BEAZER HOMES USA INC
Form 10-K
November 14, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2017
or

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

Commission File Number 001-12822

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ¨ NO x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES ¨ NO x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

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

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

The aggregate market value of the registrant’s Common Stock held by non-affiliates of the registrant as of March 31, 2017, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was $394,750,132.

Class	Outstanding at November 9, 2017
Common Stock, $0.001 par value	33,512,585

DOCUMENTS INCORPORATED BY REFERENCE

	Part of 10-K where incorporated
Portions of the registrant’s Proxy Statement for the 2018 Annual Meeting of Stockholders	III

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References to “we,” “us,” “our,” “Beazer,” “Beazer Homes” and the “Company” in this Annual Report on Form 10-K refer to Beazer Homes USA, Inc.

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements describe risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this Form 10-K in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A— Risk Factors of this Form 10-K. 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:

- economic changes nationally or in local markets, changes in consumer confidence, declines in employment levels, inflation or increases in the quantity and decreases in the price of new homes and resale homes on the market;
- the cyclical nature of the homebuilding industry and a potential deterioration in homebuilding industry conditions;
- factors affecting margins, such as decreased land values underlying land option agreements, increased land development costs on 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 additional asset impairment charges or write-downs;
- 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;
- 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;
- a substantial increase in mortgage interest rates, increased disruption in the availability of mortgage financing, a change in tax laws regarding the deductibility of mortgage interest for tax purposes or an increased number of foreclosures;
- our cost of and ability to access capital, due to factors such as limitations in the capital markets or adverse credit market conditions, and otherwise meet our ongoing liquidity needs, including the impact of any downgrades of our credit ratings or reductions in our tangible net worth or 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;
- increased competition or delays in reacting to changing consumer preferences in home design;
- weather conditions 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;
- estimates related to the potential recoverability of our deferred tax assets, and a potential reduction in corporate tax rates that could reduce the usefulness of our existing 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, including water intrusion issues in Florida;
- the cost and availability of insurance and surety bonds, as well as the sufficiency of these instruments to cover potential losses incurred;
- the performance of our unconsolidated entities and our unconsolidated entity partners;

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

PART I

Item 1. Business

We are 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, at affordable prices, while seeking to maximize our return on invested capital over the course of a housing cycle.

Beazer Homes USA, Inc. was incorporated in Delaware in 1993. Our principal executive offices are located at 1000 Abernathy Road, Suite 260, Atlanta, Georgia 30328, and our main telephone number is (770) 829-3700. We also provide information about our company, including active communities, through our Internet website located at www.beazer.com. Information on our website is not a part of this Form 10-K and shall not be deemed incorporated by reference.

Industry Overview and Current Market Conditions

The sale and production of new homes has been, and will likely remain, a large industry in the United States for four primary reasons: (1) historical growth in both population and households; (2) demographic patterns that indicate an increased likelihood of home ownership as age and income increase; (3) job creation within geographic markets that necessitate new home construction; and (4) consumer demand for home features that can be more easily provided in a new home than an existing home.

In any period, the demand for new homes is dependent on a variety of demographic and economic factors, including household formation, job and wage growth, the availability and cost of mortgage financing, the supply of new and existing homes, home price affordability and, importantly, consumer confidence. These factors all fluctuate over time at both a national and a more localized market level. Several of these factors are contributing to stable and modestly improving conditions for new home sales, but there are also risks and challenges that could adversely impact our business in fiscal 2018 and beyond. On the positive side are rising levels of household formation, a constrained supply of new and used homes, rising wages, strong employment conditions and mortgage rates that continue to be low by historical standards. Challenges include early signs of home price affordability constraints (largely driven by the historically low levels of homes available for sale and still constrained level of new home construction) and unusual levels of political, regulatory and legislative uncertainty at the federal, state and local levels regarding housing, mortgage and tax policies, as well as volatility in domestic and international financial markets. Overall, we continue to believe that we are well positioned in key markets, and that the underlying fundamentals that drive home purchases are supportive.

Long-Term Business Strategy

Our long-term business strategy is focused on a balance between achieving and surpassing our “2B-10” goals and reducing our debt levels and improving our capital efficiency, both of which are discussed below.

“2B-10” Plan

In November 2013, we introduced a multi-year “2B-10” plan, which provided a roadmap of revenue and margin metrics to achieve $2 billion in revenue with a 10% Adjusted EBITDA margin. Taken together, reaching “2B-10” would result in Adjusted EBITDA of at least $200 million. From time to time we have updated our estimates of the specific metrics we expect will lead us to our “2B-10” objectives. Our current targets are as follows:

- improve and maintain our sales per community per month to a range of 2.8 to 3.2;
- increase and maintain an active community count between a range of 170 and 175;
- increase our average selling price (ASP) to a range of $340 thousand to $350 thousand;
- continue to improve our homebuilding gross margin to be within a range of 21% to 22% (excluding impairments and abandonments and interest amortized to homebuilding cost of sales); and
- drive cost leverage, as measured by selling, general and administrative expenses as a percentage of total revenue, to a range of 11% to 12%.

Since introducing our “2B-10” plan, we have consistently noted that there are a number of paths to achieving our underlying goal of $200 million of EBITDA, and we continue with our commitment to reaching these objectives as soon as possible. For a further discussion of our “2B-10” plan, refer to our “Management's Discussion and Analysis of Financial Conditions and Results of Operations” in this Form 10-K.

Underlying our “2B-10” plan, we have developed a long-term business strategy that focuses on the following elements in order to provide a wide range of homebuyers with quality homes, while maximizing the return on our invested capital over the course of a housing cycle:

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Geographic Diversification in Growth Markets. We compete in a large number of geographic markets across the United States (U.S.) in an attempt to reduce our exposure to any particular regional economy. Within these markets, we build homes in a variety of new home communities. We continually review our selection of markets based on both aggregate demographic information and our own operating results. We use the results of these reviews to re-allocate our investments to those markets where we believe we can maximize our profitability and return on capital.

Diversity of Product Offerings. Our product strategy aims to address the needs of our target buyers. Within each of our markets, we determine the profile of buyers we hope to target and research the profile of existing homeowners in that locale to effectively design neighborhoods, product types and individual homes with the specific needs of those buyers in mind. Depending on the market, we attempt to address one or more of the following categories of home buyers: entry-level, move-up or retirement-oriented. We expect our focus on retirement-oriented buyers to increase as our Gatherings® business emerges, which is further discussed below. Within these buyer groups, we have developed detailed targeted buyer profiles based on demographic and psychographic data, including information about their marital and family status, employment, age, affluence, special interests, media consumption and distance moved. Recognizing that our customers want to choose certain components of their new home, we offer a limited number of structural and design options at no additional cost on most homes ("Choice Plans™"), as well as other paid structural options. We also utilize design studios in most of our markets that enable our customers to further personalize their home by allowing them to select certain non-structural options such as cabinetry, flooring, fixtures, appliances and wall coverings.

Gatherings. Gatherings® by Beazer Homes was officially launched in 2016 to meet the need of the growing 55 plus segment and to capitalize on Beazer's success in building age-targeted condominiums. We strive to provide exceptional value at an affordable price and become a premier provider of condominium living for active adults over age 55. We are currently pursuing Gatherings assets in Florida, Texas, Georgia, Tennessee, Maryland, Virginia, Nevada, Arizona, California, Indiana, North Carolina and South Carolina. As of September 30, 2017, we have approved new communities representing nearly 650 future sales and are currently reviewing a pipeline of potential communities that exceeds 2,000 homes.

Differentiated Process. Our sales strategy has three specific tenets: lender choice ("Mortgage Choices"), personalization (Choice Plans™) and energy efficiency (refer to section entitled "Differentiating Beazer Homes" for a further discussion). To address the homebuyers' perceived challenge of securing a mortgage, we facilitate the process by making available a small number of preferred lenders who offer a comprehensive set of mortgage products, competitive rates and outstanding customer service. In response to consumers' desire to reflect their personal preferences and lifestyle in their homes, we continue to evolve our floor plans based on market opportunity and demand. We create plans that meet most homebuyers' needs, but also give the homebuyer the flexibility to change how the home lives through choices in certain structural and design options at no additional cost. Finally, we engineer our homes for energy-efficiency, resulting in cost savings and comfort. Using the ENERGY STAR® standards as our minimum performance criteria, our homes have less impact on the environment while decreasing our homebuyers' annual operating costs.

Consistent Use of National Brand. Our homebuilding and marketing activities are conducted under the name of Beazer Homes in each of our markets. We believe that the Beazer Homes® trademark has significant value and is an important factor in the marketing of our homebuilding activities and business. We utilize a single brand name across our markets in order to better leverage our national and local marketing activities. Using a single brand has allowed us to execute successful digital marketing, out-of-home advertising and national marketing campaigns.

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

Debt Reduction and Capital Efficiency. We believe that combining growth with additional deleveraging while the housing market remains relatively strong will create long-term shareholder value. During our fiscal 2017 and 2016, we reduced our debt balance by nearly $160 million. We will continue to focus on deleveraging, and intend to further reduce our debt by at least another $100 million as part of our debt reduction plan.

Furthermore, we have put additional emphasis on maximizing our return on capital by carefully managing our investment in land, so that our debt reduction targets can be achieved while still increasing our community count. As noted above, we have employed a number of strategies to improve capital efficiency, including greater use of option contracts and land banking, shorter duration land parcels and activation of previously land held for future development communities. During the current fiscal year, our land held for future development balance declined by approximately $100 million.

Reportable Business Segments

Our active homebuilding operations consist of the design, sale and construction of single-family and multi-family homes in the following geographic regions, which represent our reportable segments:

Segment/State	Market(s)
West:	
Arizona	Phoenix
California	Los Angeles County, Orange County, Riverside and San Bernardino Counties, San Diego County, Sacramento County, Yuba County
Nevada	Las Vegas
Texas	Dallas/Ft. Worth, Houston
East:	
Indiana	Indianapolis
Maryland/Delaware	Baltimore, Howard, Metro-Washington, D.C./ Sussex
Tennessee	Nashville
Virginia	Loudoun County, Prince William County, Stafford County, Spotsylvania County, Fredericksburg
Southeast:	
Florida	Tampa/St. Petersburg, Orlando
Georgia	Atlanta, Savannah
North Carolina	Raleigh/Durham
South Carolina	Charleston, Myrtle Beach

The following tables summarize certain operating information of our reportable segments, including number of homes closed, the average closing price for the periods presented and units and dollar value in backlog as of September 30, 2017, 2016 and 2015. Refer to “Management's Discussion and Analysis of Results of Operations and Financial Condition” in Item 7 of this Form 10-K for additional information.

($ in thousands)	2017 Number of Homes Closed	2017 Average Closing Price	2016 Number of Homes Closed	2016 Average Closing Price	2015 Number of Homes Closed	2015 Average Closing Price
West	2,527	$ 336.9	2,508	$ 326.1	1,954	$ 299.0
East	1,382	386.1	1,373	368.0	1,546	355.4
Southeast	1,616	316.1	1,538	300.1	1,510	289.4
Total Company	5,525	$ 343.1	5,419	$ 329.4	5,010	$ 313.5

	September 30, 2017 Units in Backlog	September 30, 2017 Dollar Value in Backlog (in millions)	September 30, 2016 Units in Backlog	September 30, 2016 Dollar Value in Backlog (in millions)	September 30, 2015 Units in Backlog	September 30, 2015 Dollar Value in Backlog (in millions)
West	879	$ 306.0	828	$ 278.5	955	$ 307.1
East	413	161.7	444	168.5	487	181.1
Southeast	563	198.1	644	205.6	596	179.5
Total Company	1,855	$ 665.8	1,916	$ 652.7	2,038	$ 667.7
ASP in backlog (in thousands)		$ 358.9		$ 340.6		$ 327.6

Seasonal and Quarterly Variability

Our homebuilding operating cycle generally reflects higher levels of new home order activity in our second and third fiscal quarters, and increased closings in our third and fourth fiscal quarters. However, these seasonal patterns may be impacted or reduced by a variety of factors, including periods of economic downturn, which result in decreased revenues and closings.

Markets and Product Description

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

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

Operational Overview

Corporate Operations

We perform the following functions at our corporate office to promote standardization and operational excellence:

- evaluate and select geographic markets;
- allocate capital resources to particular markets for land acquisitions;
- maintain and develop relationships with lenders and capital markets to create and maintain access to financial resources;
- maintain and develop relationships with national product vendors;
- perform certain accounting, finance, legal, risk and marketing functions to support our field operations;
- operate and manage information systems and technology support operations; and
- monitor the operations of our divisions and partners.

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

Field Operations

The development and construction of each new home community is managed by our operating divisions, each of which is generally led by a market leader who reports through to our Chief Executive Officer. Within our operating divisions, our field teams are equipped with the skills needed to complete the functions of identifying land acquisition opportunities, land entitlement, land development, home construction, marketing, sales, warranty service and certain purchasing and planning/design functions. However, the accounting and accounts payable functions of our field operations are concentrated in our national accounting center, which we consider to be part of our corporate operations.

Land Acquisition and Development

Generally, the land we acquire is purchased only after necessary entitlements have been obtained so that we have the right to begin development or construction as market conditions dictate. The term “entitlements” refers to subdivision approvals, development agreements, tentative maps or recorded plats, depending on the jurisdiction in which the land is located. Entitlements generally give a developer the right to obtain building permits upon compliance with conditions that are usually within the developer's control. Although entitlements are ordinarily obtained prior to the purchase of land, we are still required to obtain a variety of other governmental approvals and permits during the development process. In limited circumstances, we will purchase property without all necessary entitlements where we have identified an opportunity to build on such property in a manner consistent with our strategy.

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

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

We generally purchase land or obtain an option to purchase land, which, in either case, requires certain site improvements prior to home construction. Where required, we then undertake or, in the case of land under option, the grantor of the option then undertakes, the development activities (through contractual arrangements with local developers, general contractors and/or subcontractors), which include site planning and engineering, as well as constructing roads; water, sewer and utility infrastructures; drainage and recreational facilities; and other amenities. When available in certain markets, we also buy finished lots that are ready for home construction. During our fiscal 2017 and 2016, we continued to pursue land acquisition opportunities and develop our land positions, spending approximately $301.4 million and $184.0 million, respectively, for land acquisition and $145.0 million and $152.9 million, respectively, for land development.

We strive to develop a design and marketing concept for each of our communities, which includes determination of the size, style and price range of the homes, layout of streets, layout of individual lots and overall community design. The product line offered in a particular new home community depends upon many factors, including the housing generally available in the area, the needs of a particular market and our cost of lots in the new home community.

Option Contracts

We acquire certain lots by means of option contracts from various sellers, including land banking entities. Option contracts generally require the payment of a cash deposit or issuance of a letter of credit for the right to acquire lots during a specified period of time at a fixed or variable price.

Under option contracts, purchase of the underlying properties is contingent upon satisfaction of certain requirements by us and the sellers. Our liability under option contracts is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred, which totaled approximately $102.9 million as of September 30, 2017. The total remaining purchase price, net of cash deposits, committed under all land option contracts was $408.3 million as of September 30, 2017.

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.

The following table summarizes, by reportable segment, land controlled by us as of September 30, 2017:

	Lots Owned							
	Lots with Homes Under Construction [(a)]	Finished Lots	Lots Under Development	Lots Held for Future Development	Lots Held for Sale	Total Lots Owned	Total Lots Under Contract	Total Lots Controlled
West								
Arizona	183	295	468	33	—	979	399	1,378
California	282	375	2,157	828	1	3,643	344	3,987
Nevada	123	612	473	239	—	1,447	302	1,749
Texas	523	1,208	1,328	—	31	3,090	1,961	5,051
Total West	1,111	2,490	4,426	1,100	32	9,159	3,006	12,165
East								
Indiana	90	254	495	—	33	872	143	1,015
Maryland/Delaware	147	264	535	93	62	1,101	568	1,669
New Jersey	—	—	—	121	—	121	—	121
Tennessee	102	40	692	—	101	935	394	1,329
Virginia	76	107	—	—	—	183	127	310
Total East	415	665	1,722	214	196	3,212	1,232	4,444
Southeast								
Florida	256	552	460	33	—	1,301	270	1,571
Georgia	135	202	135	—	23	495	393	888
North Carolina	124	111	3	21	8	267	346	613
South Carolina	180	489	737	68	1	1,475	267	1,742
Total Southeast	695	1,354	1,335	122	32	3,538	1,276	4,814
Corporate and unallocated [(b)]	—	—	—	—	84	84	—	84
Total	2,221	4,509	7,483	1,436	344	15,993	5,514	21,507

[(a)] This category represents lots upon which construction of a home has commenced, including model homes.
[(b)] Lots held for sale are parcels held by our operations considered to be discontinued.

