain investments. Compliance with the Senior Note covenants does not significantly impact the Company's operations. The Company is in compliance with the covenants contained in the indentures of all of its Senior Notes as of December 31, 2019.

For additional redemption features, refer to the table below that summarizes the redemption terms of our Senior Notes:

Senior Note Description	Issuance Date	Maturity Date	Redemption Terms
6 3/4% Senior Notes	March 2017	March 2025	On or prior to March 15, 2020, we may redeem up to 35% of the aggregate principal amount of the 2025 Notes with the net cash proceeds of certain equity offerings at a redemption price equal to 106.75% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, provided at least 65% of the aggregate principal amount of the 2025 Notes originally issued remains outstanding immediately after such redemption. Callable at any time prior to March 15, 2020, in whole or in part, at a redemption price equal to 100.000% of the principal amount, plus a customary make-whole premium; on or after March 15, 2020, callable at a redemption price equal to 105.063% of the principal amount; on or after March 15, 2021, callable at a redemption price equal to 103.375% of the principal amount; on or after March 15, 2022, callable at a redemption price equal to 101.688% of the principal amount; on or after March 15, 2023, callable at a redemption price equal to 100.000% of the principal amount, plus, in each case, accrued and unpaid interest.
5 7/8% Senior Notes	October 2017	October 2027	On or prior to October 15, 2022, we may redeem up to 35% of the aggregate principal amount of the 2027 Notes with the net cash proceeds of certain equity offerings at a redemption price equal to 105.875% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, provided at least 65% of the aggregate principal amount of the 2027 Notes originally issued remains outstanding immediately after such redemption. Callable at any time prior to October 15, 2022, in whole or in part, at a redemption price equal to 100.000% of the principal amount, plus a customary make-whole premium; on or after October 15, 2022, callable at a redemption price equal to 102.938% of the principal amount; on or after October 15, 2023, callable at a redemption price equal to 101.958% of the principal amount; on or after October 15, 2024, callable at a redemption price equal to 100.979% of the principal amount; on or after October 15, 2025, callable at a redemption price equal to 100.000% of the principal amount, plus, in each case, accrued and unpaid interest.
7 1/4% Senior Notes	September 2019	October 2029	On or prior to October 15, 2022, we may redeem up to 35% of the aggregate principal amount of the 2029 Notes with the net cash proceeds of certain equity offerings at a redemption price equal to 107.250% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, provided at least 65% of the aggregate principal amount of the 2029 Notes originally issued remains outstanding immediately after such redemption. Callable at any time prior to October 15, 2024, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a customary make-whole premium; on or after October 15, 2024, callable at a redemption price equal to 103.625% of the principal amount; on or after October 15, 2025, callable at a redemption price equal to 102.417% of the principal amount; on or after October 15, 2026, callable at a redemption price equal to 101.208% of the principal amount; on or after October 15, 2027, callable at a redemption price equal to 100.000% of the principal amount, plus, in each case, accrued and unpaid interest.

Junior Subordinated Notes

The Company's unsecured junior subordinated notes (Junior Subordinated Notes) mature on July 30, 2036. The Junior Subordinated Notes are redeemable at par and paid interest at a fixed rate of 7.987% for the first ten years ending July 30, 2016. The securities now have a floating interest rate as defined in the Junior Subordinated Notes Indenture, which was a weighted-average of 4.39% as of December 31, 2019. The obligations relating to these notes are subordinated to the Facility and the Senior Notes. In January 2010, the Company modified the terms of $75.0 million of these notes and recorded them at their then estimated fair value. Over the remaining life of the Junior Subordinated Notes, we will increase their carrying value until this carrying value equals the face value of the notes. As of December 31, 2019, the unamortized accretion was $34.2 million and will be amortized over the remaining life of the notes. As of December 31, 2019, the Company was in compliance with all covenants under the Junior Subordinated Notes.

Other Secured Notes Payable

The Company periodically acquires land through the issuance of notes payable. As of September 30, 2019, the Company had outstanding notes payable of $1.2 million, primarily related to land acquisitions. During the three months ended December 31, 2019, we redeemed the remaining balance outstanding on these land acquisition related notes payable.

(8) Operating Leases

The Company leases certain office space and equipment under operating leases for use in our operations. We recognize operating lease expense on a straight-line basis over the lease term. Certain of our lease agreements include one or more options to renew. The exercise of lease renewal options is generally at our discretion. Variable lease expense primarily relates to maintenance and other monthly expense that do not depend on an index or rate.

We determine if an arrangement is a lease at contract inception. Lease and non-lease components are accounted for as a single component for all leases. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term, which includes optional renewal periods if we determine it is reasonably certain that the option will be exercised. As our leases do not provide an implicit rate, the discount rate used in the present value calculation represents our incremental borrowing rate determined using information available at the commencement date.

Operating lease expense is included as a component of general and administrative expenses in our condensed consolidated statements of operations. For the three months ended December 31, 2019, we recorded operating lease expense of $1.2 million. Cash payments on lease liabilities during the three months ended December 31, 2019 totaled $1.1 million. Sublease income and variable lease expenses are de minimis.

At December 31, 2019, weighted-average remaining lease term and discount rate were as follows:

Weighted-average remaining lease term	**4.4 years**
Weighted-average discount rate	**4.94%**

The following is a maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the operating lease liabilities as of December 31, 2019:

Fiscal Years Ending September 30,		
in thousands		
2020 [a]	$	**3,474**
2021		**4,217**
2022		**3,378**
2023		**2,560**
2024		**1,435**
Thereafter		**1,838**
Total lease payments [b]	$	**16,902**
Less: Imputed interest	$	**1,744**
Total operating lease liabilities	$	**15,158**

[a] Remaining lease payments are for the period beginning January 1, 2020 through September 30, 2020.

[b] Lease payments excludes $4.0 million legally binding minimum lease payments for an office lease signed but not yet commenced at December 31, 2019. The related ROU asset and operating lease liability are not reflected on the Company's condensed consolidated balance sheet as of December 31, 2019.

At September 30, 2019, under ASC 840, *Leases* ("ASC 840"), the future minimum rental commitments totaled $20.1 million under non-cancelable operating leases as follows: 2020 - $4.7 million; 2021 - $4.5 million; 2022 - $3.6 million; 2023 - $2.9 million; 2024 - $1.8 million; and $2.6 million thereafter.

(9) Contingencies

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

Warranty Reserves

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

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

Warranty reserves are included in other liabilities within the condensed consolidated balance sheets, and the provision for warranty accruals is included in home construction expenses in the condensed consolidated statements of operations. Reserves covering anticipated warranty expenses are recorded for each home closed. Management assesses the adequacy of warranty reserves each reporting period based on historical experience and the expected costs to remediate potential claims. Our review includes a quarterly analysis of the historical data and trends in warranty expense by division. Such analysis considers market-specific factors such as warranty experience, the number of home closings, the prices of homes, product mix, and other data in estimating warranty reserves. In addition, the analysis also contemplates the existence of any non-recurring or community-specific warranty-related matters that might not be included in historical data and trends. While estimated warranty liabilities are adjusted each reporting period based on the results of our quarterly analyses, we may not accurately predict actual warranty costs, which could lead to significant changes in the reserve.

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

	Three Months Ended December 31,	
in thousands	**2019**	2018
Balance at beginning of period	**$ 13,388**	$ 15,331
Accruals for warranties issued [a]	**1,665**	2,305
Changes in liability related to warranties existing in prior periods	**67**	(1,874)
Payments made	**(2,474)**	(2,330)
Balance at end of period	**$ 12,646**	$ 13,432

[a] Accruals for warranties issued are a function of the number of home closings in the period, the selling prices of the homes closed, and the rates of accrual per home estimated as a percentage of the selling price of the home.

Insurance Recoveries

The Company has insurance policies that provide for the reimbursement of certain warranty costs incurred above specified thresholds for each period covered. Amounts recorded for anticipated insurance recoveries are reflected within the condensed consolidated statements of income as a reduction of home construction expenses. Amounts not yet received from our insurer are recorded on a gross basis, without any reduction for the associated warranty expense, within accounts receivable on our condensed consolidated balance sheets.

Litigation

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

Claims Related to Inventory Impairment Charges. During the quarter ended March 31, 2019, we recognized inventory impairment charges related to 15 communities in California, all of which were previously land held for future development assets. Related to these inventory impairment charges, on June 5, 2019, a putative class action lawsuit was filed against Beazer Homes USA, Inc. and certain of our officers in the U.S. District Court for the Southern District of New York. The proposed class consisted of all persons and entities that acquired our securities between August 1, 2014 and May 2, 2019. On October 18, 2019, the plaintiffs filed a notice of voluntary dismissal of this case, and the Court subsequently entered an order dismissing the case.

Beginning June 25, 2019, several shareholder derivative lawsuits relating to the same inventory impairment charges discussed above were filed against Beazer Homes USA, Inc., certain of our officers and members of our Board of Directors in the U.S. District Court for the Northern District of Georgia. The plaintiffs in these cases allege breaches of fiduciary duty, unjust enrichment and violations of the federal securities laws. The plaintiffs seek, among other things, monetary damages, disgorgement of profits and attorneys' and experts' fees, but do not specify any specific amounts. We believe the allegations are without merit and intend to vigorously defend against the claims. However, because the outcome of these legal proceedings cannot be predicted with certainty, we have determined that the amount of any possible losses or range of possible losses in connection with these matters is not reasonably estimable.