The following table summarizes, by reportable segment, the dollar value of our land under development, land held for future development and land held for sale as of September 30, 2017:

(In thousands)	Land Under Development	Land Held for Future Development	Land Held for Sale
West	$ 451,030	$ 87,231	$3,848
East	161,408	14,391	11,578
Southeast	173,339	10,943	1,233
Corporate and unallocated [(a)]	—	—	1,100
Total	$ 785,777	$ 112,565	$17,759

[(a)] Land held for sale are parcels held by our operations considered to be discontinued.

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 investments 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 September 30, 2017, our unconsolidated entities had borrowings outstanding totaling $15.8 million. See Note 4 of notes to the consolidated financial statements in this Form 10-K for further information. Our consolidated balance sheets include investments in unconsolidated entities totaling $4.0 million and $10.5 million as of September 30, 2017 and September 30, 2016, respectively.

Construction

We typically act as the general contractor for the construction of our new home communities. Our project development activities are controlled by our operating divisions, whose employees supervise the construction of each new home community by coordinating the activities of subcontractors and suppliers, subjecting their work to quality and cost controls and ensuring compliance with zoning and building codes. We specify that quality, durable materials be used in the construction of our homes. Our subcontractors follow design plans prepared by architects and engineers who are retained or directly employed by us, and whose designs are geared to the local market. Our home plans are created in a collaborative effort with industry leading architectural firms, allowing us to stay current in our home designs with changing trends, as well as to expand our focus on value engineering without losing design value to our customers.

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

Construction time for our homes depends on the availability of labor, materials and supplies, product type and location. Homes are designed to promote efficient use of space and materials and to minimize construction costs and time. In all of our markets, construction of a home is typically completed within three to six months following commencement of construction. As of September 30, 2017, excluding models, we had 1,976 homes at various stages of completion, of which 1,382 were under contract and included in backlog at such date and 594 homes (171 were substantially completed and 423 under construction) were not under a sales contract, either because the construction of the home was begun without a sales contract or because the original sales contract had been canceled (known as "speculative" or "spec" homes).

Warranty Program

We currently provide a limited warranty (ranging from one to two years) covering workmanship and materials per our defined standards of performance. In addition, we provide a limited warranty for up to ten years covering only certain defined structural element failures. For certain homes sold through March 31, 2004 (and in certain markets through July 31, 2004), we self-insured our warranty obligations through our wholly-owned risk retention group. We continue to maintain reserves to cover potential claims on homes covered under this warranty program. Beginning with homes sold on or after April 1, 2004 (August 1, 2004 in certain markets), our warranties have been issued, administered and insured, subject to applicable self-insured retentions, by independent third parties.

Since we subcontract our homebuilding work to subcontractors whose contracts generally include an indemnity obligation and a requirement that certain minimum insurance requirements be met, including providing us with a certificate of insurance prior to receiving payments for their work, many claims relating to workmanship and materials are the primary responsibility of our subcontractors.

In addition, we maintain third-party insurance, subject to applicable self-insured retentions, for most construction defects that we encounter in the normal course of business. We believe that our warranty and litigation accruals and third-party insurance are adequate to cover the ultimate resolution of our potential liabilities associated with known and anticipated warranty and construction defect related claims and litigation. Please see Note 9 of notes to the consolidated financial statements in this Form 10-K for additional information. However, there can be no assurance that the terms and limitations of the limited warranty will be effective against claims made by homebuyers; that we will be able to renew our insurance coverage or renew it at reasonable rates; that we will not be liable for damages, the cost of repairs, and/or the expense of litigation surrounding possible construction defects, soil subsidence or building related claims; or that claims will not arise out of events or circumstances not covered by insurance and/or not subject to effective indemnification agreements with our subcontractors.

Marketing and Sales

We make extensive use of digital and traditional marketing vehicles and other promotional activities, including our websites (www.beazer.com and www.beazerenespanol.com), mobile site (m.beazer.com), real estate listing sites, digital advertising (including search engine marketing and display advertising), social media, video, brochures, direct marketing and out-of-home advertising (including billboards and signage) located in the immediate areas of our developments, as well as additional activities. In connection with these marketing vehicles, we have registered or applied for registration of trademarks and internet domain names, including Beazer Homes®, Gatherings® and Choice Plans™, for use in our business.

Our practice is to build, decorate, furnish and landscape model homes for each community we build and maintain on-site sales offices. As of September 30, 2017, we maintained and owned 245 model homes. We believe that model homes play a particularly important role in our selling efforts, and we are continuously innovating within our model homes to provide a unique, memorable and hands-on experience for our customers, i.e., digital kiosks, interactive site maps/plans, interactive magnetic floor plan boards, signage and more. The selection of interior features is also a principal component of our marketing and sales efforts.

Our homes are customarily sold through commissioned new home sales counselors (who work from the sales offices located in the model homes used in the community), as well as through independent brokers. Our sales counselors and extended sales team are available to assist prospective homebuyers by providing them with floor plans, price information, tours of model homes, the community's unique selling proposition, detailed explanations of our three differentiators, discussed below, and associated savings opportunities. Sales personnel are trained internally and participate in a structured training program focused on sales techniques, product enhancements, competitive products in the area, construction schedules and Company policies around compliance, which management believes results in a sales force with extensive knowledge of our operating policies and housing products. Our policy also stipulates that sales personnel must be licensed real estate agents where required by law.

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

Depending on market conditions, we also at times begin construction on a number of homes for which no signed sales contract exists (known as “speculative” or “spec” homes). This speculative inventory satisfies demand by providing near ready or move in ready homes targeted at relocated personnel, first-time buyers and independent brokers who require a completed home within 60 days.

Differentiating Beazer Homes

We know that our buyers have many choices when purchasing a home. To help us become a builder of choice and thereby achieve the operational objectives we have outlined, we have identified the following three strategic pillars that differentiate Beazer's homes from both resale homes and other newly built homes:

Mortgage Choices - Most of our buyers need to arrange financing in order to purchase a new home. Unlike many of our major competitors, we do not have an in-house mortgage company. Instead, for every Beazer community, we have identified a group of preferred lenders that provide a comprehensive product portfolio, competitive rates and fees and outstanding customer service. We encourage those lenders to compete for our customers’ business, which is a unique program among national homebuilders and enables our customers to secure the mortgage program that best fits their needs.

Choice Plans™ - Every family lives in their home differently, which is why we created Choice Plans™. Choice Plans™ allow buyers to choose how primary living areas, like the kitchen and master bathroom, are configured at no extra cost. Whether our buyers choose an office or an expanded family room, our plans are designed for the way a buyer wants to live.

Energy Efficiency - Nearly all newly-built homes afford buyers a substantial reduction in utility bills due to their modern, energy-efficient construction and materials. That's a feature most used homes cannot provide. At Beazer, we go even further by ensuring our homes are built to the latest ENERGY STAR® standards and providing every buyer with an energy rating for their home, completed by a qualified third-party rating company. Used homes typically have an energy rating (on a scale in which a lower score is better) of 130, while new homes that are built to code typically score around 100. The average new Beazer home has an energy rating of 62.

Customer Financing

As previously mentioned, we do not provide mortgage origination services. Unlike many of our peers, we have no ownership interest in any lender, and are able to promote competition among lenders on behalf of our customers through our Mortgage Choices program. Approximately 90% of our fiscal 2017 customers elected to finance their home purchase.

Competition

The development and sale of residential properties is highly competitive and fragmented. We compete for residential sales on the basis of a number of interrelated factors, including location, reputation, amenities, design, quality and price with numerous large and small homebuilders, including some homebuilders with nationwide operations and greater financial resources and/or lower costs than us. We also compete for residential sales with individual resales of existing homes and available rental housing.

We utilize our experience within our geographic markets and the breadth of our product line to vary our regional product offerings to reflect changing market conditions. We strive to respond to market conditions and to capitalize on the opportunities for advantageous land acquisitions in desirable locations. Our product offerings strive to provide extraordinary value at an affordable price with intentional focus on Millennials and Baby Boomers.

Government Regulation and Environmental Matters

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

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

In order to provide homes to homebuyers qualifying for Federal Housing Administration (FHA)-insured or Veterans Affairs (VA)-guaranteed mortgages, we must construct homes in compliance with FHA and VA regulations. These laws and regulations include provisions regarding operating procedures, investments, lending and privacy disclosures and premiums.

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

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

Bonds and Other Obligations

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 September 30, 2017, we had approximately $200.6 million and $45.5 million of outstanding performance bonds and letters of credit, respectively, primarily related to our obligations to local governments to construct roads and other improvements in various developments.

Employees and Subcontractors

As of September 30, 2017, we employed approximately 1,100 persons, of whom 370 were sales and marketing personnel and 270 were construction personnel. Although none of our employees are covered by collective bargaining agreements, at times certain of the subcontractors engaged by us may be represented by labor unions or may be subject to collective bargaining arrangements. We believe that our relations with our employees and subcontractors are good.

Available Information

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

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

The content on our website and mobile site is available for information purposes only and is not a part of and shall not be deemed incorporated by reference in this Form 10-K.

Item 1A. Risk Factors
Our home sales and operating revenues could decline due to macro-economic and other factors outside of our control, such as changes in consumer confidence, declines in employment levels, inflation and increases in the quantity and decreases in the price of new homes and resale homes on the market.
Changes in national and regional economic conditions, as well as local economic conditions where we conduct our operations and where prospective purchasers of our homes live, may result in more caution on the part of homebuyers and, consequently, fewer home purchases. These economic uncertainties involve, among other things, conditions of supply and demand in local markets and changes in consumer confidence and income, employment levels and government regulations. These risks and uncertainties could periodically have an adverse effect on consumer demand and the pricing of our homes, which could cause our operating revenues to decline, thereby negatively impacting our financial condition and results of operations.
The homebuilding industry is cyclical. A severe downturn in the industry could adversely affect our business, financial condition and results of operations.
During periods of downturn in the industry, housing markets across the United States may experience an oversupply of both new and resale home inventory, an increase in foreclosures, reduced levels of consumer demand for new homes, increased cancellation rates, aggressive price competition among homebuilders and increased incentives for home sales. In the event of a downturn, we may experience a material reduction in revenues and margins. Continued weakness in the homebuilding market could adversely affect our business, financial condition and results of operations, and could result in additional inventory impairments in the future.
Our long-term success depends on our ability to acquire finished lots and undeveloped land suitable for residential homebuilding at reasonable prices, in accordance with our land investment criteria.
The homebuilding industry is highly competitive for suitable land and the risk inherent in purchasing and developing land increases as consumer demand for housing increases. The availability of finished and partially finished developed lots and undeveloped land for purchase that meet our investment criteria depends on a number of factors outside our control, including land availability in general, competition with other homebuilders and land buyers, inflation in land prices, zoning, allowable housing density, the ability to obtain building permits and other regulatory requirements. Should suitable lots or land become less available, the number of homes we may be able to build and sell could be reduced, and the cost of land could increase, perhaps substantially, which could adversely impact our financial condition and results of operations.
As competition for suitable land increases, the cost of acquiring both finished and undeveloped lots and the cost of developing owned land could rise, and the availability of suitable land at acceptable prices may decline, which could adversely impact our financial results. The availability of suitable land assets could also affect the success of our land acquisition strategy and ultimately our long-term strategic goals by impacting our ability to increase the number of actively selling communities, grow our revenues and margins and achieve or maintain profitability.
The market value of our land and/or homes may decline, leading to impairments and reduced profitability.
We regularly acquire land for replacement and expansion of our land inventory within our existing and new markets. The market value of land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions, and the measures we employ to manage inventory risk may not be adequate to insulate our operations from a severe drop in inventory values. When market conditions are such that land values are not appreciating, option agreements previously entered into may become less desirable, at which time we may elect to forgo deposits and preacquisition costs and terminate the agreements. In a situation of adverse market conditions, we may incur impairment charges or have to sell land at a loss, which could adversely affect our financial condition and results of operations.
We are dependent on the continued availability and satisfactory performance of our subcontractors, which, if unavailable or unsatisfactory, could have a material adverse effect on our business. Additionally, increased prices for the labor or materials provided by these subcontractors could adversely affect our financial condition, results of operations and liquidity.
We conduct our land development and homebuilding operations only as a general contractor. Virtually all land development and construction work is performed by unaffiliated third-party subcontractors. As a consequence, we depend on the continued availability of and satisfactory performance by these subcontractors for the development of

our land and construction of our homes. There may not be sufficient availability of and satisfactory performance by these unaffiliated third-party subcontractors in the markets in which we operate, adversely impacting our financial condition and results of operations. Additionally, the prices paid for the services of these subcontractors could unexpectedly increase, which could have a material adverse effect on our business.

An increase in cancellation rates may negatively impact our business and lead to imprecise estimates related to homes to be delivered in the future (backlog).
Our backlog reflects the number and value of homes for which we have entered into a sales contract with a customer but have not yet delivered the home. Although these sales contracts typically require a cash deposit and do not make the sale contingent on the sale of the customer's existing home, in some cases a customer may cancel the contract and receive a complete or partial refund of the deposit as a result of local laws or as a matter of our business practices. If industry or economic conditions deteriorate or if mortgage financing becomes less accessible, more homebuyers may have an incentive to cancel their contracts with us, even where they might be entitled to no refund or only a partial refund, rather than complete the purchase. Significant cancellations have had, and could have, a material adverse effect on our business as a result of lost sales revenue and the accumulation of unsold housing inventory. It is important to note that both backlog and cancellation metrics are operational, rather than accounting data, and should be used only as a general gauge to evaluate our performance. There is an inherent imprecision in these metrics based on an evaluation of qualitative factors during the transaction cycle.
A substantial increase in mortgage interest rates, the unavailability of mortgage financing or a change in tax laws regarding the deductibility of mortgage interest for tax purposes may reduce consumer demand for our homes.
Substantially all purchasers of our homes finance their acquisition with mortgage financing. Housing demand is adversely affected by reduced availability of mortgage financing and factors that increase the upfront or monthly cost of financing a home, such as increases in interest rates, insurance premiums or limitations on mortgage interest deductibility. The continued decrease in the willingness and ability of lenders to make home mortgage loans, the tightening of lending standards and the limitation of financing product options have made it more difficult for homebuyers to obtain acceptable financing. Any substantial increase in mortgage interest rates or unavailability of mortgage financing may adversely affect the ability of prospective first-time and move-up homebuyers to obtain financing for our homes, as well as adversely affect the ability of prospective move-up homebuyers to sell their current homes. Therefore, a disruption in the credit markets and/or the curtailed availability of mortgage financing may adversely affect our business, financial condition and results of operations.
Our access to capital and our ability to obtain additional financing could be affected by any downgrade of our credit ratings, as well as limitations in the capital markets or adverse credit market conditions.
The Company's credit rating and ratings on our senior notes and our current credit condition affect, among other things, our ability to access new capital, especially debt. Negative changes in these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. If our credit ratings are lowered or rating agencies issue adverse commentaries in the future, it 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 a significant increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, result in a credit rating downgrade or change in outlook, or otherwise increase our cost of borrowing.
We could experience a reduction in home sales and revenues due to our inability to acquire and develop land for our communities if we are unable to obtain reasonably priced financing.
The homebuilding industry is capital intensive and homebuilding requires significant up-front expenditures to acquire land and to begin development. Accordingly, we incur substantial indebtedness to finance our homebuilding activities. If internally generated funds are not sufficient, we would seek additional capital in the form of equity or debt financing from a variety of potential sources, including additional bank financing and/or securities offerings. The amount and types of indebtedness that we may incur are limited by the terms of our existing debt. In addition, the availability of borrowed funds, especially for land acquisition and construction financing, may be greatly reduced nationally, and the lending community may require increased amounts of equity to be invested in a project by borrowers in connection with both new loans and the extension of existing loans. The credit and capital markets have continued to experience significant volatility. If we are required to seek additional financing to fund our operations, the volatility in these markets may restrict our flexibility to access such financing. If we are not successful in obtaining sufficient capital to fund our planned capital and other expenditures, we may be unable to acquire land for our housing developments, thereby limiting our anticipated growth and community count. Additionally, if we cannot

obtain additional financing to fund the purchase of land under our option contracts, we may incur contractual penalties and fees.

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

Our senior notes, revolving credit facility, letter of credit facilities and other debt impose certain restrictions and obligations on us. Under certain of these instruments, we must comply with defined covenants that limit our ability to, among other things, incur additional indebtedness, engage in certain asset sales, make certain types of restricted payments, engage in transactions with affiliates and create liens on our assets. Failure to comply with certain of these covenants could result in an event of default under the applicable instrument. Any such event of default could negatively impact other covenants or lead to cross defaults under certain of our other debt agreements. There can be no assurance that we will be able to obtain any waivers or amendments that may become necessary in the event of a future default situation without significant additional cost or at all.

Our substantial indebtedness could have important consequences to us and the holders of our securities, including, among other things:

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

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

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

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

Severe weather conditions or other related events could result in delays in land development or home construction, increase our costs or decrease demand in the impacted areas.

Severe weather conditions or other related events that are beyond our direct control could impact our operations in several ways. First, these events may cause land development or home construction delays in the impacted areas. Not only does severe weather at times halt our development and construction-related activities, but it could for our competitors as well, ultimately leading to increased competition for subcontractors, which could delay our progress even after the event has concluded. Additionally, increased competition for skilled labor could lead to cost overruns, as we may have to incentivize the impacted region’s limited trade base to work on our homes, in addition to other costs incurred to remediate the impact of the severe weather conditions on our overall job site. Finally, severe weather and related events may also temporarily impact demand, as buyers are not as willing to shop for new homes during the event. These risks could adversely affect our business, financial condition and results of operations.

The tax benefits of our pre-ownership change net operating loss carryforwards and built-in losses were substantially limited since we experienced an “ownership change” as defined in Section 382 of the Internal Revenue Code, and portions of our deferred income tax asset have been written off since they were not fully realizable. Any subsequent ownership change, should it occur, could have a further impact on these tax attributes.

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

We believe we have significant “built-in losses” in our assets, i.e., an excess tax basis over current fair market value, that may result in tax losses as such assets are sold. Net operating losses generally may be carried forward for a 20-year period to offset future earnings and reduce our federal income tax liability. Built-in losses, if and when recognized, generally will result in tax losses that may then be deducted or carried forward. However, we experienced an “ownership change” under Section 382 as of January 12, 2010. As a result of this previous “ownership change” for purposes of Section 382, our ability to use certain net operating loss carryforwards and built-in losses or deductions in existence prior to the ownership change was limited by Section 382.

The realization of all or a portion of our deferred income tax assets (including net operating loss carryforwards) is dependent upon the generation of future income during the statutory carryforward periods. Our inability to utilize our limited pre-ownership change net operating loss carryforwards and recognized built-in losses or deductions, or the occurrence of a future ownership change and resulting additional limitations to these tax attributes, could have a material adverse effect on our financial condition, results of operations and cash flows.

Proposed changes to U.S. tax law may result in a reduced corporate tax rate while also limiting or eliminating current tax deductions. These changes could have a material impact on the value of our deferred tax assets, our effective tax rate, and our taxable income.

Recently, the House of Representatives released a draft tax reform bill that included significant changes to the current tax code, including a reduction in the corporate tax rate from 35% to 20% and changes to a number of current deductions. The Senate has also issued a proposal that contains a number of similarities, but also some key differences. Our net deferred tax assets are measured using tax rates currently in effect that we expect to apply to our taxable income in the future. The impacts of the proposed changes in tax law will be recognized in the period such legislation is enacted. At this time, it is uncertain whether or when any such tax reform proposals will be enacted into law and the impact of such legislation on our business and financial results. The proposed reduction in the corporate tax rate, in and of itself, would result in a charge to earnings from a significant reduction in the value of our existing deferred tax assets. Additionally, while we do not anticipate the proposed changes in the corporate tax rate and calculation of taxable income would have a material adverse effect on our financial condition, profitability, and/or cash flows, the ultimate outcome of any near-term tax reform and the related impact on our business and financial condition is uncertain.

We may incur additional operating expenses or longer construction cycle times due to compliance programs or fines, penalties and remediation costs pertaining to environmental regulations within our markets. Additionally, any violations of such regulations could harm our reputation, thereby negatively impacting our financial condition and results of operations.

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

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

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

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

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

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

At any given time, we are the subject of pending civil litigation that could require us to pay substantial damages or could otherwise have a material adverse effect on us.

Certain of our subsidiaries have been named in class action and multi-party lawsuits regarding claims made by homebuyers. We cannot predict or determine the timing or final outcome of the current lawsuits, or the effect that any adverse determinations the lawsuits may have on us. An unfavorable determination in any of the lawsuits could result in the payment by us of substantial monetary damages that may not be covered by insurance. Further, the legal costs associated with the lawsuits and the amount of time required to be spent by management and the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our business, financial condition and results of operations. In addition to expenses incurred to defend the Company in these matters, under Delaware law and our bylaws, we may have an obligation to indemnify our current and former officers and directors in relation to these matters. We have obligations to advance legal fees and expenses to directors and certain officers. Our insurance carriers may seek to rescind or deny coverage with respect to certain of the pending lawsuits, or we may not have sufficient coverage under such policies. If the insurance companies are successful in rescinding or denying coverage, or if we do not have sufficient coverage under our policies, our business, financial condition and results of operations could be materially adversely affected.

Our operating expenses could increase if we are required to pay higher insurance premiums or litigation costs for various claims, which could negatively impact our financial condition and results of operations. Additionally, our insurance policies may not offset our entire expense due to limitation in coverages, amounts payable under the policies or other related restrictions.

The costs of insuring against construction defect, product liability and director and officer claims are substantial. Increasingly in recent years, lawsuits (including class action lawsuits) have been filed against builders, asserting claims of personal injury and property damage. Our insurance may not cover all of the claims, including personal injury claims, or such coverage may become prohibitively expensive. If we are not able to obtain adequate insurance against these claims, we may experience losses that could negatively impact our financial condition and results of operations, as well as our cash flows.

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

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

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

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

Information technology failures or data security breaches could harm our business.

We use information technology and other computer resources to perform important operational and marketing activities and to maintain our business records. Certain of these resources are provided to us and/or maintained by third-party service providers pursuant to agreements that specify certain security and service level standards. Our computer systems, including our back-up systems and those of our third-party providers, are subject to damage or interruption from power outages, computer and telecommunication failures, computer viruses, security breaches, natural disasters, usage errors by our employees or contractors and other related risks. A significant and extended disruption of or breach of security related to our computer systems and back-up systems may damage our reputation and cause us to lose customers, sales and revenue, result in the unintended misappropriation of proprietary, personal and confidential information and require us to incur significant expense to remediate or otherwise resolve these issues.

Our stock price is volatile and could decline.

The securities markets in general and our common stock in particular have experienced significant price and volume volatility over the past several years. The market price and volume of our common stock may continue to experience significant fluctuations due not only to general stock market conditions, but also to a change in sentiment in the market regarding our industry, operations or business prospects. The price and volume volatility of our common stock may be affected by:

- operating results that vary from the expectations of securities analysts and investors;
- factors influencing home purchases, such as availability of home mortgage loans and interest rates, credit criteria applicable to prospective borrowers, ability to sell existing residences and homebuyer sentiment in general;
- the operating and securities price performance of companies that investors consider comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and
- changes in global financial markets and global economies and general market conditions, such as interest rates, commodity and equity prices and the value of financial assets.

Our ability to raise funds through the issuance of equity or otherwise use our common stock as consideration is impacted by the price of our common stock. A low stock price may adversely impact our ability to reduce our financial leverage, as measured by the ratio of total debt to total capital. Continued high levels of leverage or significant increases may adversely affect our credit ratings and make it more difficult for us to access additional capital. These factors may limit our ability to implement our operating and growth plans.

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

We historically have experienced, and expect to continue to experience, variability in home sales and earnings on a quarterly basis. As a result of such variability, our historical performance may not be a meaningful indicator of future results. Our quarterly results of operations may continue to fluctuate in the future as a result of a variety of both national and local factors, including, among others:

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

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

The climates and geology of many of the states in which we operate, including California, Florida, Georgia, North Carolina, South Carolina, Tennessee, Texas and certain mid-Atlantic states, present increased risks of natural disasters. To the extent that hurricanes, severe storms, earthquakes, droughts, floods, wildfires or other natural disasters or similar events occur, our homes under construction or our building lots in such states could be damaged or destroyed, which may result in losses exceeding our insurance coverage. Any of these events could negatively impact our financial condition and results of operations. In fiscal 2017, Hurricanes Harvey and Irma disrupted our businesses in Texas, Florida, Georgia, North Carolina and South Carolina, which resulted in what we believe will be temporary reductions in sales and closings.

Terrorist attacks or acts of war against the United States or increased domestic or international instability could have an adverse effect on our operations.

Adverse developments in the war on terrorism, terrorist attacks against the United States or any outbreak or escalation of hostilities between the United States and any foreign power may cause disruption to the economy, our Company, our employees and our customers, which could negatively impact our financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of September 30, 2017, we had under lease approximately 35,000 square feet of office space in Atlanta, Georgia to house our corporate headquarters. We also lease an aggregate of approximately 190,000 square feet of office space for our divisional and shared services operations at various locations. All facilities are in good condition and are adequately utilized, and sufficient to meet our present operating needs.

Due to the nature of our business, significant amounts of property are held by us as inventory in the ordinary course of our homebuilding operations. See Note 5 of notes to the consolidated financial statements in this Form 10-K for a further discussion of our inventory.

Item 3. Legal Proceedings

Litigation

From time to time, we receive claims from institutions that have acquired mortgages originated by our subsidiary, Beazer Mortgage Corporation (BMC), demanding damages or indemnity or that we repurchase such mortgages. BMC stopped originating mortgages in 2008. We have been able to resolve these claims for no cost or for amounts that are not material to our consolidated financial statements. At present there are no such claims outstanding, however, we cannot rule out the potential for additional mortgage loan repurchase or indemnity claims in the future. At this time, we do not believe that the exposure related to any such claims would be material to our consolidated financial condition, results of operations or cash flows.

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, which 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.

Other Matters

During January 2017, we made our final payment under the Deferred Prosecution Agreement and associated Bill of Information (the DPA) entered into on July 1, 2009 with the United States Attorney for the Western District of North Carolina and a separate but related agreement with the United States Department of Housing and Urban Development (HUD) and the Civil Division of the United States Department of Justice (the HUD Agreement). In total, we paid a cumulative $33.5 million related to the DPA and the HUD Agreement. Our expense related to these agreements was $4.9 million and $5.3 million for 2016 and 2015, respectively, and was recorded in general and administrative expenses (G&A) in our consolidated statements of income. This will be the last report for this matter.

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 part by insurance. In our opinion, based on our current assessment, the ultimate resolution of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

The Company lists its common stock on the New York Stock Exchange (NYSE) under the symbol “BZH.” On November 9, 2017, the last reported sales price of the Company's common stock on the NYSE was $20.86, and we had approximately 180 stockholders of record and 33,512,585 shares of common stock outstanding. The following table sets forth, for the periods presented, the range of high and low trading prices for the Company's common stock during our fiscal 2017 and 2016.

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Fiscal Year Ended September 30, 2017				
High	$15.80	$14.82	$15.10	$18.75
Low	$9.67	$11.18	$11.58	$13.09
Fiscal Year Ended September 30, 2016				
High	$15.79	$11.75	$10.06	$12.71
Low	$11.18	$6.07	$6.81	$7.43

Dividends

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 our fiscal 2017, 2016 or 2015. The Board of Directors will periodically reconsider the declaration of dividends, assuming payment of dividends is not limited under our indentures. The reinstatement of quarterly dividends, the amount of such dividends and the form in which the dividends are paid (cash or stock) will depend upon our financial condition, results of operations and other factors that the Board of Directors deems relevant.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about the Company's shares of common stock that may be issued under our existing equity compensation plans as of September 30, 2017, all of which have been approved by our stockholders:

Plan Category	Number of Common Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Common Shares Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by stockholders	593,753	$14.76	2,240,442

Issuer Purchases of Equity Securities

None.

Performance Graph

The following graph illustrates the cumulative total stockholder return on Beazer Homes' common stock for the last five fiscal years through September 30, 2017, as compared to the S&P 500 Index and the S&P 500 Homebuilding Index. The comparison assumes an investment of $100 at September 30, 2012 in Beazer Homes' common stock and in each of the benchmark indices specified, assumes that all dividends were reinvested and accounts for the impact of any stock splits, where applicable. Stockholder returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns.

		Fiscal Year Ended September 30,				
		2013	2014	2015	2016	2017
u	Beazer Homes USA, Inc.	101.41	94.54	75.10	65.69	105.58
g	S&P 500 Index	119.34	142.89	142.02	163.93	194.44
p	S&P 500 Homebuilding Index	101.27	109.63	138.88	137.90	181.58

Item 6. Selected Financial Data

The following table summarizes certain financial data for the periods presented:

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
	($ in millions, except per share amounts and unit data)				
Statements of Income Data: [a]					
Total revenue	$1,916	$1,822	$1,627	$1,464	$1,288
Gross profit	313	297	272	263	214
Gross margin [b]	16.3 %	16.3 %	16.7 %	18.0 %	16.6 %
Operating income	$62	$59	$52	$56	$27
Income (loss) from continuing operations	32	5	347	35	(32)
Income (loss) per share from continuing operations - basic	1.00	0.16	12.54	1.35	(1.30)
Income (loss) per share from continuing operations - diluted	0.99	0.16	10.91	1.10	(1.30)
Net income (loss) [c]	31,813	4,693	344,094	34,383	(33,868)
Balance Sheet Data (end of year): [d]					
Cash and cash equivalents and restricted cash	$305	$243	$290	$387	$553
Inventory	1,543	1,569	1,698	1,561	1,314
Total assets	2,221	2,213	2,409	2,050	1,970
Total debt	1,327	1,332	1,516	1,520	1,496
Stockholders' equity	682	643	630	279	241
Supplemental Financial Data: [d]					
Cash provided by (used in):					
Operating activities	$96	$163	$(81)	$(160)	$(175)
Investing activities	(14)	(13)	3	(18)	(14)
Financing activities	(21)	(198)	(19)	12	1
Financial Statistics: [d]					
Total debt as a percentage of total debt and stockholders' equity (end of year)	66.0 %	67.4 %	70.6 %	84.5 %	86.1 %
Net debt as a percentage of net debt and stockholders' equity (end of year) [e]	60.3 %	63.2 %	66.3 %	80.8 %	80.1 %
Adjusted EBITDA from total operations [f]	$178.8	$156.3	$144.1	$133.2	$86.3
Adjusted EBITDA margin from total operations [g]	9.3 %	8.6 %	8.9 %	9.1 %	6.7 %
Operating Statistics from continuing operations:					
New orders, net	5,464	5,297	5,358	4,748	5,026
Closings	5,525	5,419	5,010	4,951	5,056
Average selling price on closings (in thousands)	$343.1	$329.4	$313.5	$284.8	$253.0
Units in backlog (end of year)	1,855	1,916	2,038	1,690	1,893
Average selling price in backlog (end of year; in thousands)	$358.9	$340.6	$327.6	$305.3	$279.0

[a] Statements of income data is from continuing operations. Gross profit includes inventory impairments and abandonments of $2.4 million, $15.3 million, $3.1 million, $8.3 million and $2.6 million for the fiscal years ended September 30, 2017, 2016, 2015, 2014 and 2013, respectively, as well as unexpected warranty costs and additional insurance recoveries from our third-party insurer, both of which are detailed in the table below that reconciles our net income to Adjusted EBITDA (subsequently defined). The aforementioned charges related to impairments and abandonments were primarily driven by reductions in pricing taken for certain communities as a result of competitive pressures over the applicable years. Income (loss) from continuing operations for the fiscal years ended 2017, 2016, 2015, 2014 and 2013 also includes losses on extinguishment of debt of $12.6 million, $13.4 million, $0.1 million,

$19.9 million and $4.6 million, respectively.

(b) Gross margin = gross profit divided by total revenue.
(c) For fiscal 2015, amount includes $335.2 million release of a substantial portion of the valuation allowance on our deferred tax assets. See Note 13 of notes to the consolidated financial statements in this Form 10-K for a further discussion of income taxes and the valuation allowance.
(d) Discontinued operations were not segregated in the consolidated balance sheets or consolidated statements of cash flows, but are not material in the periods presented.
(e) Net Debt = debt less unrestricted cash and cash equivalents and restricted cash related to the cash secured loan, when outstanding.
(f) EBIT (earnings before interest and taxes) equals net income (loss) before (a) previously capitalized interest amortized to home construction and land sales expenses, capitalized interest impaired and interest expense not qualified for capitalization; and (b) income taxes. EBITDA (earnings before interest, taxes, depreciation and amortization) is calculated by adding non-cash charges, including depreciation and amortization for the period to EBIT. Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, debt extinguishment charges and impairments) is calculated by adding charges, including inventory impairment and abandonment charges, joint venture impairment charges and other non-recurring items for the period to EBITDA. EBITDA and Adjusted EBITDA are not Generally Accepted Accounting Principles (GAAP) financial measures. EBITDA and Adjusted EBITDA should not be considered alternatives to net income determined in accordance with GAAP as an indicator of operating performance. Because some analysts and companies may not calculate EBITDA and Adjusted EBITDA in the same manner as Beazer Homes, the EBITDA and Adjusted EBITDA information presented above may not be comparable to similar presentations by others.
(g) Adjusted EBITDA margin = Adjusted EBITDA divided by total revenue.