Other Matters

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

We have an accrual of $3.5 million and $3.4 million in other liabilities on our condensed consolidated balance sheets related to litigation and other matters, excluding warranty, as of December 31, 2019 and September 30, 2019, respectively.

We had outstanding letters of credit and performance bonds of approximately $50.4 million and $276.1 million, respectively, as of December 31, 2019, related principally to our obligations to local governments to construct roads and other improvements in various developments.

(10) Fair Value Measurements

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

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

Certain of our assets are required to be recorded at fair value on a recurring basis. The fair value of our deferred compensation plan assets is based on market-corroborated inputs (Level 2).

Certain of our assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value of these assets may not be recovered. We review our long-lived assets, including inventory, for recoverability when factors indicate an impairment may exist, but no less than quarterly. Fair value on assets deemed to be impaired is determined based upon the type of asset being evaluated. Fair value of our owned inventory assets, when required to be calculated, is further discussed within Notes 2 and 5. The fair value of our investments in unconsolidated entities is determined primarily using a discounted cash flow model to value the underlying net assets of the respective entities. Due to the substantial use of unobservable inputs in valuing the assets on a non-recurring basis, they are classified within Level 3.

During the three months ended December 31, 2019, we recognized no impairments on development projects in progress or land held for sale compared to $1.0 million impairments on development projects in progress and no impairments on land held for sale during the three months ended December 31, 2018.

Determining within which hierarchical level an asset or liability falls requires significant judgment. We evaluate our hierarchy disclosures each quarter.

The following table presents the period-end balances of assets measured at fair value on a recurring basis and the impairment-date fair value of certain assets measured at fair value on a non-recurring basis for each hierarchy level. These balances represent only those assets whose carrying values were adjusted to fair value during the periods presented:

in thousands	Level 1	Level 2	Level 3	Total
As of December 31, 2019				
Deferred compensation plan assets [a]	**$ —**	**$ 2,136**	**$ —**	**$ 2,136**
As of September 30, 2019				
Deferred compensation plan assets [a]	$ —	$ 1,970	$ —	$ 1,970
Development projects in progress [b]	—	—	84,982 [c]	84,982
Land held for sale [b]	—	—	5,207 [c]	5,207

[a] Measured at fair value on a recurring basis.

[b] Measured at fair value on a non-recurring basis, including the capitalized interest and indirect costs related to the asset.

[c] Amount represents the impairment-date fair value of the development projects in progress and land held for sale assets that were impaired during the period indicated.

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

The following table presents the carrying value and estimated fair value of certain other financial liabilities as of December 31, 2019 and September 30, 2019:

	As of December 31, 2019		As of September 30, 2019	
in thousands	**Carrying Amount [a]**	**Fair Value**	Carrying Amount [a]	Fair Value
Senior Notes [b]	**$ 1,111,475**	**$ 1,167,303**	$ 1,111,085	$ 1,115,011
Junior Subordinated Notes [c]	**66,587**	**66,587**	66,070	66,070
Total	**$ 1,178,062**	**$ 1,233,890**	$ 1,177,155	$ 1,181,081

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

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

[c] Since there is no trading market for our Junior Subordinated Notes, the fair value of these notes is estimated by discounting scheduled cash flows through maturity (level 3). The discount rate is estimated using market rates currently being offered on loans with similar terms and credit quality. Judgment is required in interpreting market data to develop these estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange.

(11) Income Taxes

Income Tax Provision

The Company's income tax provision for quarterly interim periods is based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent, or unusual items. The total income tax provision, including discontinued operations, was a tax benefit of $0.2 million for the three months ended December 31, 2019, compared to an income tax benefit of $3.9 million for the three months ended December 31, 2018. The current fiscal year income tax benefit was substantially driven by (1) the completion of work necessary to claim an additional $0.7 million in tax credits related to prior fiscal years (2) the discrete impact related to stock-based compensation expense as a result of current period activity; partially offset by (3) income from continuing operations. The tax benefit for the three months ended December 31, 2018 was primarily driven by (1) the completion of work necessary to claim an additional $5.3 million in tax credits related to prior fiscal years; partially offset by (2) income from continuing operations; and (3) the discrete impact related to our stock-based compensation expense.

Deferred Tax Assets and Liabilities

As of December 31, 2019, the net deferred tax asset is comprised of various tax attributes that include $4.6 million of minimum tax credit carryforwards. Beginning in our fiscal 2019, the Company started making cash refund claims for significant portions of these credits due to the elimination of the alternative minimum tax in the Tax Cuts and Jobs Act.

The Company continues to evaluate its deferred tax assets each period to determine if a valuation allowance is required based on whether it is more likely than not that some portion of these deferred tax assets will not be realized. As of December 31, 2019, management concluded that it is more likely than not that a substantial portion of our deferred tax assets will be realized. As part of our analysis, we considered both positive and negative factors that impact profitability and whether those factors would lead to a change in the estimate of our deferred tax assets that may be realized in the future. Our conclusions on the valuation allowance and Internal Revenue Code Section 382 limitations related to our deferred tax assets remain consistent with the determinations we made during the period ended September 30, 2019, and such conclusions are based on similar company specific and industry factors to those discussed in Note 13 to the audited consolidated financial statements within our 2019 Annual Report.

(12) Stock-based Compensation

Stock-based compensation expense is included in general and administrative expenses in the condensed consolidated statements of operations. We recognized $2.3 million and $2.1 million of stock-based compensation expense related to stock options and restricted stock awards for the three months ended December 31, 2019 and December 31, 2018, respectively.

Stock Options

Following is a summary of stock option activity for the three months ended December 31, 2019:

	Three Months Ended December 31, 2019	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	523,754	$ 14.34
Granted	—	—
Exercised	(123,367)	11.08
Cancelled	(100)	15.47
Outstanding at end of period	400,287	$ 15.35
Exercisable at end of period	363,931	$ 15.64
Vested or expected to vest in the future	398,358	$ 15.38

As of December 31, 2019 and September 30, 2019, total unrecognized compensation cost related to unvested stock options was $0.1 million and $0.1 million, respectively. The remaining cost as of December 31, 2019 is expected to be recognized over a weighted-average period of 0.95 years.

Restricted Stock Awards

During the three months ended December 31, 2019, the Company issued time-based restricted stock awards that vest ratably over three years on each anniversary from the grant date and performance-based restricted stock awards with a payout subject to the achievement of performance and market conditions over a three-year period.

Following is a summary of restricted stock activity for the three months ended December 31, 2019:

	Three Months Ended December 31, 2019		
	Performance-Based Restricted Shares	Time-Based Restricted Shares	Total Restricted Shares
Beginning of period	778,814	611,607	1,390,421
Granted	260,131	313,829	573,960
Vested	(242,921)	(289,648)	(532,569)
Forfeited	—	(1,202)	(1,202)
End of period	796,024	634,586	1,430,610

Each of our performance-based restricted share represents a contingent right to receive one share of the Company's common stock if vesting is satisfied at the end of the three-year performance period. Our performance stock award plans provide that any performance shares earned in excess of the target number of performance shares issued may be settled in cash or additional shares at the discretion of the Compensation Committee. During the three months ended December 31, 2019, we cash settled 135,337 shares earned above target level based on the performance level achieved under our 2017 performance-based award plan. The cash payment totaled $2.1 million, which was reflected as a reduction to paid-in capital in the accompanying condensed consolidated statements of stockholders' equity. We have not cash settled any such performance-based awards in the past, and we have no current plans to cash settle any additional performance-based restricted shares in the future.

As of December 31, 2019 and September 30, 2019, total unrecognized compensation cost related to unvested restricted stock awards was $16.0 million and $9.0 million, respectively. The remaining cost as of December 31, 2019 is expected to be recognized over a weighted average period of 2.15 years.

(13) Earnings Per Share

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

Following is a summary of the components of basic and diluted income (loss) per share for the periods presented:

	Three Months Ended December 31,	
in thousands, except per share data	**2019**	2018
Numerator:		
Income from continuing operations	**$ 2,804**	$ 7,322
Loss from discontinued operations, net of tax	**(58)**	(11)
Net income	**$ 2,746**	$ 7,311
Denominator:		
Basic weighted-average shares	**29,746**	31,801
Dilutive effect of restricted stock awards	**353**	243
Dilutive effect of stock options	**39**	11
Diluted weighted-average shares [a]	**30,138**	32,055
Basic income per share:		
Continuing operations	**$ 0.09**	$ 0.23
Discontinued operations	**—**	—
Total	**$ 0.09**	$ 0.23
Diluted income per share:		
Continuing operations	**$ 0.09**	$ 0.23
Discontinued operations	**—**	—
Total	**$ 0.09**	$ 0.23

[a] The following potentially dilutive shares were excluded from the calculation of diluted income per share as a result of their anti-dilutive effect.