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 determined in accordance with GAAP as an indicator of operating performance.

The reconciliation of Adjusted EBITDA to total company net income (loss) below differs from the prior year, as it provides a more simplified presentation of EBIT, EBITDA and Adjusted EBITDA that excludes certain non-recurring amounts recorded during the periods presented. Management believes that this presentation best reflects the operating characteristics of the Company.

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

	Fiscal Year Ended September 30,				
(In thousands)	2017	2016	2015	2014	2013
Net income (loss)	$31,813	$4,693	$344,094	$34,383	$(33,868)
Expense (benefit) from income taxes	2,621	16,224	(325,927)	(41,802)	(3,684)
Interest amortized to home construction and land sales expenses and capitalized interest impaired	88,820	79,322	56,164	41,065	41,246
Interest expense not qualified for capitalization	15,636	25,388	29,822	50,784	59,458
EBIT	138,890	125,627	104,153	84,430	63,152
Depreciation and amortization and stock-based compensation amortization	22,173	21,752	19,473	15,866	15,642
EBITDA	161,063	147,379	123,626	100,296	78,794
Loss on extinguishment of debt	12,630	13,423	80	19,917	4,636
Inventory impairments and abandonments [a]	2,389	14,572	3,109	8,062	2,650
Joint venture impairment and abandonment charges	—	—	—	—	181
Unexpected warranty costs related to Florida stucco issues (net of expected insurance recoveries)	—	(3,612)	13,582	4,290	—
Unexpected warranty costs related to water intrusion issues in New Jersey (net of expected insurance recoveries)	—	—	—	648	—
Additional insurance recoveries from third-party insurer	—	(15,500)	—	—	—
Litigation settlement in discontinued operations	—	—	3,660	—	—
Write-off of deposit on legacy land investment	2,700	—	—	—	—
Adjusted EBITDA	$178,782	$156,262	$144,057	$133,213	$86,261

[a] In periods during which we impaired certain of our inventory assets, capitalized interest that is impaired is included in the lines above titled “Interest amortized to home construction and land sales expenses and capitalized interest impaired" and "Interest expense not qualified for capitalization.”

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

Executive Overview and Outlook

Market Conditions

In any period, the demand for new homes is dependent on a variety of demographic and economic factors, including household formation, job and wage growth, the availability and cost of mortgage financing, the supply of new and existing homes, home price affordability and, importantly, consumer confidence. These factors all fluctuate over time at both a national and a more localized market level. Several of these factors are contributing to stable and modestly improving conditions for new home sales, but there are also risks and challenges that could adversely impact our business in fiscal 2018 and beyond. On the positive side are rising levels of household formation, a constrained supply of new and used homes, rising wages, strong employment conditions and mortgage rates that continue to be low by historical standards. Challenges include early signs of home price affordability constraints (largely driven by the historically low levels of homes available for sale and still constrained level of new home construction) and unusual levels of political, regulatory and legislative uncertainty at the federal, state and local levels regarding housing, mortgage and tax policies, as well as volatility in domestic and international financial markets. Overall, we continue to believe that we are well positioned in key markets, and that the underlying fundamentals that drive home purchases are supportive.

Overview of Results for Our Fiscal 2017

Fiscal 2017 represented continued progress toward achieving our “2B-10” goals and the execution of our balanced growth strategy. Specifically, Adjusted EBITDA has grown at a 20% compound annual growth rate for the past five years (refer to Item 6, Selected Financial Data, in this Form 10-K for a reconciliation of Adjusted EBITDA). Additionally, we successfully improved our balance sheet by extending debt maturities, reducing our cash interest expense and activating multiple land parcels previously classified as land held for future development.

Profitability

For the fiscal year ended September 30, 2017, we recorded net income from continuing operations of $32.0 million, an increase of $26.7 million from the prior fiscal year’s net income from continuing operations of $5.2 million. However, there were multiple items that impacted the comparability of our net income from continuing operations between periods:

- We recorded $2.4 million in impairment and abandonment charges in fiscal 2017, a decrease of $12.8 million from the prior year;
- Our income tax expense from continuing operations was $2.7 million and $16.5 million for our fiscal 2017 and fiscal 2016, respectively. The $13.8 million decline in tax expense primarily related to (1) $7.5 million in tax benefits for federal tax credits related to energy efficient homebuilding and (2) a $3.5 million reduction in the valuation allowance against our deferred tax assets as a result of changes in our estimate of state net operating loss utilization. In fiscal 2016, we recorded a tax expense of $8.6 million for additional valuation allowance on our state deferred tax assets that we concluded were no longer realizable due to our tax restructuring efforts.

Looking at our underlying operating results, year-over-year closings increased by 2.0%, from 5,419 in the prior fiscal year to 5,525 in the current fiscal year, and our average selling price (ASP) increased over the prior fiscal year by 4.2% to $343.1 thousand. These combined to increase our homebuilding revenue by 6.2%, from $1.78 billion in the prior fiscal year to $1.90 billion in the current fiscal year. Furthermore, homebuilding gross margin, excluding impairments, abandonments, interest and the impacts of the Florida stucco issues and insurance settlement noted above, increased to 21.2% in the current fiscal year from 20.6% in the prior fiscal year due to the impact of several factors addressed within our “Results of Continuing Operations” discussion below. Commission expense grew on a dollar basis due to our higher closings volume, but remained consistent as a percentage of homebuilding revenue when compared to the prior fiscal year. Finally, our G&A, as a percentage of total revenue, was flat versus the prior year.

The dollar value of our homes in backlog rose 2.0% versus the prior year to $665.8 million, driven by a 5.4% increase in our ASP of homes in backlog. On a unit basis, we ended the current fiscal year with 1,855 homes in backlog, a decline of 3.2% versus the prior year, primarily due to shorter cycle times in fiscal 2017, disruptions related to Hurricanes Harvey and Irma in Houston and certain markets in our Southeast segment and lower community counts as compared to fiscal 2016.

Debt Reduction and Capital Efficiency

In addition to the profitability we achieved during our fiscal 2017, we also reduced our outstanding debt by $3.0 million as follows:

- We redeemed our secured term loan, which had a balance of $55.0 million as of the beginning of the current fiscal year; and our $198.0 million Senior Notes due September 2021; and
- We issued and sold $250.0 million of Senior Notes due March 2025, which are unsecured and have an interest rate of 6.75%.

Over the past two fiscal years, we reduced our debt balance by nearly $160.0 million. Subsequent to the end of Fiscal 2017, we successfully extended our maturities and decreased future interest expense through the issuance of $400.0 million in unsecured Senior Notes due 2027. The Senior Notes were issued to refinance $225.0 million of our Senior Notes due 2019 and $175.0 million of our Senior Notes due 2023. The remaining $96.4 million of the Senior Notes due 2019 will be redeemed by March 2019, as the fulfillment of the final $100.0 million of our debt reduction plan. See Note 8 of the notes to our consolidated financial statements in this Form 10-K for further discussion of our outstanding borrowings.

We have employed a number of strategies to improve capital efficiency, including greater use of option contracts and land banking, shorter duration land parcels and activation of previously land held for future development communities. During the current fiscal year, our land held for future development balance has declined by approximately $100 million as we have activated multiple parcels for homebuilding activities.

Reaching “2B-10”

In November 2013, we introduced a multi-year “2B-10” plan, which provided a roadmap of revenue and margin metrics to achieve $2 billion in revenue with a 10% Adjusted EBITDA margin. Taken together, reaching “2B-10” would result in Adjusted EBITDA of at least $200 million. From time to time we have updated our estimates of the specific metrics we expect will lead us to our “2B-10” objectives. From the time of the plan's introduction, we have consistently noted that there are many paths to achieving our underlying goal of $200 million of Adjusted EBITDA, and we continually revisit our established ranges for each metric. We remain committed to reaching the “2B-10” objectives as soon as possible, and expect to reach them by making further improvements to each of the five key metrics embedded in the plan: (1) sales per community per month (our absorption rate); (2) ASP; (3) active community count; (4) homebuilding gross margin; and (5) cost leverage as measured by selling, general and administrative expenses (SG&A) as a percentage of total revenue.

Since introducing our “2B-10” plan, we have made significant progress toward achieving our goals, having more than doubled our revenue and our Adjusted EBITDA. In fiscal 2017, we made further improvements across most of our targeted metrics, as discussed below. In turn, we generated revenue of $1.9 billion, up 5.2% year-over-year, and $178.8 million in Adjusted EBITDA, a 14.4% increase compared to the prior fiscal year (refer to Item 6, Selected Financial Data, in this Form 10-K for a reconciliation of Adjusted EBITDA). These improvements were due to the intense focus we have placed on the operational drivers of this plan, and in part, to stronger home pricing conditions. Our progress on each metric is discussed in detail below:

- Sales per community per month was 2.9 and 2.7 for the fiscal years ended September 30, 2017 and 2016, respectively. We successfully increased our sales absorptions, on a year over year basis, in each quarter this fiscal year allowing us to attain sales absorptions for the current year within our targeted range of 2.8 to 3.2 sales per community per month as established in our “2B-10” plan. This emphasis on sales absorptions allowed us to expand the dollar value of our backlog despite higher year-over-year closings and a smaller community count. We continue to believe that we are among the industry leaders in sales absorption rates, and are focused on driving further increase in our sales pace moving forward.
- We ended the year with an active community count of 155, which was 3.7% lower than the prior year. This reduction in community count was anticipated, as we placed additional emphasis during fiscal 2016 on reducing our outstanding debt balance. However, we expect that our increased spending on land and land development activities in fiscal 2017 will lead to growth in community count in future periods. We consistently evaluate strategic opportunities to purchase land within our geographic footprint, with an emphasis on improving the efficiency of our capital, which will allow us to grow while reducing our leverage. Our “2B-10” target metric is an active community count range between 170 and 175.

Our ASP for homes closed during the fiscal year ended September 30, 2017 was $343.1 thousand, up 4.2% compared to the prior year. The year-over-year improvement in our ASP on closings was primarily a function of geographic mix and product shift, though we also benefited from pricing power in some markets. In addition, we ended fiscal 2017 with an ASP of $358.9 thousand for our units in backlog, indicating that price growth should persist in the near future. Our targeted “2B-10” metric for ASP is a range of $340.0 thousand to $350.0 thousand.

- Homebuilding gross margin excluding impairments and abandonments and interest for the fiscal year ended September 30, 2017 was 21.2%, up by 40 basis points from the prior year (also adjusted for the unexpected warranty costs, net of recoveries and the additional insurance recoveries with our third party insurer in fiscal 2016). The current year adjusted gross margin is within the “2B-10” target for our homebuilding margin of between 21.0% and 22.0% (excluding impairments and abandonments and interest amortized to homebuilding cost of sales). Our homebuilding gross margin has been favorably impacted this year by a number of factors, including our efforts to reduce construction costs, improve cycle time, raise home prices where possible and, to a lesser extent, some non-recurring benefits. Working against these efforts have been increases in land costs, driven by the location and structure of our land deals, cost pressures in certain labor and material categories and community mix (including an increasing number of closings from recently activated assets formerly classified as land held for future development, which generally have lower margins).
- SG&A for the fiscal year ended September 30, 2017 was 12.4% of total revenue, compared with 12.3% a year earlier. Our reported SG&A for the current year included a $2.7 million charge to write off a deposit on a legacy investment in a development site that we deemed non-collectible. Excluding this charge, our SG&A as a percentage of total revenue would have been 12.2%. Although this metric remains above our “2B-10” target of 11.0% to 12.0%, we expect further improvement as we continue to grow our revenue more quickly than our overhead.

We expect to continue our focus on our “2B-10” metrics during fiscal 2018, with particular emphasis on driving sales absorptions and improving our SG&A leverage.

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. The following tables present certain quarterly operating data for the periods presented:

New Orders (Net of Cancellations)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2017	1,005	1,549	1,595	1,315	5,464
2016	923	1,538	1,490	1,346	5,297
2015	966	1,698	1,524	1,170	5,358

Closings

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2017	995	1,239	1,387	1,904	5,525
2016	1,049	1,150	1,364	1,856	5,419
2015	885	936	1,293	1,896	5,010

RESULTS OF CONTINUING OPERATIONS

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

	Fiscal Year Ended September 30,		
($ in thousands)	2017	2016	2015
Revenues:			
Homebuilding	$1,895,855	$1,784,777	$1,570,627
Land sales and other	20,423	37,337	56,786
Total	$1,916,278	$1,822,114	$1,627,413
Gross profit:			
Homebuilding	$312,201	$293,860	$267,269
Land sales and other	663	3,347	5,175
Total	$312,864	$297,207	$272,444
Gross margin:			
Homebuilding [a]	16.5 %	16.5 %	17.0 %
Land sales and other	3.2 %	9.0 %	9.1 %
Total	16.3 %	16.3 %	16.7 %
Commissions	$74,811	$70,460	$65,023
G&A [b]	$161,906	$153,628	$142,496
SG&A (commissions plus G&A) as a percentage of total revenue	12.4 %	12.3 %	12.8 %
G&A as a percentage of total revenue	8.4 %	8.4 %	8.8 %
Depreciation and amortization	$14,009	$13,794	$13,338
Operating income	$62,138	$59,325	$51,587
Operating income as a percentage of total revenue	3.2 %	3.3 %	3.2 %
Effective tax rate [c]	7.8 %	76.0 %	(1,473.3)%
Equity in income of unconsolidated entities	$371	$131	$536
Loss on extinguishment of debt	12,630	13,423	80

[a] In addition to other items, our homebuilding gross margin for the periods presented was impacted by (1) a $15.5 million reduction in home construction expenses in our fiscal 2016 resulting from a settlement with our third-party insurer to resolve certain issues related to the extent of our insurance coverage for multiple policy years and (2) unexpected warranty costs related to the Florida stucco issues, as well as the associated insurance recoveries. Refer to further discussion of these items below in section titled "Homebuilding Gross Profit and Gross Margin."

[b] In addition to other items impacting G&A, in the current fiscal year, this metric was impacted by a $2.7 million charge to write off a deposit on a legacy investment in a development site that we deemed noncollectible.

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

Homebuilding Operations Data

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

	New Orders, net					Cancellation Rates		
	2017	2016	2015	17 v 16	16 v 15	2017	2016	2015
West	2,578	2,381	2,352	8.3 %	1.2 %	18.1%	21.9%	19.7%
East	1,351	1,330	1,433	1.6 %	(7.2)%	18.1%	20.1%	22.8%
Southeast	1,535	1,586	1,573	(3.2)%	0.8 %	19.4%	18.2%	18.1%
Total	5,464	5,297	5,358	3.2 %	(1.1)%	18.5%	20.4%	20.1%

Sales per active community per month was 2.9 and 2.7 for the fiscal year ended September 30, 2017 and 2016, respectively, an increase of 10.5%, driven by our continued emphasis on sales absorptions. Our ability to drive sales pace also reflected the robust

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demand we witnessed throughout the spring and summer selling seasons in the majority of our markets, as well as our community mix and the maturation of certain communities versus the prior year. Our average active communities declined from 166 during our fiscal 2016 to 155 during our fiscal 2017, partially offsetting our stronger absorptions and ultimately resulting in a 3.2% increase in new orders, net for the fiscal year. For the fiscal year ended September 30, 2017, the 8.3% increase in new orders, net in our West segment was due to stronger sales in our Las Vegas, Phoenix and Southern California markets, where we activated several new communities during the prior fiscal year, offset by a decline in new orders, net in our Houston market, due to severe weather-related conditions, as well as a lower community count in response to local economic conditions in prior periods. The 1.6% increase in new orders, net in our East segment during our fiscal 2017 was mainly driven by improved sales absorptions in our Virginia market. Finally, the year-over-year decline in new orders, net in our Southeast segment was primarily driven by our Florida markets due to a lower community count in both our Orlando and Tampa divisions and, to a lesser extent, impacts from severe weather during the fourth quarter.

Sales per active community per month of 2.7 for the fiscal year ended September 30, 2016 was slightly below the same metric for the fiscal year ended September 30, 2015, when we had 2.8 sales per active community per month. Therefore, despite the increase in our average active community count from 161 during our fiscal 2015 to 166 during our fiscal 2016, our decline in sales pace resulted in a reduction of new orders, net of 1.1%. For the fiscal year ended September 30, 2016, the 1.2% increase in new orders, net in our West segment was due to stronger sales in our Las Vegas market and our Sacramento operations, where we activated several new communities during the prior fiscal year, offset by a decline in new orders, net in our Texas market, due to a particularly strong prior year sales performance, and our Southern California market. The 7.2% decline in new orders, net in our East segment during our fiscal 2016 was caused by declines in our Indianapolis market, where we were working to build our community count back up, and, to a lesser extent, by our New Jersey operations, where we elected not to continue to reinvest in new homebuilding assets in our fiscal 2015. Finally, the year-over-year increase in new orders, net in our Southeast segment was primarily driven by strong order activity from our Atlanta division, due to continued investment in new communities in this market, partially offset by our Charleston division, as we transitioned into several new communities.

The table below summarizes backlog units by reportable segment, as well as aggregate dollar value of homes in backlog and ASP in backlog as of September 30, 2017, 2016 and 2015:

	As of September 30,				
	2017	2016	2015	17 v 16	16 v 15
Backlog Units:					
West	879	828	955	6.2 %	(13.3)%
East	413	444	487	(7.0)%	(8.8)%
Southeast	563	644	596	(12.6)%	8.1 %
Total	1,855	1,916	2,038	(3.2)%	(6.0)%
Aggregate dollar value of homes in backlog (in millions)	$665.8	$652.7	$667.7	2.0 %	(2.2)%
ASP in backlog (in thousands)	$358.9	$340.6	$327.6	5.4 %	4.0 %

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 3.2% year-over-year decline in backlog is primarily due to shorter cycle times in fiscal 2017, disruptions related to Hurricanes Harvey and Irma in Houston and certain markets in our Southeast segment and lower community counts as compared to fiscal 2016. The dollar value of homes in backlog increased by 2.0% this fiscal year, as the change in geographic mix and strength in pricing more than offset the decline in units. Backlog as of September 30, 2016 was lower than the prior year, driven by the year-over-year decline in new orders, net, discussed above, as well as a lower community count as of the end of the year.

Homebuilding Revenue, Average Selling Price and Closings

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

	Homebuilding Revenue					Average Selling Price				
(In thousands)	2017	2016	2015	17 v 16	16 v 15	2017	2016	2015	17 v 16	16 v 15
West	$851,472	$817,971	$584,202	4.1 %	40.0 %	$336.9	$326.1	$299.0	3.3%	9.1%
East	533,585	505,198	549,484	5.6 %	(8.1)%	386.1	368.0	355.4	4.9%	3.5%
Southeast	510,798	461,608	436,941	10.7%	5.6 %	316.1	300.1	289.4	5.3%	3.7%
Total	$1,895,855	$1,784,777	$1,570,627	6.2 %	13.6 %	$343.1	$329.4	$313.5	4.2%	5.1%

	Closings				
	2017	2016	2015	17 v 16	16 v 15
West	2,527	2,508	1,954	0.8%	28.4 %
East	1,382	1,373	1,546	0.7%	(11.2)%
Southeast	1,616	1,538	1,510	5.1%	1.9 %
Total	5,525	5,419	5,010	2.0%	8.2 %

The increase in ASP across all segments for the year ended September 30, 2017 was impacted by a change in mix of closings between geographies and products within each individual market as compared with the prior fiscal year. It was also positively impacted by our operational strategies, as well as improved market conditions in certain geographies. These same dynamics enhanced our ability to generate a higher ASP during our fiscal 2016 when compared with our fiscal 2015; in particular a higher proportion of closings generated from certain markets with high ASPs, including California. On average, we anticipate that our ASP will likely continue to increase, as indicated by our ASP for homes in backlog as of September 30, 2017.

Closings for our fiscal year ended September 30, 2017 in our West segment increased in all markets except for Texas, where our community count declined year-over-year and, to a lesser extent, due to the weather-related conditions in Houston, which resulted in home construction delays in our fiscal fourth quarter. Our Sacramento division continued to gain momentum after being re-activated, as well as our Las Vegas division, where certain communities continued to mature. In our East segment, we experienced increases in closings in our Indianapolis and Nashville divisions, offset by our Maryland division, where our community count has declined slightly and less emphasis was placed in the current year on building and closing spec homes than in the prior year. In our Southeast segment, the increase in closings was primarily driven by our Atlanta, Charleston and Myrtle Beach divisions, partially offset by our Orlando division.

The year-over-year increase in closings and higher ASP drove our increase in homebuilding revenues for fiscal 2017 as compared to both our fiscal 2016 and our fiscal 2015.

Homebuilding Gross Profit and Gross Margin

The following tables present our homebuilding (HB) gross profit and gross margin by reportable segment and in total, as well as such amounts excluding inventory impairments and abandonments and interest amortized to cost of sales (COS) for the periods presented. 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). Additionally, for fiscal 2016 and 2015 we have shown the impact of unexpected warranty costs related to the Florida stucco issues, net of insurance recoveries and the additional insurance recoveries from a third-party insurer, which we consider to be non-recurring items, on our gross profit and gross margin.

($ in thousands)	Fiscal Year Ended September 30, 2017							
	HB Gross Profit (Loss)	HB Gross Margin	Impairments & Abandonments (I&A)	HB Gross Profit (Loss) w/o I&A [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	$186,629	21.9 %	$ 1,625	$188,254	22.1 %	$ —	$188,254	22.1 %
East	109,289	20.5 %	188	109,477	20.5 %	—	109,477	20.5 %
Southeast	103,193	20.2 %	—	103,193	20.2 %	—	103,193	20.2 %
Corporate & unallocated	(86,910)		68	(86,842)		88,764	1,922	
Total homebuilding	$312,201	16.5 %	$ 1,881	$314,082	16.6 %	$ 88,764	$402,846	21.2 %

($ in thousands)	Fiscal Year Ended September 30, 2016							
	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	$169,603	20.7 %	$ 6,729	$176,332	21.6 %	$ —	$176,332	21.6 %
East	89,572	17.7 %	5,894	95,466	18.9 %	—	95,466	18.9 %
Southeast	92,573	20.1 %	788	93,361	20.2 %	—	93,361	20.2 %
Corporate & unallocated	(57,888)		1,101	(56,787)		77,941	21,154	
Total homebuilding	$293,860	16.5 %	$ 14,512	$308,372	17.3 %	$ 77,941	$386,313	21.6 %
Unexpected warranty costs related to Florida stucco issues (net of expected insurance recoveries)	(3,612)						(3,612)	
Additional insurance recoveries from third-party insurer	(15,500)						(15,500)	
Adjusted homebuilding	$274,748	15.4 %					$367,201	20.6 %

($ in thousands)	Fiscal Year Ended September 30, 2015							
	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	$121,264	20.8 %	$ —	$121,264	20.8 %	$ —	$121,264	20.8 %
East	104,451	19.0 %	1,676	106,127	19.3 %	—	106,127	19.3 %
Southeast	79,062	18.1 %	—	79,062	18.1 %	—	79,062	18.1 %
Corporate & unallocated	(37,508)		—	(37,508)		55,006	17,498	
Total homebuilding	$267,269	17.0 %	$ 1,676	$268,945	17.1 %	$ 55,006	$323,951	20.6 %
Unexpected warranty costs related to Florida stucco issues	13,582						13,582	
Adjusted homebuilding	$280,851	17.9 %					$337,533	21.5 %

[a] w/o - without

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Our overall homebuilding gross profit increased to $312.2 million for the fiscal year ended September 30, 2017, from $293.9 million in the prior year. The increase was due to additional gross profit generated on the $111.1 million increase in homebuilding revenues (driven by higher year-over-year closings and ASP, as previously discussed), while our gross margin remained flat year-over-year. The comparability of our gross profit and gross margin, as shown in the tables above, was impacted by three significant items as follows: (1) impairments and abandonments, which decreased from $14.5 million in fiscal 2016 to $1.9 million in fiscal 2017 (refer to Note 5 of the notes to our consolidated financial statements in this Form 10-K); (2) interest amortized to homebuilding cost of sales, which increased from $77.9 million in fiscal 2016 to $88.8 million in fiscal 2017 (refer to Note 6 of the notes to our consolidated financial statements in this Form 10-K); and (3) our fiscal 2016 gross profit and gross margin included a $3.6 million impact related to the Florida stucco issues, net of anticipated insurance recoveries, and a $15.5 million settlement with our third-party insurer. When factoring in the impact of impairments and abandonments, interest and non-recurring items, our gross margin increased by 60 basis points, from 20.6% in fiscal 2016 to 21.2% in fiscal 2017. This increase was due to a variety of factors, including: (1) mix of closings between geographies/markets, individual communities within each market and product type; (2) our pricing strategies, including the resulting higher margin on speculative homes closed during the current fiscal year; (3) increased focus on managing our house costs and improving cycle times; and (4) favorable discrete items in the current year period, such as lower warranty costs, higher rebates and land reimbursable amounts in certain markets, all offset somewhat by continued pressures related to materials pricing and the availability of labor. Going forward, our gross margin will continue to be impacted by several headwinds, including materials and labor pricing in severe weather affected markets and by the impact of increased closings related to assets formerly classified as land held for future development and land assets purchased as finished lots from land bankers and/or land developers, which generally have lower margins.

Our overall homebuilding gross profit increased to $293.9 million for the fiscal year ended September 30, 2016, from $267.3 million in the prior year. The increase was due to additional gross profit on a $214.2 million increase in homebuilding revenues (driven by higher year-over-year closings and ASP, as previously discussed). However, the gross profit realized on additional revenue was partially offset by a decline in our gross margin from 17.0% in fiscal 2015 to 16.5% in fiscal 2016. As shown in the tables above, gross margin in 2015 and 2016 was impacted by several items, including (1) impairments and abandonments, which increased from $1.7 million in fiscal 2015 to $14.5 million in fiscal 2016; (2) interest amortized to homebuilding cost of sales, which increased from $55.0 million in fiscal 2015 to $77.9 million in fiscal 2016; and (3) the impact of the Florida stucco issues, net of anticipated insurance recoveries, and a settlement with our third-party insurer to resolve certain issues related to the extent of our insurance coverage for multiple policy years. When factoring in the impact of impairments and abandonments, interest and non-recurring items, our gross margin declined by 90 basis points, from 21.5% in fiscal 2015 to 20.6% in fiscal 2016. This decline is due to a variety of factors, including (1) lower margins on speculative homes closed during the current year, particularly in the first two quarters, due to our focus on returning capital to the Company; (2) geographic mix of closings; (3) the structure of our land purchase transactions, since finished lot purchases tend to result in lower gross margins; (4) activation of assets formerly classified as land held for future development, which generally have lower margins; and (5) higher labor costs.

Total homebuilding gross profit and gross margin excluding inventory impairments and abandonments, interest amortized to cost of sales and other non-recurring items that we disclose 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 for 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 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 fiscal 2017, our homebuilding gross margin was 16.5% and excluding interest and inventory impairments and abandonments, it was 21.2%. For the same period, homebuilding gross margin was as follows in those communities that have previously been impaired, which represented 8.8% of total closings during fiscal 2017:

Homebuilding Gross Margin from previously impaired communities:	
Pre-impairment turn gross margin	(5.1)%
Impact of interest amortized to COS related to these communities	5.0 %
Pre-impairment turn gross margin, excluding interest amortization	(0.1)%
Impact of impairment turns	17.5 %
Gross margin (post impairment turns), excluding interest amortization	17.4 %

For a further discussion of our impairment policies and communities impaired during the current and prior two fiscal years, refer to Notes 2 and 5 of the notes to consolidated financial statements in this Form 10-K.

Land Sales and Other Revenues and Gross Profit

Land sales relate to land and lots sold that did not fit within our homebuilding programs and strategic plans in certain markets. Other revenues included net fees we received for general contractor services we performed on behalf of a third party and broker fees. The following tables summarize our land sales and other revenues and related gross profit (loss) by reportable segment for the periods presented:

(In thousands)	Land Sales and Other Revenues				
	2017	2016	2015	17 v 16	16 v 15
West	$1,758	$9,936	$23,313	(82.3)%	(57.4)%
East	17,837	21,751	27,076	(18.0)%	(19.7)%
Southeast	828	5,650	6,397	(85.3)%	(11.7)%
Total	$20,423	$37,337	$56,786	(45.3)%	(34.2)%

(In thousands)	Land Sales and Other Gross Profit (Loss)				
	2017	2016	2015	17 v 16	16 v 15
West	$732	$2,921	$5,399	(74.9)%	(45.9)%
East	(119)	678	732	(117.6)%	(7.4)%
Southeast	50	598	847	(91.6)%	(29.4)%
Corporate and unallocated [a]	—	(850)	(1,803)	n/m	n/m
Total	$663	$3,347	$5,175	(80.2)%	(35.3)%

[a] Corporate and unallocated includes interest and indirects related to land sold that was costed off.

n/m - indicates the percentage is “not meaningful.”

Although not as significant as in the prior fiscal years, to further support our efforts to reduce our leverage, we continued to focus on closing on a number of land sales in the current fiscal year 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 (loss) by reportable segment for the periods presented:

	Fiscal Year Ended September 30,				
(In thousands)	2017	2016	2015	17 v 16	16 v 15
West	$110,600	$99,835	$67,236	$10,765	$32,599
East [(a)]	58,191	42,205	52,516	15,986	(10,311)
Southeast [(b)]	53,905	49,250	37,114	4,655	12,136
Corporate and Unallocated [(c)]	(160,558)	(131,965)	(105,279)	(28,593)	(26,686)
Operating income [(d)]	$62,138	$59,325	$51,587	$2,813	$7,738

[(a)] Operating income for our East segment for the year ended September 30, 2017 was impacted by a charge to G&A of $2.7 million related to the write-off of a deposit on a legacy investment in a development site that we deemed noncollectible.

[(b)] Operating income for our Southeast segment for the year ended September 30, 2016 was impacted by a credit to cost of sales of $3.6 million and expense of $13.6 million in fiscal 2015, for unexpected warranty costs related to the Florida stucco issues, net of expected insurance recoveries.

[(c)] Corporate and unallocated operating loss includes: amortization of capitalized interest and capitalized indirects; 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. Corporate and unallocated for the year ended September 30, 2016 also included the impact of a $15.5 million reduction in home construction expenses resulting from an agreement entered into in fiscal 2016 with our third-party insurer to resolve certain issues related to the extent of our insurance coverage for multiple policy years.

[(d)] Operating income is impacted by impairment and abandonment charges incurred during the periods presented (see Note 5 of the notes to our consolidated financial statements in this Form 10-K).

Our operating income increased by $2.8 million to $62.1 million for the fiscal year ended September 30, 2017, compared to $59.3 million for fiscal 2016. As discussed above, our homebuilding gross profit during the current fiscal year improved by $18.3 million or 6.2%. The additional homebuilding gross profit was also impacted by (1) lower land sales and other gross profit (a year-over-year decline of $2.7 million); (2) commissions expense that was higher due to increased business volume (both closings and ASP), but remained flat as a percentage of homebuilding revenue; and (3) higher year-over-year G&A expense due to growth in our business, but remained consistent as a percentage of total revenue. As a percentage of revenue, our operating income was 3.2% for fiscal 2017 compared to 3.3% for fiscal 2016.

Our operating income increased by $7.7 million to $59.3 million for the fiscal year ended September 30, 2016 compared to $51.6 million for fiscal 2015. As discussed above, our homebuilding gross profit during the current fiscal year improved by $26.6 million. However, the additional homebuilding gross profit was partially offset by (1) lower land sales and other gross profit (a year-over-year decline of $1.8 million); (2) commissions expense that was higher due to increased business volume (both closings and ASP), but declined as a percentage of homebuilding revenue (to 3.9% from 4.1% in the prior fiscal year); and (3) higher year-over-year G&A expense due to growth in our business, but declined as a percentage of total revenue (to 8.4% from 8.8% in the prior fiscal year). As a percentage of revenue, our operating income was 3.3% for fiscal 2016 compared to 3.2% for fiscal 2015.

Below operating income, we had two noteworthy year-over-year fluctuations between our fiscal 2017 and fiscal 2016 as follows: (1) we had a decline in our other expense, net, mainly driven by an increase in our qualified inventory balance during the year, which enabled us to capitalize a larger portion of our interest costs, as well as a reduction in our total interest incurred on a lower outstanding debt balance and improved interest rates; and (2) we recorded a significantly lower income tax expense in the current year compared to last year (a year-over-year decline of $13.8 million). See the income taxes section below for more detail.