	Three Months Ended December 31,	
in thousands	**2019**	2018
Stock options	**210,509**	493
Time-based restricted stock	**—**	195

(14) Other Liabilities

Other liabilities include the following as of December 31, 2019 and September 30, 2019:

in thousands	**December 31, 2019**	September 30, 2019
Accrued bonus and deferred compensation	**$ 22,254**	$ 36,237
Accrued interest	**17,328**	12,767
Customer deposits	**13,910**	11,539
Accrued warranty expense	**12,646**	13,388
Litigation accrual	**3,462**	3,420
Income tax liabilities	**825**	648
Other	**25,026**	31,430
Total	**$ 95,451**	$ 109,429

(15) Segment Information

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

West: Arizona, California, Nevada, and Texas

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

Southeast: Florida, Georgia, North Carolina, and South Carolina

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

Management's evaluation of segment performance is based on segment operating income. Operating income for our homebuilding segments is defined as homebuilding and land sales and other revenue less home construction, land development, and land sales expense, commission expense, depreciation and amortization, and certain G&A expenses that are incurred by or allocated to our homebuilding segments. The accounting policies of our segments are those described in Note 2 to the consolidated financial statements within our 2019 Annual Report.

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

	Three Months Ended December 31,	
in thousands	**2019**	2018
Revenue		
West	**$ 254,398**	$ 208,944
East	**78,040**	88,746
Southeast	**85,366**	104,350
Total revenue	**$ 417,804**	$ 402,040

	Three Months Ended December 31,	
in thousands	**2019**	2018
Operating income [a]		
West	**$ 30,331**	$ 24,261
East	**5,321**	5,395
Southeast	**3,156**	1,380
Segment total	**38,808**	31,036
Corporate and unallocated [b]	**(34,862)**	(27,530)
Total operating income	**$ 3,946**	$ 3,506

	Three Months Ended December 31,	
in thousands	**2019**	2018
Depreciation and amortization		
West	**$ 1,808**	$ 1,278
East	**554**	538
Southeast	**540**	610
Segment total	**2,902**	2,426
Corporate and unallocated [b]	**525**	344
Total depreciation and amortization	**$ 3,427**	$ 2,770

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

[(b)] Corporate and unallocated operating loss includes amortization of capitalized interest, movement in capitalized indirect costs, expenses related to numerous shared services functions that benefit all segments but are not allocated to the operating segments reported above, including information technology, treasury, corporate finance, legal, branding and national marketing, and other amounts that are not allocated to our operating segments. Corporate and unallocated depreciation and amortization represents depreciation and amortization related to assets held by our corporate functions that benefit all segments.

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

	Three Months Ended December 31,	
in thousands	**2019**	2018
Capital Expenditures		
West	**$ 1,484**	$ 2,651
East	**452**	762
Southeast	**516**	859
Corporate and unallocated	**180**	2,082
Total capital expenditures	**$ 2,632**	$ 6,354

The following table presents assets by segment as of December 31, 2019 and September 30, 2019:

in thousands	**December 31, 2019**	September 30, 2019
Assets		
West	**$ 764,868**	$ 751,110
East	**298,389**	286,340
Southeast	**368,332**	359,431
Corporate and unallocated [(a)]	**536,515**	560,763
Total assets	**$ 1,968,104**	$ 1,957,644

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

(16) Supplemental Guarantor Information

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

Beazer Homes USA, Inc.
Condensed Consolidating Balance Sheet Information
December 31, 2019
(Unaudited)

in thousands	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	$ 35,258	$ 6,007	$ 12	$ —	$ 41,277
Restricted cash	17,847	912	—	—	18,759
Accounts receivable (net of allowance of $313)	—	19,439	—	—	19,439
Income tax receivable	4,612	—	—	—	4,612
Owned inventory	—	1,574,280	—	—	1,574,280
Investments in unconsolidated entities	773	3,157	—	—	3,930
Deferred tax assets, net	247,382	—	—	—	247,382
Property and equipment, net	—	26,623	—	—	26,623
Operating lease right-of-use assets	—	12,975	—	—	12,975
Investments in subsidiaries	711,246	—	—	(711,246)	—
Intercompany	748,246	—	1,676	(749,922)	—
Goodwill	—	11,376	—	—	11,376
Other assets	1,098	6,353	—	—	7,451
Total assets	$ 1,766,462	$ 1,661,122	$ 1,688	$ (1,461,168)	$ 1,968,104
LIABILITIES AND STOCKHOLDERS' EQUITY					
Trade accounts payable	$ —	$ 110,153	$ —	$ —	$ 110,153
Operating lease liabilities	—	15,158	$ —	$ —	$ 15,158
Other liabilities	17,444	77,991	16	—	95,451
Intercompany	1,676	748,246	—	(749,922)	—
Total debt (net of premium and debt issuance costs)	1,208,062	—	—	—	1,208,062
Total liabilities	1,227,182	951,548	16	(749,922)	1,428,824
Stockholders' equity	539,280	709,574	1,672	(711,246)	539,280
Total liabilities and stockholders' equity	$ 1,766,462	$ 1,661,122	$ 1,688	$ (1,461,168)	$ 1,968,104

Beazer Homes USA, Inc.
Condensed Consolidating Balance Sheet Information
September 30, 2019
(Unaudited)

in thousands	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
ASSETS					
Cash and cash equivalents	$ 70,617	$ 36,115	$ 9	$ —	$ 106,741
Restricted cash	14,847	1,206	—	—	16,053
Accounts receivable (net of allowance of $304)	—	26,394	1	—	26,395
Income tax receivable	4,935	—	—	—	4,935
Owned inventory	—	1,504,248	—	—	1,504,248
Investments in unconsolidated entities	773	3,189	—	—	3,962
Deferred tax assets, net	246,957	—	—	—	246,957
Property and equipment, net	—	27,421	—	—	27,421
Investments in subsidiaries	636,791	—	—	(636,791)	—
Intercompany	753,769	—	1,680	(755,449)	—
Goodwill	—	11,376	—	—	11,376
Other assets	1,235	8,317	4	—	9,556
Total assets	$ 1,729,924	$ 1,618,266	$ 1,694	$ (1,392,240)	$ 1,957,644
LIABILITIES AND STOCKHOLDERS' EQUITY					
Trade accounts payable	$ —	$ 131,152	$ —	$ —	$ 131,152
Other liabilities	12,335	97,081	13	—	109,429
Intercompany	1,680	753,769	—	(755,449)	—
Total debt (net of premium and debt issuance costs)	1,177,155	1,154	—	—	1,178,309
Total liabilities	1,191,170	983,156	13	(755,449)	1,418,890
Stockholders' equity	538,754	635,110	1,681	(636,791)	538,754
Total liabilities and stockholders' equity	$ 1,729,924	$ 1,618,266	$ 1,694	$ (1,392,240)	$ 1,957,644

Beazer Homes USA, Inc.
Condensed Consolidating Statements of Operations
(Unaudited)

in thousands	**Beazer Homes USA, Inc.**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated Beazer Homes USA, Inc.**
Three Months Ended December 31, 2019					
Total revenue	$ —	$ 417,804	$ —	$ —	$ 417,804
Home construction and land sales expenses	19,669	334,998	—	—	354,667
Gross (loss) profit	(19,669)	82,806	—	—	63,137
Commissions	—	16,065	—	—	16,065
General and administrative expenses	—	39,699	—	—	39,699
Depreciation and amortization	—	3,427	—	—	3,427
Operating (loss) income	(19,669)	23,615	—	—	3,946
Equity in income of unconsolidated entities	—	(13)	—	—	(13)
Other (expense) income, net	(1,442)	102	—	—	(1,340)
(Loss) income from continuing operations before income taxes	(21,111)	23,704	—	—	2,593
(Benefit) expense from income taxes	(1,900)	1,689	—	—	(211)
Equity in income of subsidiaries	22,015	—	—	(22,015)	—
Income from continuing operations	2,804	22,015	—	(22,015)	2,804
Loss from discontinued operations, net of tax	—	(49)	(9)	—	(58)
Equity in loss of subsidiaries from discontinued operations	(58)	—	—	58	—
Net income (loss)	$ 2,746	$ 21,966	$ (9)	$ (21,957)	$ 2,746

in thousands	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended December 31, 2018					

Total revenue	$ —	$ 402,040	$ 115	$ (115)	$ 402,040
Home construction and land sales expenses	17,323	323,170	—	(115)	340,378
Inventory impairments and abandonments	115	892	—	—	1,007
Gross (loss) profit	(17,438)	77,978	115	—	60,655
Commissions	—	15,737	—	—	15,737
General and administrative expenses	—	38,646	(4)	—	38,642
Depreciation and amortization	—	2,770	—	—	2,770
Operating (loss) income	(17,438)	20,825	119	—	3,506
Equity in income of unconsolidated entities	—	(64)	—	—	(64)
Other (expense) income, net	(242)	204	(4)	—	(42)
(Loss) income from continuing operations before income taxes	(17,680)	20,965	115	—	3,400
Expense (benefit) from income taxes	20,385	(24,336)	29	—	(3,922)
Equity in income of subsidiaries	45,387	—	—	(45,387)	—
Income from continuing operations	7,322	45,301	86	(45,387)	7,322
Loss from discontinued operations, net of tax	—	(7)	(4)	—	(11)
Equity in loss of subsidiaries from discontinued operations	(11)	—	—	11	—
Net income	$ 7,311	$ 45,294	$ 82	$ (45,376)	$ 7,311