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 that was recorded against substantially all of our deferred tax assets, but was partially released in the fourth quarter of our fiscal 2015. 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 expense/benefit was not directly correlated to the amount of pretax income or loss for the associated periods. Beginning in our fiscal 2016, the Company began using an annualized effective tax rate in interim periods to determine its tax expense/benefit, which should more closely correlate with our pretax income or loss in periods, but will continue to be impacted by discrete tax items.

The tax expense we recorded during our fiscal year ended September 30, 2017 resulted from our income from operations, offset by the generation of federal tax credits and an additional benefit resulting from changes in our valuation allowance. Our valuation allowance on our state net operating losses was reduced due to an increase in our estimate of utilization related to changes in our uncertain tax positions.

During our fiscal 2016, we contemplated various tax planning strategies based on our operations profile. This planning resulted in a restructuring effort immediately following the close of our fiscal 2016, where we executed certain tax elections and a number of changes to the legal forms of our operating entities, which significantly reduced our income profile in certain state jurisdictions going forward. The restructuring reduced our effective tax rate in fiscal 2017 to an amount that is in-line with our peers through a significant reduction in our state effective tax rate. In addition, the restructure provides cash tax savings in various jurisdictions where we no longer have significant state loss carryforwards available. In conjunction with the restructure, we also evaluated our ability to realize certain state components of our deferred tax asset. As a result, as of September 30, 2016, we no longer anticipated that we would be able to realize portions of the deferred tax assets for these jurisdictions, which caused us to put a valuation allowance on these assets in our fiscal 2016.

The tax benefit recognized during the fiscal year ended September 30, 2015 was related to the release of a substantial portion of the valuation allowance on our deferred tax assets that we established beginning in fiscal 2008.

Refer to Note 13 of the notes to consolidated financial statements in this Form 10-K for a further discussion of our income taxes and valuation allowance changes, including the release of a substantial portion of our valuation allowance during fiscal 2015.

Fiscal year ended September 30, 2017 as compared to 2016

West Segment: Homebuilding revenue increased 4.1% for the fiscal year ended September 30, 2017 compared to our prior fiscal year, primarily due to a 3.3% year-over-year increase in ASP. In addition, closings increased by 0.8% versus the prior year in this segment, led by gains in our Las Vegas and Sacramento markets, where closings grew more than 50%, partially offset by our Houston market, due to a lower community count and weather-related conditions in our fiscal fourth quarter. Our homebuilding gross profit increased by $17.0 million, compared to the prior fiscal year, mainly due to an increase in homebuilding gross margin from 20.7% to 21.9% and the previously mentioned increase in homebuilding revenue. Excluding the impairment recorded during the current fiscal year on one community in our West segment, homebuilding gross margin would have increased from 21.6% in the prior fiscal year to 22.1%. Operating income rose $10.8 million, driven by the aforementioned increase in homebuilding gross profit, partially offset by a decrease in land sales and a $2.2 million decrease in other gross profit year-over-year.

East Segment: Homebuilding revenue increased 5.6% for the fiscal year ended September 30, 2017 compared to our prior fiscal year, primarily due to a 4.9% increase in ASP. In addition, closings increased 0.7%, mainly driven by our Indianapolis market, where we continue to build our community count, offset by our Maryland market, where community count has declined slightly and less emphasis was placed in the current year on building and closing spec homes than in the prior year. As compared to the prior fiscal year, our homebuilding gross profit increased by $19.7 million, related to a higher homebuilding gross margin, which climbed from 17.7% in the prior fiscal year to 20.5% in our fiscal 2017, as well as the aforementioned increase in homebuilding revenue. Excluding the impairment and abandonment charges recorded, homebuilding gross margin would have increased from 18.9% in fiscal 2016 to 20.5% in fiscal 2017. This increase in gross margin is attributable to the shift of closings between markets, as well as margin improvement in the majority of the divisions in this segment, particularly Indianapolis and Nashville, due to our pricing strategies resulting from favorable market conditions and community mix. The $16.0 million increase in operating income resulted from the increase in gross profit, as previously discussed, offset by a year-over-year increase in G&A costs, driven by a charge of $2.7 million related to the write-off of a deposit on a legacy investment in a development site that we deemed noncollectible during the current fiscal year.

Southeast Segment: Homebuilding revenue increased 10.7% for the fiscal year ended September 30, 2017 compared to the prior fiscal year, driven by a 5.1% increase in closings (which increased in all divisions except for Orlando) combined with a 5.3% increase in ASP. Our homebuilding gross profit in the Southeast segment increased by $10.6

million, due to the aforementioned increase in homebuilding revenue. Our gross margin slightly increased from 20.1% to 20.2%; however, our year-over-year comparison of gross profit and gross margin is impacted by the Florida stucco issues (see Note 9 of the notes to our consolidated financial statements included in this Form 10-K) and, to a lesser extent, the higher charges in impairments and abandonments recorded during the prior year. Once adjusting for these items, gross profit for the Southeast segment increased by $13.4 million, and gross margin improved from 19.4% to 20.2%, as we saw underlying gross margin improvement in most of our markets in the Southeast segment. The year-over-year increase in operating income of $4.7 million was driven by higher gross profit discussed above, offset by higher commissions on additional homebuilding revenue and higher G&A costs due to our business growth in this region.

Corporate and Unallocated: Our Corporate and unallocated results include amortization of capitalized interest and capitalized indirects; 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 fiscal year ended September 30, 2017, our Corporate and unallocated net costs increased by $28.6 million over the prior fiscal year primarily due to (1) a year-over-year increase in interest amortized to cost of sales of $10.8 million (see Note 6 of the notes to our consolidated financial statements included in this Form 10-K); (2) an increase in indirect costs expensed to cost of sales year-over-year due to growth in our business; (3) higher corporate costs incurred due to business growth, including costs associated with the opportunity to increase the scope of our Gatherings projects for active adults, and business improvement; offset by (4) the impact of a $15.5 million reduction in cost of sales in the prior year period resulting from an agreement entered into with our third-party insurer to resolve certain issues related to the extent of our insurance coverage for multiple policy years; and (5) the recording of $4.8 million in expense related to the DPA in the prior year period, an accrual for which was not needed in the current year due to the expiration of the DPA as of the end of our fiscal 2016 (see Note 8 of the notes to our consolidated financial statements included in this Form 10-K).

Fiscal year ended September 30, 2016 as compared to 2015

West Segment: Homebuilding revenue increased 40.0% for the fiscal year ended September 30, 2016 compared to the prior fiscal year, primarily due to a sharp 28.4% increase in closings (particularly in our Texas markets where closings were pushed out of last fiscal year due to the weather conditions in that region, and our Sacramento market, which reopened during our fiscal 2015), coupled with a year-over-year increase in ASP of 9.1%, which improved in all of our markets in the West segment. As compared with the prior fiscal year, our homebuilding gross profit increased by $48.3 million, due mainly to the increase in revenue already discussed, offset slightly by a decline in homebuilding gross margin from 20.8% to 20.7%. Excluding the impairments recorded during the current fiscal year on two communities in our West segment, homebuilding gross margin would have increased to 21.6% from 20.8% in the prior fiscal year. The $32.6 million increase in operating income resulted from the aforementioned increase in homebuilding gross profit, partially offset by lower land sales and other gross profit (which declined by $2.5 million year-over-year), higher commissions expense on improved revenue and an increase in G&A costs, particularly with our re-entry into the Sacramento market.

East Segment: Homebuilding revenue decreased 8.1% for the fiscal year ended September 30, 2016 compared to the prior fiscal year, primarily due to an 11.2% decrease in closings (mainly driven by our Indianapolis market, where we worked to build our community count, and our New Jersey market, where we elected not to continue to reinvest in new homebuilding assets, offset by additional closings in our Maryland market) and despite a 3.5% increase in ASP. As compared to fiscal 2015, our homebuilding gross profit decreased by $14.9 million, related mainly to the aforementioned decline in homebuilding revenue, as well as a lower homebuilding gross margin, which declined from 19.0% in fiscal 2015 to 17.7% in fiscal 2016. However, excluding the impairment recorded during fiscal 2016 on one community in our East segment, as well as the abandonment charges recorded in fiscal 2015, homebuilding gross margin would have only declined from 19.3% in fiscal 2015 to 18.9% in fiscal 2016. This decline in gross margin in the East segment was primarily due to mix of closings between spec and non-spec homes, as we were successful in reducing the number of spec homes in certain key markets during the first half of fiscal 2016, particularly Maryland, and the impact of lower margins from communities being closed out, partially offset by the mix of closings between markets. The $10.3 million decrease in operating income resulted from the decline in gross profit, as previously discussed, offset by a year-over-year decline in commissions expense on lower revenue and a decrease in G&A costs due mainly to our exit from the New Jersey market.

Southeast Segment: Homebuilding revenue increased 5.6% for the fiscal year ended September 30, 2016 compared to fiscal 2015, driven by a 1.9% increase in closings (mainly from our Atlanta market) combined with a 3.7% increase in ASP. Our homebuilding gross profit in the Southeast segment increased by $13.5 million, but was impacted by the Florida stucco issues as follows: (1) fiscal 2016 gross profit included a credit to home construction expenses of $3.6 million for insurance recoveries received and (2) our fiscal 2015 included a $13.6 million net charge recorded in home construction expenses related to the Florida stucco issues (no insurance recoveries were recorded in the first quarter of fiscal 2015, as we had not yet met the thresholds established by our insurance policies; refer to Note 9 of the notes to our consolidated financial statements in this Form 10-K). After adjusting for the impact of the Florida stucco issues, gross profit in the Southeast segment actually declined by $3.7 million versus the fiscal 2015 period, and gross margin declined from 21.2% to 19.3% due to an abandonment charge recorded in fiscal 2016 of $0.8 million; the mix of closings between markets, communities and product type; the structure of our land deals; and the close out of certain communities. The increase in operating income of $12.1 million, after also being adjusted for impact of the Florida stucco issues in each period, is down by $5.1 million, due to the lower gross profit noted above (once also adjusted for the impact of the Florida stucco issues in each fiscal year), lower land sales and other gross profit in fiscal 2016 and higher G&A costs due to community count growth.

Corporate and Unallocated: Our Corporate and unallocated results included amortization of capitalized interest and capitalized indirects; 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 were not allocated to our operating segments. For the fiscal year ended September 30, 2016, our Corporate and unallocated net costs increased by $26.7 million over the prior fiscal year primarily due to (1) a year-over-year increase in interest amortized to cost of sales (refer to Note 6 of the notes to our consolidated financial statements included in this Form 10-K); (2) higher corporate costs incurred due to business growth and improved business performance; and (3) an increase in indirect costs expensed to cost of sales year-over-year due to significantly more closings and resulting homebuilding revenue in fiscal 2016, offset by the impact of a $15.5 million reduction in home construction expenses resulting from an agreement entered into during fiscal 2016 with our third-party insurer to resolve certain issues related to the extent of our insurance coverage for multiple policy years.
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 September 30, 2017, we were not a party to any such derivative agreements. We do not enter into or hold derivatives for trading or speculative purposes.

Liquidity and Capital Resources

Our sources of liquidity include, but are not limited to, (1) cash from operations; (2) proceeds from Senior Notes, our Secured Revolving Credit Facility (the Facility) and other bank borrowings; (3) the issuance of equity and equity-linked securities; and (4) 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 and cash equivalents changed as follows for the periods presented:

(In thousands)	2017	2016	2015
Cash provided by (used in) operating activities	$95,909	$163,025	$(81,049)
Cash (used in) provided by investing activities	(13,783)	(12,694)	3,337
Cash used in financing activities	(20,793)	(197,539)	(18,899)
Net increase (decrease) in cash and cash equivalents	$61,333	$(47,208)	$(96,611)

Operating Activities. Our net cash provided by operating activities was $95.9 million for the fiscal year ended September 30, 2017, compared to $163.0 million for the fiscal year ended September 30, 2016. The decline in cash provided by operations was driven primarily by the $446.4 million spent on land and land development activities, an increase of $109.5 million, or 32.5%, compared to our prior fiscal year, offset by our year-over-year increase in earnings, once adjusted for non-cash items. The increase in earnings was driven by higher revenues from additional closings and an elevated ASP. The increase in land and land development spending positions us to grow our community count in future years as compared to fiscal 2016 when we limited land spending to generate cash to complete our $157.0 million in debt reduction. The level of land and land development spending in any fiscal year, which partly drives our change in inventory, has a significant impact on our net cash provided by operating activities.
Cash provided by operations in the fiscal year ended September 30, 2016 of $163.0 million was significantly higher than the $81.0 million in cash used in operations in the fiscal year ended September 30, 2015 primarily due to a $116.4 million decrease in land and land development spending offset by our increase in earnings, once adjusted for non-cash items, and were additionally offset by changes in our working capital balances, particularly accounts receivable, trade accounts payable and other liabilities, which were more favorable to our operating cash balances as of the end of the prior fiscal year.
Investing Activities. Net cash used in investing activities was $13.8 million for the fiscal year ended September 30, 2017, compared to $12.7 million for the fiscal year ended September 30, 2016. Net cash used in investing activities was mainly driven by our capital expenditures, primarily for model homes, partially offset by the receipt of proceeds from sale of fixed assets and return of capital from unconsolidated entities in both years. Net cash provided by investing activities was $3.3 million for the fiscal year ended September 30, 2015, mainly related to the sale of our shares in American Homes 4 Rent, partially offset by capital expenditures, primarily for model homes, and additional investments in unconsolidated entities.

Financing Activities. Net cash used in financing activities was $20.8 million for the fiscal year ended September 30, 2017, primarily due to the repayment of certain debt issuances (including our 2021 Senior Notes, then outstanding Term Loan, and other miscellaneous borrowings) and the payment of cash for debt issuance costs related to our Senior Notes due 2025, offset by the proceeds received from the issuance of Senior Notes due 2025 (refer to Note 8 of the notes to our consolidated financial statements included in this Form 10-K, as well as discussion below). Net cash used in financing activities in the fiscal year ended September 30, 2016 of $197.5 million was significantly higher, due to the repayment of certain debt issuances, partially offset by proceeds received from the issuance new debt, net of debt issuance costs paid as we completed our $157.0 million in debt reduction. Net cash used in financing activities was $18.9 million for the fiscal year ended September 30, 2015, primarily related to the repayment of certain borrowings, including the remaining senior amortizing notes related to our Tangible Equity Units, $2.0 million of our then outstanding Senior Notes due 2016 and certain other secured notes payable.

Financial Position. As of September 30, 2017, our liquidity position consisted of:

- $292.1 million in cash and cash equivalents;
- $145.3 million of remaining capacity under the Facility (due to the use of the Facility to secure $34.7 million in letters of credit; however, as discussed below, subsequent to September 30, 2017, we further increased the capacity of the Facility by $20 million); and
- $12.5 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 2018 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. During the current fiscal year, we redeemed the following debt issuances (which resulted in a net reduction of our outstanding debt of $3.0 million, after considering the issuances described below): (1) our Senior Notes due September 2021 (the 2021 Notes), which had a balance of $198.0 million as of the beginning of the current fiscal year; and (2) the remaining $55.0 million balance outstanding on our Term Loan. Additionally, we redeemed various divisional loans secured by real estate during the fiscal year, totaling $12.1 million. These redemptions resulted in a loss on the extinguishment of debt of $12.6 million.

In March 2017, we issued and sold $250.0 million aggregate principal amount of 6.75% unsecured Senior Notes due March 2025 at par (before underwriting and other issuance costs) through a private placement to qualified institutional buyers (the 2025 Notes). Interest on the 2025 Notes is payable semi-annually, beginning on September 15, 2017. The 2025 Notes will mature on March 15, 2025. We may redeem the 2025 Notes at any time prior to March 15, 2020, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, together with accrued and unpaid interest to, but excluding, the redemption date, plus a customary make-whole premium. For additional description and the redemption features of the 2025 Notes, see Note 8 of the notes to our consolidated financial statements in this Form 10-K. The proceeds from the 2025 Notes were principally used to redeem all of our 2021 Notes and our remaining Term Loan.

Subsequent to September 30, 2017, we issued and sold $400.0 million aggregate principal amount of 5.875% unsecured Senior Notes due October 2027 (the 2027 Notes) and redeemed $225.0 million of our 5.75% unsecured Senior Notes due 2019 and $175.0 million of our 7.25% unsecured Senior Notes due 2023. For a further discussion of the 2027 Notes, refer to Note 22 of the notes to our consolidated financial statements in this Form 10-K.