Beazer Homes USA, Inc.
Condensed Consolidating Statements of Cash Flow Information
(Unaudited)

in thousands	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended December 31, 2019					
Net cash used in operating activities	$ (35,926)	$ (48,490)	$ (114)	$ —	$ (84,530)
Cash flows from investing activities:					
Capital expenditures	—	(2,632)	—	—	(2,632)
Proceeds from sale of fixed assets	—	66	—	—	66
Return of capital from unconsolidated entities	—	19	—	—	19
Advances to/from subsidiaries	(21,906)	—	117	21,789	—
Net cash (used in) provided by investing activities	(21,906)	(2,547)	117	21,789	(2,547)
Cash flows from financing activities:					
Repayment of debt	—	(1,150)	—	—	(1,150)
Repayment of borrowings from credit facility	(95,000)	—	—	—	(95,000)
Borrowings from credit facility	125,000	—	—	—	125,000
Tax payments for stock-based compensation awards	(2,646)	—	—	—	(2,646)
Stock option exercises and other financing activities	(1,885)	—	—	—	(1,885)
Advances to/from subsidiaries	—	21,789	—	(21,789)	—
Net cash provided by financing activities	25,469	20,639	—	(21,789)	24,319
Decrease in cash, cash equivalents, and restricted cash	(32,363)	(30,398)	3	—	(62,758)
Cash, cash equivalents, and restricted cash at beginning of period	85,464	37,321	9	—	122,794
Cash, cash equivalents, and restricted cash at end of period	$ 53,101	$ 6,923	$ 12	$ —	$ 60,036

in thousands	Beazer Homes USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Beazer Homes USA, Inc.
Three Months Ended December 31, 2018					
Net cash used in operating activities	$ (31,908)	$ (22,756)	$ (26)	$ —	$ (54,690)
Cash flows from investing activities:					
Capital expenditures	—	(6,354)	—	—	(6,354)
Proceeds from sale of fixed assets	—	54	—	—	54
Return of capital from unconsolidated entities	532	—	(532)	—	—
Advances to/from subsidiaries	21,204	—	—	(21,204)	—
Net cash provided by (used in) investing activities	21,736	(6,300)	(532)	(21,204)	(6,300)
Cash flows from financing activities:					
Repayment of debt	(11)	(1,468)	—	—	(1,479)
Proceeds from issuance of new debt	—	—	—	—	—
Borrowings from credit facility	100,000	—	—	—	100,000
Repurchase of common stock	(16,500)	—	—	—	(16,500)
Repayment of borrowings from credit facility	(75,000)	—	—	—	(75,000)
Debt issuance costs	(400)	—	—	—	(400)
Tax payments for stock-based compensation awards	(1,850)	—	—	—	(1,850)
Stock option exercises and other financing activities	7	—	—	—	7
Advances to/from subsidiaries	—	(21,204)	—	21,204	—
Net cash provided by (used in) financing activities	6,246	(22,672)	—	21,204	4,778
Decrease in cash, cash equivalents, and restricted cash	(3,926)	(51,728)	(558)	—	(56,212)
Cash, cash equivalents, and restricted cash at beginning of period	104,796	47,877	575	—	153,248
Cash, cash equivalents, and restricted cash at end of period	$ 100,870	$ (3,851)	$ 17	$ —	$ 97,036

(17) Discontinued Operations

We continually review each of our markets in order to refine our overall investment strategy and to optimize capital and resource allocations in an effort to enhance our financial position and to increase stockholder value. This review entails an evaluation of both external market factors and our position in each market and over time has resulted in the decision to discontinue certain of our homebuilding operations. During our fiscal 2015, we made the decision that we would not continue to reinvest in new homebuilding assets in our New Jersey division; therefore, it is no longer considered an active operation. However, the results of our New Jersey division are not included in the discontinued operations information shown below.

We have classified the results of operations of our discontinued operations separately in the accompanying condensed consolidated statements of operations for all periods presented. There were no material assets or liabilities related to our discontinued operations as of December 31, 2019 or September 30, 2019. Discontinued operations were not segregated in the condensed consolidated statements of cash flows. Therefore, amounts for certain captions in the condensed consolidated statements of cash flows will not agree with the respective data in the condensed consolidated statements of operations. The results of our discontinued operations in the condensed consolidated statements of operations for the periods presented were as follows:

	Three Months Ended December 31,	
in thousands	**2019**	2018
Total revenue	**$ —**	$ 55
Home construction and land sales expenses	**1**	33
Gross (loss) profit	**(1)**	22
General and administrative expenses	**74**	33
Operating loss	**(75)**	(11)
Equity in loss of unconsolidated entities	**—**	(1)
Other expense, net	**—**	(1)
Loss from discontinued operations before income taxes	**(75)**	(13)
Benefit from income taxes	**(17)**	(2)
Loss from discontinued operations, net of tax	**$ (58)**	$ (11)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview and Outlook

Market Conditions

The demand for new and existing homes is dependent on a variety of demographic and economic factors, including job and wage growth, household formation, consumer confidence, mortgage financing, and overall housing affordability. In general, factors including rising levels of household formation, a constrained supply of new and used homes, wage growth, strong employment conditions and mortgage rates that continue to be low by historical standards are contributing to improving conditions for new home sales. As conditions improve, risks and challenges that could adversely impact our business such as cost pressures and home price affordability concerns increase. To capitalize on market opportunities while addressing these risks, our operating strategy focuses on offering homes that provide our customers an extraordinary value at an affordable price.

Overview of Results for Our Fiscal First Quarter

Reflecting improving market conditions and our operating strategy, during the first quarter of fiscal 2020, we made improvements in closings, homebuilding gross profit, average selling price, sales pace, net new orders, and homes in backlog.

Profitability

For the quarter ended December 31, 2019, we recorded net income from continuing operations of $2.8 million compared to net income from continuing operations of $7.3 million in the first quarter of fiscal 2018. There were certain items that impacted the comparability of net income from continuing operations between periods:

- Income tax benefit from continuing operations was $0.2 million during the current quarter primarily due to the recognition of $0.7 million of energy efficient homebuilding tax credits, as compared to $7.3 million income tax benefit for the prior year quarter primarily driven by $5.3 million of energy efficient homebuilding tax credits recognized during the quarter. Refer to Note 10 of the notes to the condensed consolidated financial statements for additional details.

- We recognized no inventory impairments in the current quarter compared to $1.0 million of inventory impairments recognized in the prior year quarter.

Balanced Growth Strategy

We continue to execute against our balanced growth strategy, which we define as the expansion of earnings at a faster rate than our revenue growth, supported by a less-leveraged and return-driven capital structure. This strategy provides us with flexibility to increase return of capital to investors, reduce leverage, or increase investment in land and other operating assets in response to changing market conditions. The following is a summary of our performance against certain key operating and financial metrics during the current period:

- **Sales per community per month was 2.5 for the quarter ended December 31, 2019 compared to 2.0 for the quarter ended December 31, 2018.** Our strong emphasis on sales absorptions allowed us to expand the unit and dollar value of our backlog despite higher year-over-year closings. Sales per community per month remained unchanged at 2.9 for the trailing 12 months ended December 31, 2019 versus a year ago and is within the competitive range of 2.8 to 3.2 we established for fiscal 2020.

- **Our ASP for homes closed during the quarter ended December 31, 2019 was $375.4 thousand, up 1.4% compared to the prior year quarter.** ASP for closings during the trailing 12 months ended December 31, 2019 was $378.7 thousand, up 3.8% year-over-year, and our ASP in backlog as of December 31, 2019 has risen 1.9% versus the prior year quarter to $396.4 thousand. The dollar value of backlog increased by 23.4% year-over-year from $593.1 million to $732.1 million due to increases in backlog units and ASP in backlog.

- **During the quarter ended December 31, 2019, we had an average active community count of 168, up 5.2% from the prior year quarter. We ended the current quarter with 166 active communities.** We invested $146.0 million in land acquisition and land development during the current quarter compared to $121.0 million in the prior year quarter. We continually evaluate strategic opportunities to purchase land within our geographic footprint, balancing our desire to reduce leverage with land acquisition strategies that maximize the efficiency of capital employed.

- **Homebuilding gross margin excluding impairments and abandonments and interest for the quarter ended December 31, 2019 was 19.8%, up from 19.7% in the prior year quarter.** For the trailing 12 months ended December 31, 2019, this adjusted gross margin was 19.8%. With our improving sales pace and strong backlog, we believe opportunities remain for gross margin expansion through maximizing revenue while reducing costs by simplifying our product offerings.
- **SG&A for the quarter ended December 31, 2019 was 13.3% of total revenue compared to 13.5% in the prior year quarter.** SG&A for the trailing 12 months ended December 31, 2019 was 11.5% of total revenue, a decrease of 30 basis points from the trailing 12 months ended December 31, 2018. The decrease in SG&A as a percentage of total revenue was due to our continued focus on improving overhead cost management in relation to our revenue growth.

Seasonal and Quarterly Variability

Our homebuilding operating cycle generally reflects escalating new order activity in the second and third fiscal quarters and increased closings in the third and fourth fiscal quarters. Accordingly, our financial results for the three months ended December 31, 2019 may not be indicative of our full year results.