We generally fulfill our short-term cash requirements with cash generated from our operations and available borrowings. Additionally, we maintain the Facility, which had a total capacity of $180.0 million and an available capacity of $145.3 million as of September 30, 2017, after considering our outstanding letters of credit backed by the Facility of $34.7 million. Subsequent to September 30, 2017, we executed a Fourth Amendment to the Facility. The Fourth Amendment (1) extends the termination date of the Facility from February 15, 2019 to February 15, 2020; (2) increases the maximum aggregate amount of commitments under the Facility (including borrowings and letters of credit) from $180.0 million to $200.0 million; and (3) includes a condition that allows the facility to be increased by an additional $50.0 million to $250.0 million at the discretion of the lenders, refer to Note 22 of the notes to our consolidated financial statements in this Form 10-K.

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 $10.8 million outstanding letters of credit under these facilities (in addition to the $34.7 million outstanding letters of credit backed by the Facility), secured with cash collateral that is maintained in restricted accounts totaling $11.0 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 8 of notes to the consolidated financial statements in this Form 10-K for more information.

Credit Ratings. Our credit ratings are periodically reviewed by rating agencies. In September 2017, Moody's reaffirmed the Company's issuer default debt rating of B3. Moody’s outlook on the Company remains positive. In August 2017, S&P reaffirmed the Company's corporate credit rating of B-. In October 2017, Fitch reaffirmed the Company's default rating of B- and revised its outlook from stable to positive. 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. The Company did not repurchase any shares in the open market during the fiscal years ended September 30, 2017, 2016 or 2015. Any future stock repurchases, to the extent allowed by our debt covenants, must be approved by the Company’s Board of Directors or its Finance Committee.

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 our fiscal years ended September 30, 2017, 2016 or 2015.

Off-Balance Sheet Arrangements. As of September 30, 2017, we controlled 21,507 lots. We owned 15,993, or 74.4%, of these lots and 5,514, or 25.6%, of these lots were under option contracts with land developers and land bankers, which generally require the payment of cash for the right to acquire lots during a specified period of time at a certain price. We historically have attempted to control a portion of our land supply through options. As a result of the flexibility that these options provide us, upon a change in market conditions, we may renegotiate the terms of the options prior to exercise or terminate the agreement. Under option contracts, 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 $91.9 million as of September 30, 2017. The total remaining purchase price, net of cash deposits, committed under all options was $408.3 million as of September 30, 2017. 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, which we expect 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.

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 for our unconsolidated entities. However, as of September 30, 2017, we had no repayment guarantees outstanding related to the debt of our unconsolidated entities. See Note 4 of notes to the consolidated financial statements in this Form 10-K for further information.

Contractual Commitments. The following table summarizes our aggregate contractual commitments as of September 30, 2017:

	Payments Due by Period				
(In thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Senior notes, term loan, junior subordinated notes and other secured notes payable [a]	$1,377,555	$1,468	$325,479	$500,000	$550,608
Interest commitments under senior notes, term loan, junior subordinated notes and other secured notes payable [b]	597,500	89,391	190,180	158,540	159,389
Obligations related to lots under option	408,853	226,373	145,131	27,626	9,723
Operating leases	16,223	4,124	7,162	4,106	831
Uncertain tax positions [c]	—	—	—	—	—
Total	$2,400,131	$321,356	$667,952	$690,272	$720,551

[a] For a listing of our borrowings, refer to Note 8 of notes to the consolidated financial statements in this Form 10-K.
[b] Interest on variable rate obligations is based on rates effective as of September 30, 2017.
[c] Due to the uncertainty of the timing of settlement with taxing authorities, the Company is unable to make reasonably reliable estimates of the period of cash settlement of unrecognized tax benefits related to uncertain tax positions. See Note 13 of notes to the consolidated financial statements in this Form 10-K for additional information regarding the Company's unrecognized tax benefits as of September 30, 2017.

We had outstanding performance bonds of approximately $200.6 million as of September 30, 2017, related principally to our obligations to local governments to construct roads and other improvements in various developments.

Critical Accounting Policies and Estimates

Our critical accounting policies require the use of judgment in their application and/or require estimates of inherently uncertain matters. Although our accounting policies are in compliance with accounting principles generally accepted in the United States of America (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 develop a different conclusion. Listed below are those policies that we believe are critical and require the use of complex judgment in their application.

Inventory Valuation - Projects in Progress

Our 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. We assess these assets no less than quarterly for recoverability. Generally, upon the commencement of land development activities, it may take three to five years (depending on, among other things, the size of the community and its sales pace) to fully develop, sell, construct and close all the homes in a typical community. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If the expected undiscounted cash flows generated are expected to be less than its carrying amount, an impairment charge is recorded to write down the carrying amount of such asset to its estimated fair value based on discounted cash flows.

When conducting our community level review for the recoverability of our homebuilding inventory related to projects in progress, we establish a quarterly “watch list” 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. In our experience, this threshold represents a level of profitability that may be an indicator of conditions that would require an asset impairment, but does not necessitate that such an impairment is warranted without additional analysis. 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 substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to profit margins below our watch list threshold. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information.

Our qualitative competitive market analyses include site visits to new home communities of our competitors and written community-level competitive assessments. A competitive assessment consists of a comparison of our specific community with its competitor communities, considering square footage of homes offered, amenities offered within the homes and the communities, location, transportation availability and school districts, among other relevant attributes. In addition, we review the pace of monthly home sales of our competitor communities in relation to our specific community. We also review other factors, such as the target buyer and the macro-economic characteristics that impact the performance of our asset, including unemployment and the availability of mortgage financing, among other things. Based on this qualitative competitive market analysis, adjustments to our sales prices may be required in order to make our communities competitive. We incorporate these adjusted prices in our quantitative analysis for the specific community.

The quantitative analyses compare the projected future undiscounted cash flows for each such community with its current carrying value. This undiscounted cash flow analysis requires important assumptions regarding the location and mix of house plans to be sold, current and future home sale prices and incentives for each plan, current and future construction costs for each plan and the pace of monthly sales to occur today and into the future.

There is uncertainty associated with preparing the undiscounted cash flow analyses because future market conditions will almost certainly be different, either better or worse, than current conditions. The single most important input to the cash flow analysis is current and future home sales prices for a specific community. The risk of over or under-stating any of the important cash flow variables, including home prices, is greater with longer-lived communities and within markets that have historically experienced greater home price volatility. In an effort to address these risks, we consider some home price and construction cost appreciation in future years for certain communities that are expected to be selling for more than three years and/or if the market has typically exhibited high levels of price volatility. Absent these assumptions on cost and sales price appreciation, we believe the long-term cash flow analysis would be unrealistic and would serve to artificially improve expected future profitability. Finally, we also ensure that the monthly sales absorptions, including historical seasonal differences of our communities and those of our competitors, used in our undiscounted cash flow analyses are realistic, consider our development schedules and relate to those achieved by our competitors for the specific communities.

If the aggregate undiscounted cash flows from our quantitative analyses are in excess of the carrying value, the asset is considered to be recoverable and is not impaired. If the aggregate undiscounted cash flows are less than the carrying or book value, we perform a discounted cash flow analysis to determine the fair value of the community. The fair value of the community is estimated using the present value of the estimated future cash flows using discount rates commensurate with the risk associated with the underlying community assets. The discount rate used may be different for each community. The factors considered when determining an appropriate discount rate for a community include, among others: (1) community specific factors such as the number of lots in the community, the status of land development in the community and the competitive factors influencing the sales performance of the community and (2) overall market factors such as employment levels, consumer confidence and the existing supply of new and used homes for sale. If the determined fair value is less than the carrying value of the specific asset, the asset is considered not recoverable and is written down to its fair value. The carrying value of assets in communities that were previously impaired and continue to be classified as projects in progress is not increased for future estimates of increases in fair value in future reporting periods.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in our impairment analyses. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions, including decreased sales prices, a change in sales prices or changes in absorption estimates based on current market conditions, management's assumptions relative to future results could lead to additional impairments in certain communities during any given period. Market deterioration that exceeds our estimates may lead us to incur additional impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if market conditions deteriorate.

Asset Valuation - Land Held for Future Development

For those communities that have been idled (land held for future development), all applicable carrying costs, such as 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. The future enactment of a development plan or the occurrence of outside events and circumstances may indicate that the carrying amount of an asset may not be recoverable. We evaluate the potential plans of each community in land held for future development if changes in facts and circumstances occur that would give rise to a more detailed analysis for a change in the status of a community.

Asset Valuation - Land Held for Sale

We record assets held for sale at the lower of the asset's carrying value or fair value less costs to sell. The following criteria are used to determine if land is held for sale:

- management has the authority and commits to a plan to sell the land;
- the land is available for immediate sale in its present condition;
- there is an active program to locate a buyer and the plan to sell the property has been initiated;
- the sale of the land is probable within one year;
- the property is being actively marketed at a reasonable sale price relative to its current fair value; and
- it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

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

In determining the fair value of the assets less cost to sell, we consider factors including current sales prices for comparable assets in the area, recent market analysis studies, appraisals, any recent legitimate offers and listing prices of similar properties. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell.

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

Homebuilding Revenue and Costs

Revenue from the sale of a home is recognized when the closing has occurred and the risk of ownership is transferred to the buyer. All associated homebuilding costs, some of which must be estimated, are charged to cost of sales in the period when the revenue from home closings is recognized. Homebuilding costs include land and land development costs (based upon an allocation of such costs, including costs to complete the development, which are subject to estimation), home construction costs (including an estimate of costs, if any, to complete home construction), previously capitalized indirect costs (principally for construction supervision), capitalized interest and estimated warranty costs. Sales commissions owed to internal sales personnel and external brokers are also recognized as expense when the closing occurs. All other costs are expensed as incurred.

Warranty Reserves

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

Since we subcontract our homebuilding work to other companies whose agreements generally include an indemnity obligation and a requirement that certain minimum insurance requirements be met, and that they provide us with a certificate of insurance prior to receiving payments for their work, claims relating to workmanship and materials are generally the primary responsibility of our subcontractors.

Warranty reserves are included in other liabilities on our consolidated balance sheets. We record reserves covering our anticipated warranty expense for each home closed. Management reviews the adequacy of warranty reserves each reporting period based on historical experience and management's estimate of the costs to remediate any claims, and adjusts these provisions accordingly. Our review includes a quarterly analysis of the historical data and trends in warranty expense by division. An analysis by division allows us to consider market specific factors such as our warranty experience, the number of home closings, the prices of homes, product mix and other data in estimating our warranty reserves. In addition, our analysis also factors in the existence of any non-recurring or community-specific warranty matters that might not be contemplated in our historical data and trends. The cost of material non-recurring or community-specific warranty matters is often separately estimated based on management's judgment as to the ultimate cost of repair for that specific issue. As a result of our analyses, we adjust our estimated warranty liabilities on a quarterly basis. Based on historical results, we believe that our existing estimation process is accurate and do not anticipate the process to materially change in the future. Our estimation process for such accruals is discussed in Note 9 of notes to the consolidated financial statements in this Form 10-K. While we believe that our current warranty reserves are adequate, there can be no assurances that historical data and trends will accurately predict our actual warranty costs or that future developments might not lead to a significant change in the reserve.

Income Taxes - Valuation Allowance and Ownership Change

Judgment is required in estimating valuation allowances for deferred tax assets. Deferred tax assets are reduced by a valuation allowance if an assessment of their components indicates that it is more likely than not that all or some portion of these assets will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under tax law. We assess the need for valuation allowances for deferred tax assets based on more-likely-than-not realization threshold criteria. In our assessment, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, (1) the nature, frequency and severity of any current and cumulative losses; (2) forecasts of future profitability; (3) the duration of statutory carryforward periods; (4) our experience with operating loss and tax credit carryforwards not expiring unused; (5) the Section 382 limitation on our ability to carryforward pre-ownership change net operating losses; (6) recognized built-in losses or deductions; and (7) tax planning alternatives.

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

During fiscal 2008, we determined that it was not more likely than not that substantially all of our deferred tax assets would be realized and, therefore, we established a valuation allowance on substantially all of our deferred tax assets. Each period, we evaluated the continued need for the valuation allowance based on extensive quantitative and qualitative factors, a process that requires significant estimates to be made. As of September 30, 2015, we determined that it was appropriate to release a substantial portion of our valuation allowance, generating a non-cash tax benefit. We considered positive evidence including, most importantly, our current earnings profile, as well as evidence of recovery in the housing markets where we operate, the prospects of continued profitability and growth, a strong order backlog and sufficient balance sheet liquidity to sustain and grow operations. We also considered negative evidence that had caused us to record the valuation allowance. Management continues to reassess the realizability of our deferred tax assets each reporting period and, in future periods, we may reduce the remaining portion of our valuation allowance or re-establish it based on our ongoing analysis. This ongoing analysis, similar to the analysis supporting our valuation allowance release in fiscal 2015, will continue to be based on our actual financial performance over an estimated “look-back” period, our expectation of future performance based on detailed forecasts, as well as a variety of qualitative factors. These analyses, while rooted in actual Company performance, are highly subjective and rely on certain estimates, including forecasts, which could be very different from actual results. During fiscal 2017, we continued to consider the positive and negative evidence that occurred during the year, and the results of our analysis yielded a similar conclusion to the prior year.

We experienced an “ownership change” as defined in Section 382 of the Internal Revenue Code (Section 382) as of January 12, 2010. Section 382 contains rules that limit the ability of a company that undergoes an “ownership change” to utilize its net operating loss carryforward and certain built-in losses or deductions recognized during the five-year period after the ownership change. Therefore, our ability to utilize our pre-ownership change net operating loss (NOL) carryforwards and certain recognized built-in losses or deductions is substantially limited by Section 382. There can be no assurance that another ownership change, as defined in the tax law, will not occur. If another “ownership change” occurs, a new annual limitation on the utilization of net operating losses would be determined as of that date. This limitation, should one be required in the future, is subject to assumptions and estimates that could differ from actual results.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a number of market risks in the ordinary course of business. Our primary market risk exposure relates to fluctuations in interest rates. We do not believe that our exposure in this area is material to our cash flows or results of operations. As of September 30, 2017, our Junior Subordinated Notes were our only variable-rate debt outstanding. A one percent increase in the interest rate for these variable-rate issuances would result in an increase of our interest expense by $1.0 million over the next twelve-month period. The estimated fair value of our fixed rate debt as of September 30, 2017 was $1.36 billion, compared to a carrying value of $1.26 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 $1.36 billion to $1.41 billion as of September 30, 2017.

Item 8. Financial Statements and Supplementary Data

BEAZER HOMES USA, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2017	September 30, 2016
ASSETS		
Cash and cash equivalents	$ 292,147	$ 228,871
Restricted cash	12,462	14,405
Accounts receivable (net of allowance of $330 and $354, respectively)	36,323	53,226
Income tax receivable	88	292
Owned inventory	1,542,807	1,569,279
Investments in unconsolidated entities	3,994	10,470
Deferred tax assets, net	307,896	309,955
Property and equipment, net	17,566	19,138
Other assets	7,712	7,522
Total assets	$ 2,220,995	$ 2,213,158
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$ 103,484	$ 104,174
Other liabilities	107,659	134,253
Total debt (net of premium of $3,413 and $2,362, respectively, and debt issuance costs of $14,800 and $15,514, respectively)	1,327,412	1,331,878
Total liabilities	1,538,555	1,570,305
Stockholders' equity:		
Preferred stock (par value $.01 per share, 5,000,000 shares authorized, no shares issued)	—	—
Common stock (par value $0.001 per share, 63,000,000 shares authorized, 33,515,768 issued and outstanding and 33,071,331 issued and outstanding, respectively)	34	33
Paid-in capital	873,063	865,290
Accumulated deficit	(190,657)	(222,470)
Total stockholders' equity	682,440	642,853
Total liabilities and stockholders' equity	$ 2,220,995	$ 2,213,158

See Notes to Consolidated Financial Statements.