RESULTS OF CONTINUING OPERATIONS:

The following table summarizes certain key income statement metrics for the periods presented:

	Three Months Ended December 31,	
$ in thousands	**2019**	2018
Revenue:		
Homebuilding	**$ 417,399**	$ 400,982
Land sales and other	**405**	1,058
Total	**$ 417,804**	$ 402,040
Gross profit:		
Homebuilding	**$ 63,108**	$ 60,619
Land sales and other	**29**	36
Total	**$ 63,137**	$ 60,655
Gross margin:		
Homebuilding	***15.1 %***	*15.1 %*
Land sales and other	***7.2 %***	*3.4 %*
Total	***15.1 %***	*15.1 %*
Commissions	**$ 16,065**	$ 15,737
General and administrative expenses (G&A)	**$ 39,699**	$ 38,642
SG&A (commissions plus G&A) as a percentage of total revenue	***13.3 %***	*13.5 %*
G&A as a percentage of total revenue	***9.5 %***	*9.6 %*
Depreciation and amortization	**$ 3,427**	$ 2,770
Operating income	**$ 3,946**	$ 3,506
Operating income as a percentage of total revenue	***0.9 %***	*0.9 %*
Effective tax rate [(a)]	***(8.1)%***	*(115.4)%*
Equity in loss of unconsolidated entities	**$ (13)**	$ (64)

[(a)] Calculated as tax benefit for the period divided by income from continuing operations. Due to a variety of factors, including the impact of discrete tax items on our effective tax rate, our income tax benefit is not always directly correlated to the amount of pre-tax income for the associated periods.

EBITDA: **Reconciliation of Net Income (Loss) to Adjusted EBITDA**

Reconciliation of Adjusted EBITDA to total company net income (loss), the most directly comparable GAAP measure, is provided for each period discussed below. Management believes that Adjusted EBITDA assists investors in understanding and comparing the operating characteristics of homebuilding activities by eliminating many of the differences in companies' respective capitalization, tax position, and level of impairments. These EBITDA measures should not be considered alternatives to net income (loss) determined in accordance with GAAP as an indicator of operating performance.

The following table reconciles our net income (loss) to Adjusted EBITDA for the periods presented:

	Three Months Ended December 31,			LTM Ended December 31, [a]		
in thousands	**2019**	2018	**19 vs 18**	**2019**	2018	**19 vs 18**
Net income (loss)	**$ 2,746**	$ 7,311	**$ (4,565)**	**$ (84,085)**	$ 92,883	**$ (176,968)**
Benefit from income taxes	**(228)**	(3,924)	**3,696**	**(33,549)**	(17,530)	**(16,019)**
Interest amortized to home construction and land sales expenses and capitalized interest impaired	**19,669**	17,438	**2,231**	**111,172**	94,075	**17,097**
Interest expense not qualified for capitalization	**1,442**	242	**1,200**	**4,309**	2,132	**2,177**
EBIT	**23,629**	21,067	**2,562**	**(2,153)**	171,560	**(173,713)**
Depreciation and amortization and stock-based compensation amortization	**5,738**	4,884	**854**	**26,139**	23,832	**2,307**
EBITDA	**29,367**	25,951	**3,416**	**23,986**	195,392	**(171,406)**
Loss on extinguishment of debt	**—**	—	**—**	**24,920**	1,935	**22,985**
Inventory impairments and abandonments [b]	**—**	892	**(892)**	**133,819**	5,430	**128,389**
Joint venture impairment and abandonment charges	**—**	—	**—**	**—**	341	**(341)**
Adjusted EBITDA	**$ 29,367**	$ 26,843	**$ 2,524**	**$ 182,725**	$ 203,098	**$ (20,373)**

[a] "LTM" indicates amounts for the trailing 12 months.

[b] In periods during which we impaired certain of our inventory assets, capitalized interest that is impaired is included in the line above titled "Interest amortized to home construction and land sales expenses and capitalized interest impaired."

Homebuilding Operations Data

The following table summarizes new orders and cancellation rates by reportable segment for the periods presented:

	Three Months Ended December 31,				
	New Orders, net			Cancellation Rates	
	2019	2018	**19 vs 18**	**2019**	2018
West	**737**	519	**42.0%**	**15.6%**	19.2%
East	**233**	201	**15.9%**	**14.7%**	20.9%
Southeast	**281**	256	**9.8%**	**13.3%**	20.0%
Total	**1,251**	976	**28.2%**	**14.9%**	19.8%

Net new orders for the quarter ended December 31, 2019 increased to 1,251, up 28.2% from the quarter ended December 31, 2018. The increase in net new orders was driven by an increase in average active communities from 160 in the prior year quarter to 168, as well as increase in our absorption rate from 2.0 sales per community in the prior year quarter to 2.5 in the current quarter.

All three of our reportable segments experienced sales pace increases during the current quarter, while average active community count increased in the West but decreased in the East and Southeast. Specifically, in the West, the increase in net new orders was primarily due to increases in sales pace at Dallas, Southern California and Northern California markets, combined with increases in average active communities across all West segment markets. In the East, the increase in net new orders was mainly attributable to our Nashville market, where we experienced increases in both sales pace and average active community count year-over-year. In the Southeast, the increase in net new orders was attributable to sales pace increases in the Atlanta, Raleigh, Orlando and Tampa markets, as well as an increase in average active community count in the Atlanta market.

The table below summarizes backlog units by reportable segment as well as the aggregate dollar value and ASP of homes in backlog as of December 31, 2019 and December 31, 2018:

	As of December 31,		
	2019	2018	**19 vs 18**
Backlog Units:			
West	**1,025**	776	**32.1 %**
East	**382**	294	**29.9 %**
Southeast	**440**	455	**(3.3)%**
Total	**1,847**	1,525	**21.1 %**
Aggregate dollar value of homes in backlog (in millions)	**$ 732.1**	$ 593.1	**23.4 %**
ASP in backlog (in thousands)	**$ 396.4**	$ 388.9	**1.9 %**

Backlog reflects the number of homes for which the Company has entered into a sales contract with a customer but has not yet delivered the home. Homes in backlog are generally delivered within three to six months following commencement of construction. The aggregate dollar value of homes in backlog as of December 31, 2019 increased 23.4% compared to December 31, 2018 due to a 21.1% increase in backlog units in addition to a 1.9% increase in the ASP of homes in backlog. The increase in backlog units was primarily due to the aforementioned increase in net new orders for the three months ended December 31, 2019 compared to the same period a year ago.

Homebuilding Revenue, Average Selling Price, and Closings

The table below summarizes homebuilding revenue, the ASP of our homes closed, and closings by reportable segment for the periods presented:

	Three Months Ended December 31,								
	Homebuilding Revenue			Average Selling Price			Closings		
$ in thousands	**2019**	2018	**19 vs 18**	**2019**	2018	**19 vs 18**	**2019**	2018	**19 vs 18**
West	**$ 254,398**	$ 208,944	**21.8 %**	**$ 366.6**	$ 347.7	**5.4 %**	**694**	601	**15.5 %**
East	**77,645**	87,765	**(11.5)%**	**404.4**	466.8	**(13.4)%**	**192**	188	**2.1 %**
Southeast	**85,356**	104,273	**(18.1)%**	**377.7**	354.7	**6.5 %**	**226**	294	**(23.1)%**
Total	**$ 417,399**	$ 400,982	**4.1 %**	**$ 375.4**	$ 370.3	**1.4 %**	**1,112**	1,083	**2.7 %**

For the three months ended December 31, 2019, the ASP changes were impacted primarily by a change in mix of closings between geographies, products, and among communities within each individual market as compared to the prior year period. It was also positively impacted by our operational strategies as well as continued price appreciation in certain geographies. On average, we anticipate that our ASP will continue to increase in the near-term as indicated by the ASP for homes in backlog as of December 31, 2019.

For the three months ended December 31, 2019, year-over-year increases in closings for the West segment were primarily attributable to our Houston and Southern California markets, which had higher units in beginning backlog for fiscal 2020 relative to the beginning of fiscal 2019. Closings in the East segment were up slightly year-over-year based on growth in our Nashville and Virginia markets. Southeast segment closings were down year-over-year as a result of lower beginning units in backlog for fiscal 2020 relative to the beginning of fiscal 2019.

Our higher ASP coupled with the overall increase in closings described above resulted in growth in homebuilding revenue for the quarter ended December 31, 2019 compared to the prior year quarter.

Homebuilding Gross Profit and Gross Margin

The following tables present our homebuilding (HB) gross profit and gross margin by reportable segment and in total. In addition, such amounts are presented excluding inventory impairments and abandonments and interest amortized to cost of sales (COS). Homebuilding gross profit is defined as homebuilding revenue less home cost of sales (which includes land and land development costs, home construction costs, capitalized interest, indirect costs of construction, estimated warranty costs, closing costs, and inventory impairment and abandonment charges).

	Three Months Ended December 31, 2019							
$ in thousands	**HB Gross Profit (Loss)**	**HB Gross Margin**	**Impairments & Abandonments (I&A)**	**HB Gross Profit (Loss) w/o I&A**	**HB Gross Margin w/o I&A**	**Interest Amortized to COS (Interest)**	**HB Gross Profit w/o I&A and Interest**	**HB Gross Margin w/o I&A and Interest**
West	**$ 52,109**	**20.5%**	**$ —**	**$ 52,109**	**20.5%**	**$ —**	**$ 52,109**	**20.5%**
East	**13,892**	**17.9%**	**—**	**13,892**	**17.9%**	**—**	**13,892**	**17.9%**
Southeast	**13,460**	**15.8%**	**—**	**13,460**	**15.8%**	**—**	**13,460**	**15.8%**
Corporate & unallocated	**(16,353)**		**—**	**(16,353)**		**19,669**	**3,316**	
Total homebuilding	**$ 63,108**	**15.1%**	**$ —**	**$ 63,108**	**15.1%**	**$ 19,669**	**$ 82,777**	**19.8%**

	Three Months Ended December 31, 2018							
$ in thousands	HB Gross Profit (Loss)	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit (Loss) w/o I&A	HB Gross Margin w/o I&A	Interest Amortized to COS (Interest)	HB Gross Profit w/o I&A and Interest	HB Gross Margin w/o I&A and Interest
West	$ 43,860	21.0%	$ —	$ 43,860	21.0%	$ —	$ 43,860	21.0%
East	14,396	16.4%	—	14,396	16.4%	—	14,396	16.4%
Southeast	14,105	13.5%	858	14,963	14.3%	—	14,963	14.3%
Corporate & unallocated	(11,742)		149	(11,593)		17,323	5,730	
Total homebuilding	$ 60,619	15.1%	$ 1,007	$ 61,626	15.4%	$ 17,323	$ 78,949	19.7%

Overall homebuilding gross profit increased by $2.5 million to $63.1 million for the three months ended December 31, 2019, compared to $60.6 million in the prior year quarter. The increase in homebuilding gross profit was primarily driven by an increase in homebuilding revenue of $16.4 million coupled with a flat homebuilding gross margin year-over-year. However, as shown in the tables above, the comparability of our gross profit and gross margin was modestly impacted by certain items. Specifically, interest amortized to homebuilding cost of sales increased by $2.3 million year-over-year, and impairment and abandonment charges decreased by $1.0 million over the same period. When excluding the impact of interest amortized to homebuilding cost of sales and impairments and abandonments, homebuilding gross profit increased by $3.8 million compared to the prior year quarter, while homebuilding gross margin increased by 10 basis points to 19.8%.

The year-over-year improvement in gross margin for the three months ended December 31, 2019 is due to a variety of factors, including: (1) the mix of closings between geographies/markets, individual communities within each market, and product type; (2) our pricing strategies, including the margin impact on homes closed during the current quarter; (3) increased focus on managing our house costs and improving cycle times; and (4) favorable discrete items in the current period, such as lower warranty costs. Going forward, we will continue to focus on optimizing pricing strategy through limiting sales incentives, and lowering construction costs through product simplification to drive further improvements in homebuilding gross margin.

Measures of homebuilding gross profit and gross margin after excluding inventory impairments and abandonments, interest amortized to cost of sales, and other non-recurring items are not GAAP financial measures. These measures should not be considered alternatives to homebuilding gross profit and gross margin determined in accordance with GAAP as an indicator of operating performance.

In particular, the magnitude and volatility of non-cash inventory impairment and abandonment charges for the Company and other homebuilders have been significant historically and, as such, have made financial analysis of our industry more difficult. Homebuilding metrics excluding these charges, as well as interest amortized to cost of sales and other similar presentations by analysts and other companies, are frequently used to assist investors in understanding and comparing the operating characteristics of homebuilding activities by eliminating many of the differences in companies' respective level of impairments and levels of debt. Management believes these non-GAAP measures enable holders of our securities to better understand the cash implications of our operating performance and our ability to service our debt obligations as they currently exist and as additional indebtedness is incurred in the future. These measures are also useful internally, helping management to compare operating results and to measure cash available for discretionary spending.

In a given period, our reported gross profit is generated from both communities previously impaired and communities not previously impaired. In addition, as indicated above, certain gross profit amounts arise from recoveries of prior period costs, including warranty items that are not directly tied to communities generating revenue in the period. Home closings from communities previously impaired would, in most instances, generate very low or negative gross margins prior to the impact of the previously recognized impairment. Gross margin for each home closing is higher for a particular community after an impairment because the carrying value of the underlying land was previously reduced to the present value of future cash flows as a result of the impairment, leading to lower cost of sales at the home closing. This improvement in gross margin resulting from one or more prior impairments is frequently referred to in the aggregate as the “impairment turn” or “flow-back” of impairments within the reporting period. The amount of this impairment turn may exceed the gross margin for an individual impaired asset if the gross margin for that asset prior to the impairment would have been negative. The extent to which this impairment turn is greater than the reported gross margin for the individual asset is related to the specific historical cost basis of that individual asset.

The asset valuations that result from our impairment calculations are based on discounted cash flow analyses and are not derived by simply applying prospective gross margins to individual communities. As such, impaired communities may have gross margins that are somewhat higher or lower than the gross margins for unimpaired communities. The mix of home closings in any particular quarter varies to such an extent that comparisons between previously impaired and never impaired communities would not be a reliable way to ascertain profitability trends or to assess the accuracy of previous valuation estimates. In addition, since any amount of impairment turn is tied to individual lots in specific communities, it will vary considerably from period to period. As a result of these factors, we review the impairment turn impact on gross margin on a trailing 12-month basis rather than a quarterly basis as a way of considering whether our impairment calculations are resulting in gross margins for impaired communities that are comparable to our unimpaired communities. For the trailing 12-month period, our homebuilding gross margin was 10.0% and excluding interest and inventory impairments and abandonments, it was 19.8%. For the same trailing 12-month period, homebuilding gross margin was as follows in those communities that have previously been impaired, which represented 10.3% of total closings during this period:

Homebuilding Gross Margin from previously impaired communities:	
Pre-impairment turn gross margin	(1.5)%
Impact of interest amortized to COS related to these communities	5.0 %
Pre-impairment turn gross margin, excluding interest amortization	3.5 %
Impact of impairment turns	15.9 %
Gross margin (post impairment turns), excluding interest amortization	19.4 %

For a further discussion of our impairment policies and communities impaired during the prior year quarter, refer to Notes 2 and 5 of the notes to the condensed consolidated financial statements in this Form 10-Q.

Land Sales and Other Revenue and Gross Profit (Loss)

Land sales relate to land and lots sold that do not fit within our homebuilding programs and strategic plans in certain markets. In some periods, we also have other revenue related to broker fees as well as fees received for general contractor services that we perform on behalf of third parties. The following table summarizes our land sales and other revenue and related gross profit (loss) by reportable segment for the periods presented:

	Land Sales and Other Revenue			Land Sales and Other Gross Profit (Loss)		
	Three Months Ended December 31,			Three Months Ended December 31,		
in thousands	**2019**	2018	**19 vs 18**	**2019**	2018	**19 vs 18**
West	**$ —**	$ —	**$ —**	**$ —**	$ —	**$ —**
East	**395**	981	**(586)**	**17**	40	**(23)**
Southeast	**10**	77	**(67)**	**12**	(4)	**16**
Total	**$ 405**	$ 1,058	**$ (653)**	**$ 29**	$ 36	**$ (7)**

To further support our efforts to reduce leverage, we continued to focus on closing a number of land sales in the three months ended December 31, 2019 for land positions that did not fit within our strategic plans. Future land and lot sales will depend on a variety of factors, including local market conditions, individual community performance, and changing strategic plans.

Operating Income

The table below summarizes operating income by reportable segment for the periods presented:

	Three Months Ended December 31,		
in thousands	**2019**	2018	**19 vs 18**
West	**$ 30,331**	$ 24,261	**$ 6,070**
East	**5,321**	5,395	**(74)**
Southeast	**3,156**	1,380	**1,776**
Corporate and Unallocated [(a)]	**(34,862)**	(27,530)	**(7,332)**
Operating income [(b)]	**$ 3,946**	$ 3,506	**$ 440**

[(a)] Corporate and unallocated operating loss includes amortization of capitalized interest and capitalized indirect costs, expenses related to numerous shared services functions that benefit all segments but are not allocated to the operating segments, and certain other amounts that are not allocated to our operating segments.

[(b)] Operating income for the 2018 period presented was impacted by impairment charges (see Note 5 of the notes to our condensed consolidated financial statements in this Form 10-Q).

Our operating income increased by $0.4 million to $3.9 million for the three months ended December 31, 2019, compared to $3.5 million for the three months ended December 31, 2018, driven primarily by the previously discussed improvement in gross margin on homes closed during the period, partially offset by increases in SG&A costs and depreciation and amortization compared to the prior year quarter. While SG&A costs increased compared to the prior year quarter, commissions and G&A as a percentage of total revenue each declined by 10 basis points year-over-year, respectively.

Below operating income, other expense, net increased by $1.3 million primarily attributable to a year-over-year increase in interest costs not qualified for capitalization. See Note 6 of the notes to our condensed consolidated financial statements in this Form 10-Q for a further discussion of these items.

Income Taxes

Our income tax assets and liabilities and related effective tax rate are affected by various factors, the most significant of which is the valuation allowance recorded against a portion of our deferred tax assets. Due to the effect of our valuation allowance adjustments beginning in fiscal 2008, a comparison of our annual effective tax rates must consider the changes in our valuation allowance. As such, our effective tax rates have not been meaningful metrics, as our income tax benefit/expense was not directly correlated to the amount of pretax income or loss for the associated periods. Beginning in fiscal 2016, the Company began using an annualized effective tax rate in interim periods to determine its income tax benefit/expense, which we believe more closely correlates with our periodic pretax income or loss. The annualized effective tax rate will continue to be impacted by discrete tax items.

Our current fiscal year-to-date income tax benefit was primarily driven by the completion of work necessary to claim $0.7 million in energy efficient homebuilding tax credits related to closings from prior fiscal years, partially offset by income tax expense on earnings from continuing operations. The tax benefit for the three months ended December 31, 2018 was primarily driven by the completion of work necessary to claim $5.3 million in tax credits related to closings from prior fiscal years, partially offset by income tax expense on earnings from continuing operations. Refer to Note 11 of the notes to our condensed consolidated financial statements included in this Form 10-Q for further discussion of our income taxes.

Three Months Ended December 31, 2019 as compared to 2018

West Segment: Homebuilding revenue increased by 21.8% for the three months ended December 31, 2019 compared to the prior year quarter due to a 15.5% increase in closings, in addition to a 5.4% increase in ASP. Compared to the prior year quarter, homebuilding gross profit increased by $8.2 million due to the increase in closings partially offset by a slight decrease in gross margin from 21.0% to 20.5%. The $6.1 million increase in operating income compared to the prior year quarter was due to the previously discussed increase in gross profit, partially offset by higher commissions and G&A expenses in the segment.

East Segment: Homebuilding revenue decreased by 11.5% for the three months ended December 31, 2019 compared to the prior year quarter due to a 13.4% decrease in ASP, partially offset by a 2.1% increase in closings. Compared to the prior year quarter, homebuilding gross profit decreased by $0.5 million due to the decline in revenue, partially offset by higher gross margin, which increased from 16.4% to 17.9%. The increase in gross margin was driven primarily by lower sales incentives and a shift in product and community mix year-over-year. Operating income remained relatively flat year-over-year, the slight decrease of $0.1 million was primarily due to the previously discussed decrease in gross profit, partially offset by lower commissions and G&A expenses in the segment.

Southeast Segment: Homebuilding revenue decreased by 18.1% for the three months ended December 31, 2019 compared to the prior year quarter due to a 23.1% decrease in closings, partially offset by a 6.5% increase in ASP. Compared to the prior year quarter, homebuilding gross profit decreased by $0.6 million due to the decrease in homebuilding revenue, partially offset by higher gross margin, which increased from 13.5% to 15.8%. The increase in gross margin was primarily driven by a shift in product and community mix year-over-year, and a $0.9 million inventory impairment during the prior year quarter. The increase in operating income of $1.8 million resulted primarily from lower commissions and G&A expenses, partially offset by the previously discussed decrease in gross profit.

Corporate and Unallocated: Our Corporate and unallocated results include amortization of capitalized interest and capitalized indirect costs; expenses for various shared services functions that benefit all segments but are not allocated, including information technology, treasury, corporate finance, legal, branding and national marketing; and certain other amounts that are not allocated to our operating segments. For the three months ended December 31, 2019, corporate and unallocated net costs were up $7.3 million from the prior year quarter due to an increase in the proportion of interest and indirect costs expensed to cost of sales year-over-year and higher corporate G&A costs.

Liquidity and Capital Resources

Our sources of liquidity include, but are not limited to, cash from operations, proceeds from Senior Notes, our Secured Revolving Credit Facility (the Facility) and other bank borrowings, the issuance of equity and equity-linked securities, and other external sources of funds. Our short-term and long-term liquidity depends primarily upon our level of net income, working capital management (cash, accounts receivable, accounts payable and other liabilities), and available credit facilities.

Cash, cash equivalents, and restricted cash decreased as follows for the periods presented:

	Three Months Ended December 31,	
in thousands	**2019**	2018
Cash used in operating activities	**$ (84,530)**	$ (54,690)
Cash used in investing activities	**(2,547)**	(6,300)
Cash provided by financing activities	**24,319**	4,778
Net decrease in cash, cash equivalents, and restricted cash	**$ (62,758)**	$ (56,212)

Operating Activities

Net cash used in operating activities was $84.5 million for the three months ended December 31, 2019. The primary drivers of operating cash flows are typically cash earnings and changes in inventory levels, including land acquisition and development spending. Net cash used in operating activities during the period was primarily driven by an increase in inventory of $69.0 million resulting from land acquisition, land development, and house construction spending to support continued growth, and a net decrease in non-inventory working capital balances of $23.7 million, partially offset by income from continuing operations before income taxes of $2.6 million, which included $5.7 million of non-cash charges.

Net cash used in operating activities was $54.7 million for the three months ended December 31, 2018, primarily driven by an increase in inventory of $29.7 million resulting from land acquisition, land development, and house construction spending to support continued growth, and an increase in non-inventory working capital balances of $34.5 million, partially offset by income from continuing operations before income taxes of $3.4 million, which included $6.2 million of non-cash charges.

Investing Activities

Net cash used in investing activities for the three months ended December 31, 2019 and December 31, 2018, was $2.5 million and $6.3 million, respectively, primarily driven in both periods by capital expenditures for model homes.

Financing Activities

Net cash provided by financing activities was $24.3 million for the three months ended December 31, 2019 driven by net borrowings under the Facility, partially offset by tax payments for stock-based compensation awards vesting, cash settlement of performance-based restricted stock, and repayment of other miscellaneous borrowings.

Net cash provided by financing activities was $4.8 million for the three months ended December 31, 2018 driven by net borrowings under the Facility, partially offset by common stock repurchases under our share repurchase program, tax payments for stock-based compensation awards vesting, the repayment of other miscellaneous borrowings, and the payment of debt issuance costs.

Financial Position

As of December 31, 2019, our liquidity position consisted of the following:

- $41.3 million in cash and cash equivalents;
- $220.0 million of remaining capacity under the Credit Facility; and
- $18.8 million of restricted cash, the majority of which is used to secure certain stand-alone letters of credit.

While we believe we possess sufficient liquidity, we are mindful of potential short-term or seasonal requirements for enhanced liquidity that may arise to operate and grow our business. We expect to be able to meet our liquidity needs in fiscal 2020 and to maintain a significant liquidity position, subject to changes in market conditions that would alter our expectations for land and land development expenditures or capital market transactions, which could increase or decrease our cash balance on a period-to-period basis.

Debt

We generally fulfill our short-term cash requirements with cash generated from operations and available borrowings. Additionally, we maintain the Facility, which had a total capacity of $250.0 million and an available capacity of $220.0 million as of December 31, 2019 after considering our outstanding borrowings backed by the Facility of $30.0 million. We had no letters of credit outstanding under the Facility as of December 31, 2019.

We have also entered into a number of stand-alone, cash secured letter of credit agreements with banks. These combined facilities provide for letter of credit needs collateralized by either cash or assets of the Company. We currently have $16.6 million of outstanding letters of credit under these facilities, which are secured by cash collateral that is maintained in restricted accounts totaling $17.8 million.

To provide greater letter of credit capacity, the Company has also entered into a reimbursement agreement, which provides for the issuance of performance letters of credit, and an unsecured credit agreement that provides for the issuance of up to $50.0 million of standby letters of credit to backstop the Company's obligations under the reimbursement agreement (collectively, the "Bilateral Facility"). The Bilateral Facility will terminate on June 10, 2021. As of December 31, 2019, the total stated amount of performance letters of credit issued under the reimbursement agreement was $33.8 million (and the stated amount of the backstop standby letter of credit issued under the credit agreement was $40.0 million)

In the future, we may from time to time seek to continue to retire or purchase our outstanding debt through cash repurchases or in exchange for other debt securities, in open market purchases, privately-negotiated transactions, or otherwise. We may also seek to expand our business through acquisition, which may be funded through cash, additional debt, or equity. In addition, any material variance from our projected operating results could require us to obtain additional equity or debt financing. There can be no assurance that we will be able to complete any of these transactions in the future on favorable terms or at all. See Note 7 of the notes to our condensed consolidated financial statements in this Form 10-Q for additional details related to our borrowings.

Credit Ratings

Our credit ratings are periodically reviewed by rating agencies. In November 2019, Moody's reaffirmed the Company's issuer corporate family rating of B3 and stable outlook for the Company. In July 2019, S&P reaffirmed the Company's corporate credit rating of B- and its positive outlook for the Company. In October 2019, Fitch reaffirmed the Company's long-term issuer default rating of B- and withdrew ratings for commercial reasons. These ratings and our current credit condition affect, among other things, our ability to access new capital. Negative changes to these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. Our credit ratings could be lowered, or rating agencies could issue adverse commentaries in the future, which could have a material adverse effect on our business, financial condition, results of operations, and liquidity. In particular, a weakening of our financial condition, including any further increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, could result in a credit rating downgrade or change in outlook, or could otherwise increase our cost of borrowing.

Stock Repurchases and Dividends Paid

During the first quarter of fiscal 2019, the Company's Board of Directors approved a share repurchase program that authorizes the Company to repurchase up to $50.0 million of its outstanding common stock. As part of this program, the Company repurchased common stock during fiscal 2019 through open market transactions, 10b5-1 plans, and accelerated share repurchase (ASR) agreements, totaling $34.6 million. The Company made no share repurchases during the three months ended December 31, 2019. As of December 31, 2019, the remaining availability of the share repurchase program was $15.4 million.

The indentures under which our Senior Notes were issued contain certain restrictive covenants, including limitations on the payment of dividends. There were no dividends paid during the three months ended December 31, 2019 or 2018.

Off-Balance Sheet Arrangements and Aggregate Contractual Commitments

Lot Option Contracts

We historically have attempted to control a portion of our land supply through lot option contracts. As of December 31, 2019, we controlled 19,742 lots. We owned 72.3%, or 14,275 of these lots, and the remaining 5,467 of these lots, or 27.7%, were under option contracts with land developers and land bankers, which generally require the payment of cash or the posting of a letter of credit for the right to acquire lots during a specified period of time at a certain price. As a result of the flexibility that these options provide us, upon a change in market conditions, we may renegotiate the terms of the options prior to exercise or terminate the agreement. Under option contracts, purchase of the properties is contingent upon satisfaction of certain requirements by us and the sellers, and our liability is generally limited to forfeiture of the non-refundable deposits and other non-refundable amounts incurred, which totaled approximately $74.8 million as of December 31, 2019. The total remaining purchase price, net of cash deposits, committed under all options was $386.8 million as of December 31, 2019. Based on market conditions and our liquidity, we may further expand our use of option agreements to supplement our owned inventory supply.

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

We have historically funded the exercise of lot options with operating cash flows. We expect these sources to continue to be adequate to fund anticipated future option exercises. Therefore, we do not anticipate that the exercise of our lot options will have a material adverse effect on our liquidity.

Investments in Unconsolidated Entities

Occasionally, we use legal entities in which we have less than a controlling interest. We enter into the majority of these arrangements with land developers, other homebuilders, and financial partners to acquire attractive land positions, to manage our risk profile, and to leverage our capital base. The underlying land positions are developed into finished lots for sale to the unconsolidated entity's members or other third parties. We account for our interest in unconsolidated entities under the equity method.

Historically, we and our partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated entities. As of December 31, 2019, we had no repayment guarantees outstanding related to the debt of our unconsolidated entities. See Note 4 of the notes to our condensed consolidated financial statements in this Form 10-Q for more information.

Letters of Credit and Performance Bonds

In connection with the development of our communities, we are frequently required to provide performance, maintenance, and other bonds and letters of credit 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. As of December 31, 2019, we had outstanding letters of credit and performance bonds of approximately $50.4 million and $276.1 million, respectively, primarily related to our obligations to local governments to construct roads and other improvements in various developments.

Derivative Instruments and Hedging Activities

We are exposed to fluctuations in interest rates. From time-to-time, we may enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates. However, as of December 31, 2019, we were not a party to any such derivative agreements. We do not enter into or hold derivatives for trading or speculative purposes.

Critical Accounting Policies

Our critical accounting policies require the use of judgment in their application and in certain cases require estimates of inherently uncertain matters. Although our accounting policies are in compliance with accounting principles generally accepted in the United States of America (GAAP), a change in the facts and circumstances of the underlying transactions could significantly change the application of the accounting policies and the resulting financial statement impact. It is also possible that other professionals applying reasonable judgment to the same set of facts and circumstances could reach a different conclusion. As disclosed in our 2019 Annual Report, our most critical accounting policies relate to inventory valuation (projects in progress, land held for future development, and land held for sale), revenue recognition, warranty reserves, and income tax valuation allowances and ownership changes. There have been no significant changes to our critical accounting policies during the three months ended December 31, 2019 as compared to the significant accounting policies described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2019 Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (Form 10-Q) contains forward-looking statements. These forward-looking statements represent our expectations or beliefs concerning future events or results, and it is possible that such events or results described in this Form 10-Q will not occur or be achieved. These forward-looking statements can generally be identified by the use of statements that include words such as “estimate,” “project,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” "outlook," “goal,” “target” or other similar words or phrases.

These forward-looking statements involve risks, uncertainties and other factors, many of which are outside of our control, that could cause actual events or results to differ materially from the events or results discussed in the forward-looking statements, including, among other things, the matters discussed in this Form 10-Q in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about factors that could lead to material changes is contained in Part I, Item 1A— Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. These factors are not intended to be an all-inclusive list of risks and uncertainties that may affect the operations, performance, development and results of our business, but instead are the risks that we currently perceive as potentially being material. Such factors may include:

- the cyclical nature of the homebuilding industry and a potential deterioration in homebuilding industry conditions;
- economic changes nationally or in local markets, changes in consumer confidence, wage levels, declines in employment levels, inflation or increases in the quantity and decreases in the price of new homes and resale homes on the market;
- shortages of or increased prices for labor, land or raw materials used in housing production, and the level of quality and craftsmanship provided by our subcontractors;
- factors affecting margins, such as decreased land values underlying land option agreements, increased land development costs in communities under development or delays or difficulties in implementing initiatives to reduce our production and overhead cost structure;
- the availability and cost of land and the risks associated with the future value of our inventory, such as asset impairment charges we took on select California assets during the second quarter of fiscal 2019;
- estimates related to homes to be delivered in the future (backlog) are imprecise, as they are subject to various cancellation risks that cannot be fully controlled;
- increases in mortgage interest rates, increased disruption in the availability of mortgage financing, changes in tax laws or otherwise regarding the deductibility of mortgage interest expenses and real estate taxes or an increased number of foreclosures;
- our allocation of capital and the cost of and ability to access capital, due to factors such as limitations in the capital markets or adverse credit market conditions, and ability to otherwise meet our ongoing liquidity needs, including the impact of any downgrades of our credit ratings or reduction in our liquidity levels;
- our ability to reduce our outstanding indebtedness and to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;
- our ability to continue to execute and complete our capital allocation plans, including our share and debt repurchase programs;
- increased competition or delays in reacting to changing consumer preferences in home design;
- natural disasters or other related events that could result in delays in land development or home construction, increase our costs or decrease demand in the impacted areas;
- the potential recoverability of our deferred tax assets;
- potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations or governmental policies, and possible penalties for failure to comply with such laws, regulations or governmental policies, including those related to the environment;
- the results of litigation or government proceedings and fulfillment of any related obligations;
- the impact of construction defect and home warranty claims;
- the cost and availability of insurance and surety bonds, as well as the sufficiency of these instruments to cover potential losses incurred;
- the impact of information technology failures, cybersecurity issues or data security breaches;
- terrorist acts, natural disasters, acts of war or other factors over which the Company has little or no control; or
- the impact on homebuilding in key markets of governmental regulations limiting the availability of water.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a number of market risks in the ordinary course of business. Our primary market risk exposure relates to fluctuations in interest rates. We do not believe that our exposure in this area is material to our cash flows or results of operations. As of December 31, 2019, we had variable rate debt outstanding totaling approximately $96.6 million. A one percent increase in the interest rate for these notes would result in an increase of our interest expense by approximately $1.3 million over the next twelve-month period. The estimated fair value of our fixed-rate debt as of December 31, 2019 was $1.17 billion, compared to a carrying value of $1.12 billion. The effect of a hypothetical one-percentage point decrease in our estimated discount rates would increase the estimated fair value of the fixed rate debt instruments from $1.17 billion to $1.24 billion as of December 31, 2019.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed based on criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company’s disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Act). Based on that evaluation, the CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2019 at a reasonable assurance level.

Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of our CEO and CFO, which are required by Rule 13a-14 of the Act. This Disclosure Controls and Procedures section includes information concerning management’s evaluation of disclosure controls and procedures referred to in those certifications and should be read in conjunction with the certifications of the CEO and CFO.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of our legal proceedings, see Note 9 of the notes to our condensed consolidated financial statements in this Form 10-Q.

Item 1A. Risk Factors

There have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the year ended September 30, 2019.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

SIGNATURES

Pursuant to the requirements 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.

Date:	January 30, 2020	Beazer Homes USA, Inc.		
		By:		/s/ Robert L. Salomon
			Name:	**Robert L. Salomon**
				Executive Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Allan P. Merrill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Beazer Homes USA, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 30, 2020

/s/ Allan P. Merrill

Allan P. Merrill
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert L. Salomon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Beazer Homes USA, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 30, 2020

/s/ Robert L. Salomon
Robert L. Salomon
Executive Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Beazer Homes USA, Inc. (the “Company”) hereby certifies that the Report on Form 10-Q of the Company for the period ended December 31, 2019, accompanying this certification, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 30, 2020

/s/ Allan P. Merrill
Allan P. Merrill
President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and Section 1350 of Title 18, United States Code, and is not being filed as part of the report or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Beazer Homes USA, Inc. (the “Company”) hereby certifies that the Report on Form 10-Q of the Company for the period ended December 31, 2019, accompanying this certification, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 30, 2020

/s/ Robert L. Salomon

Robert L. Salomon
Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and Section 1350 of Title 18, United States Code, and is not being filed as part of the report or as a separate disclosure document.