BEAZER HOMES USA, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share data)

	Fiscal Year Ended September 30,		
	2017	2016	2015
Total revenue	$1,916,278	$1,822,114	$1,627,413
Home construction and land sales expenses	1,600,969	1,509,625	1,351,860
Inventory impairments and abandonments	2,445	15,282	3,109
Gross profit	312,864	297,207	272,444
Commissions	74,811	70,460	65,023
General and administrative expenses	161,906	153,628	142,496
Depreciation and amortization	14,009	13,794	13,338
Operating income	62,138	59,325	51,587
Equity in income of unconsolidated entities	371	131	536
Loss on extinguishment of debt	(12,630)	(13,423)	(80)
Other expense, net	(15,230)	(24,330)	(30,013)
Income from continuing operations before income taxes	34,649	21,703	22,030
Expense (benefit) from income taxes	2,696	16,498	(324,569)
Income from continuing operations	31,953	5,205	346,599
Loss from discontinued operations, net of tax	(140)	(512)	(2,505)
Net income	$31,813	$4,693	$344,094
Weighted average number of shares:			
Basic	31,952	31,798	27,628
Diluted	32,426	31,803	31,772
Basic income (loss) per share:			
Continuing operations	$1.00	$0.16	$12.54
Discontinued operations	$—	$(0.01)	$(0.09)
Total	$1.00	$0.15	$12.45
Diluted income (loss) per share:			
Continuing operations	$0.99	$0.16	$10.91
Discontinued operations	$—	$(0.01)	$(0.08)
Total	$0.99	$0.15	$10.83

Consolidated Statement of Comprehensive Income			
Net income	$31,813	$4,693	$344,094
Other comprehensive income (loss), net of income tax:			
Change in unrealized loss related to available-for-sale securities	—	—	1,276
Comprehensive income	$31,813	$4,693	$345,370

See Notes to Consolidated Financial Statements.

BEAZER HOMES USA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of September 30, 2014	27,173	$ 27	$851,624	$(571,257)	$ (1,276)	$279,118
Net income	—	—	—	344,094	—	344,094
Change in unrealized loss related to available-for-sale securities	—	—	—	—	1,276	1,276
Total comprehensive income	—	—	—	—	—	345,370
Conversion of TEU (debt to stock conversion)	5,222	5	(4)	—	—	1
Amortization of nonvested stock awards	—	—	6,135	—	—	6,135
Exercises of stock options	1	—	14		—	14
Tax deficiency from stock transactions	—	—	(22)	—	—	(22)
Shares issued under employee stock plans, net	410	—	—	—	—	—
Forfeiture of restricted stock	(135)	—	—	—	—	—
Common stock redeemed	(10)	—	(192)	—	—	(192)
Other activity	—	1	(2)	—	—	(1)
Balance as of September 30, 2015	32,661	$ 33	$857,553	$(227,163)	$ —	$630,423
Net income and comprehensive income	—	—	—	4,693	—	4,693
Amortization of nonvested stock awards	—	—	7,959	—	—	7,959
Shares issued under employee stock plans, net	491	—	—	—	—	—
Forfeiture of restricted stock	(64)	—	—	—	—	—
Common stock redeemed	(17)	—	(222)	—	—	(222)
Balance as of September 30, 2016	33,071	$ 33	$865,290	$(222,470)	$ —	$642,853
Net income and comprehensive income	—	—	—	31,813	—	31,813
Amortization of nonvested stock awards	—	—	8,164	—	—	8,164
Exercises of stock options	2	—	24	—	—	24
Shares issued under employee stock plans, net	536	$ 1	—	—	—	1
Forfeiture of restricted stock	(61)	—	—	—	—	—
Common stock redeemed	(32)	—	(415)	—	—	(415)
Balance as of September 30, 2017	33,516	$ 34	$873,063	$(190,657)	$ —	$682,440

See Notes to Consolidated Financial Statements.

BEAZER HOMES USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended September 30,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	$31,813	$4,693	$344,094
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	14,009	13,794	13,338
Stock-based compensation expense	8,159	7,959	6,135
Inventory impairments and abandonments	2,445	15,282	3,109
Deferred and other income tax expense (benefit)	678	15,903	(326,360)
Write-off of deposit on legacy land investment	2,700	—	—
Gain on sale of fixed assets	(294)	(957)	—
Change in allowance for doubtful accounts	(24)	(698)	(193)
Equity in (income) loss of unconsolidated entities and marketable securities	(401)	(143)	1,294
Cash distributions of income from unconsolidated entities	171	165	224
Non-cash loss on extinguishment of debt	3,677	4,978	—
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	16,927	(149)	(17,757)
Decrease (increase) in income tax receivable	204	127	(373)
Decrease (increase) in inventory	41,911	129,028	(121,700)
Increase in other assets	(168)	(471)	(165)
(Decrease) increase in trade accounts payable	(690)	(9,365)	7,302
(Decrease) increase in other liabilities	(25,208)	(17,121)	10,260
Other changes	—	—	(257)
Net cash provided by (used in) operating activities	95,909	163,025	(81,049)
Cash flows from investing activities:			
Capital expenditures	(12,440)	(12,219)	(15,964)
Proceeds from sale of fixed assets	297	2,624	—
Investments in unconsolidated entities	(3,261)	(4,241)	(4,944)
Return of capital from unconsolidated entities and marketable securities	1,621	1,142	24,245
Net cash (used in) provided by investing activities	(13,783)	(12,694)	3,337
Cash flows from financing activities:			
Repayment of debt	(265,483)	(828,221)	(18,573)
Proceeds from issuance of new debt	250,000	642,150	—
Repayment of borrowings from credit facility	(25,000)	(90,000)	(75,000)
Borrowings from credit facility	25,000	90,000	75,000
Debt issuance costs	(4,919)	(11,246)	(126)
Other changes	(391)	(222)	(200)
Net cash used in financing activities	(20,793)	(197,539)	(18,899)
Increase (decrease) in cash, cash equivalents and restricted cash	61,333	(47,208)	(96,611)
Cash, cash equivalents and restricted cash at beginning of period	243,276	290,484	387,095
Cash, cash equivalents and restricted cash at end of period	$304,609	$243,276	$290,484

See Notes to Consolidated Financial Statements.

BEAZER HOMES USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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.
(2) Basis of Presentation and Summary of Significant Accounting Policies
Basis of Presentation and Consolidation. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), and present the consolidated financial position, income, comprehensive income, stockholders' equity and cash flows of Beazer Homes USA, Inc. and its consolidated subsidiaries. Intercompany balances have been eliminated in consolidation.
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 consolidated statements of income for all periods presented (see Note 20 for a further discussion of our discontinued operations).
We evaluated events that occurred after the balance sheet date but before these financial statements were issued for accounting treatment and disclosure.
Our fiscal 2017 began on October 1, 2016 and ended on September 30, 2017. Our fiscal 2016 began on October 1, 2015 and ended on September 30, 2016. Our fiscal 2015 began on October 1, 2014 and ended on September 30, 2015.
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 consolidated financial statements and accompanying notes. Accordingly, actual results could differ from these estimates.
Cash and Cash Equivalents and Restricted Cash. We consider highly liquid investments with maturities of three months or less when acquired to be cash equivalents. As of September 30, 2017, the majority of our cash and cash equivalents were invested in highly marketable securities, or were on deposit with major banks. These assets were valued at par and had no withdrawal restrictions. The underlying investments of these funds were U.S. Government and U.S. Government Agency obligations or high-quality marketable securities. Restricted cash includes cash restricted by state law or a contractual requirement, including cash collateral for our outstanding cash-secured letters of credit (refer to Note 8).
Accounts Receivable. Accounts receivable include escrow deposits to be received from title companies associated with closed homes, receivables from municipalities related to the development of utilities or other infrastructure, insurance recovery receivables, rebates to be received from our suppliers and other miscellaneous receivables. Generally, we receive cash from title companies within a few days of the home being closed. We regularly review our receivable balances for collectiblity and record an allowance against any receivable for which collectiblity is deemed to be uncertain.
Inventory. Owned inventory consists solely of residential real estate developments. Interest, real estate taxes and development costs are capitalized in inventory during the development and construction period. Construction and land costs are comprised of direct and allocated costs, such as for amenities and estimated costs for future warranties. Land, land improvements and other common costs are typically allocated to individual residential lots on a pro-rata basis, and the costs of residential lots are transferred to homes under construction when home construction begins. Land not owned under option agreements, if outstanding, represents the value of land under option agreements with a variable interest entity (VIE) where the Company is deemed to be the primary beneficiary of the VIE. VIEs are entities in which (1) equity investors do not have a controlling financial interest and/or (2) the entity is unable to finance its activities without additional subordinated financial support from other parties (refer to section below entitled “Land Not Owned Under Option Agreements” for a further discussion of VIEs). In addition, when our deposits and pre-acquisition development costs exceed certain thresholds, we record the remaining purchase price of the lots as consolidated inventory not owned and obligations related to consolidated inventory not owned on our consolidated

balance sheets. Refer to Note 5 for a further discussion and detail of our inventory balance.

Inventory Valuation - Projects in Progress. Our 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. We assess these assets no less than quarterly for recoverability. Generally, upon the commencement of land development activities, it may take three to five years (depending on, among other things, the size of the community and its sales pace) to fully develop, sell, construct and close all the homes in a typical community. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If the expected undiscounted cash flows generated are expected to be less than its carrying amount, an impairment charge is recorded to write down the carrying amount of such asset to its estimated fair value based on discounted cash flows.

When conducting our community level review for the recoverability of our homebuilding inventory related to projects in progress, we establish a quarterly “watch list” 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. In our experience, this threshold represents a level of profitability that may be an indicator of conditions that would require an asset impairment, but does not necessitate that such an impairment is warranted without additional analysis. 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 substantial additional financial and operational analyses and review that consider the competitive environment and other factors contributing to profit margins below our watch list threshold. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information.

Our qualitative competitive market analyses include site visits to new home communities of our competitors and written community-level competitive assessments. A competitive assessment consists of a comparison of our specific community with its competitor communities, considering square footage of homes offered, amenities offered within the homes and the communities, location, transportation availability and school districts, among other relevant attributes. In addition, we review the pace of monthly home sales of our competitor communities in relation to our specific community. We also review other factors, such as the target buyer and the macro-economic characteristics that impact the performance of our asset, including unemployment and the availability of mortgage financing, among other things. Based on this qualitative competitive market analysis, adjustments to our sales prices may be required in order to make our communities competitive. We incorporate these adjusted prices in our quantitative analysis for the specific community.

The quantitative analyses compare the projected future undiscounted cash flows for each such community with its current carrying value. This undiscounted cash flow analysis requires important assumptions regarding the location and mix of house plans to be sold, current and future home sale prices and incentives for each plan, current and future construction costs for each plan and the pace of monthly sales to occur today and into the future.

There is uncertainty associated with preparing the undiscounted cash flow analyses because future market conditions will almost certainly be different, either better or worse, than current conditions. The single most important input to the cash flow analysis is current and future home sales prices for a specific community. The risk of over or under-stating any of the important cash flow variables, including home prices, is greater with longer-lived communities and within markets that have historically experienced greater home price volatility. In an effort to address these risks, we consider some home price and construction cost appreciation in future years for certain communities that are expected to be selling for more than three years and/or if the market has typically exhibited high levels of price volatility. Absent these assumptions on cost and sales price appreciation, we believe the long-term cash flow analysis would be unrealistic and would serve to artificially improve expected future profitability. Finally, we also ensure that the monthly sales absorptions, including historical seasonal differences of our communities and those of our competitors, used in our undiscounted cash flow analyses are realistic, consider our development schedules and relate to those achieved by our competitors for the specific communities.

If the aggregate undiscounted cash flows from our quantitative analyses are in excess of the carrying value, the asset is considered to be recoverable and is not impaired. If the aggregate undiscounted cash flows are less than the carrying or book value, we perform a discounted cash flow analysis to determine the fair value of the community. The fair value of the community is estimated using the present value of the estimated future cash flows using discount rates commensurate with the risk associated with the underlying community assets. The discount rate used may be different for each community. The factors considered when determining an appropriate discount rate for a community include, among others: (1) community specific factors such as the number of lots in the community, the status of land development in the community and the competitive factors influencing the sales performance of the community and (2) overall market factors such as employment levels, consumer confidence and the existing supply of new and used homes for sale. If the determined fair value is less than the carrying value of the specific asset, the asset is considered not recoverable and is written down to its fair value. The carrying value of assets in communities that were previously impaired and continue to be classified as projects in progress is not increased for future estimates of increases in fair value in future reporting periods. However, market deterioration that exceeds our initial estimates may lead us to incur impairment charges on previously impaired homebuilding assets, in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if markets deteriorate.

Asset Valuation - Land Held for Future Development. For those communities that have been idled (land held for future development), all applicable carrying costs, such as 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, such as the future enactment of a development plan or the occurrence of outside events. We evaluate the potential plans for each community in land held for future development if changes in facts and circumstances occur that would give rise to a more detailed analysis for a change in the status of a community.

Asset Valuation - Land Held for Sale. We record assets held for sale at the lower of the asset's carrying value or fair value less costs to sell. The following criteria are used to determine if land is held for sale:

- management has the authority and commits to a plan to sell the land;
- the land is available for immediate sale in its present condition;
- there is an active program to locate a buyer and the plan to sell the property has been initiated;
- the sale of the land is probable within one year;
- the property is being actively marketed at a reasonable sale price relative to its current fair value; and
- it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

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

In determining the fair value of the assets less cost to sell, we consider factors including current sales prices for comparable assets in the area, recent market analysis studies, appraisals, any recent legitimate offers and listing prices of similar properties. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell.

Land Not Owned Under Option Agreements. In addition to purchasing land directly, we utilize lot option agreements that 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. Purchase of the properties under these agreements is contingent upon satisfaction of certain requirements by us and the sellers. Under lot option contracts, our liability is generally limited to forfeiture of the non-refundable deposits, letters of credit and other non-refundable amounts incurred. If the Company cancels a lot option agreement, it would result in a write-off of the related deposits and pre-acquisition costs, but would not expose the Company to the overall risks or losses of the applicable entity we are purchasing from.

In accordance with GAAP, if the entity holding the land under option is a VIE, the Company's deposit represents a variable interest in that entity. To determine whether we are the primary beneficiary of the VIE, we are first required to evaluate whether we have the ability to control the activities of the VIE that most significantly impact its economic performance. Such activities include, but are not limited to, (1) the ability to determine the budget and scope of land development work, if any; (2) the ability to control financing decisions for the VIE; (3) the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract with Beazer; and (4) the ability to change or amend the existing option contract with the VIE. If we are not determined to control such activities, we are not considered the primary beneficiary of the VIE and thus do not consolidate the VIE. If we do have the ability to control such activities, we will continue our analysis by determining if we are expected to absorb a potentially significant amount of the VIE's losses or, if no party absorbs the majority of such losses, if we will benefit from potentially a significant amount of the VIE's expected gains.

If we are the primary beneficiary of the VIE, we will consolidate the VIE even though creditors of the VIE have no recourse against the Company. For those we consolidate, we record the remaining contractual purchase price under the applicable lot option agreement, net of cash deposits already paid, to land not owned under option agreements with an offsetting increase to obligations related to land not owned under option agreements on our consolidated balance sheets. Also, to reflect the total purchase price of

this inventory on a consolidated basis, we present the related option deposits as land not owned under option agreement. Consolidation of these VIEs has no impact on the Company's statements of income or cash flows.
Investments in Unconsolidated Entities. We participate in a number of joint ventures and other investments in which we have less than a controlling interest. We enter into the majority of these investments 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 land positions are developed into finished lots for sale to the unconsolidated entity's members or other third parties. We recognize our share of equity in income (loss) and profits (losses) from the sale of lots to other buyers. Our share of profits from lots we purchase from the unconsolidated entities is deferred and treated as a reduction of the cost of the land purchased from the unconsolidated entity. Such profits are subsequently recognized at the time the home closes and title passes to the homebuyer. We evaluate our investments in unconsolidated entities for impairment during each reporting period. A series of operating losses of an investee or other factors may indicate that a decrease in the value of our investment in the unconsolidated entity has occurred that is other-than-temporary. The amount of impairment recognized is the excess of the investment's carrying value over its estimated fair value. Our unconsolidated entities typically obtain secured acquisition, development and construction financing. We account for our interest in unconsolidated entities under the equity method. For additional discussion of these entities, refer to Note 4.
Property and Equipment. Our property and equipment is recorded at cost. Depreciation is computed on a straight-line basis based on estimated useful lives as follows:

Asset Class	Useful Lives
Information systems	Lesser of estimated useful life of the asset or 5 years
Furniture, fixtures and computer and office equipment	3 - 7 years
Model and sales office improvements	Lesser of estimated useful life of the asset or estimated life of the community
Leasehold improvements	Lesser of the lease term or the estimated useful life of the asset

Other Assets. Our other assets principally include prepaid expenses and assets related to our deferred compensation plan (refer to Note 15 for a discussion of our deferred compensation plan).
Other Liabilities. Our other liabilities principally include accrued warranty expense, accrued interest on our outstanding borrowings, customer deposits, income tax liabilities and other accruals related to our operations. Refer to Note 12 for a detail of our other liabilities.
Income Taxes. Our provision for income taxes is comprised of taxes that are currently payable and deferred taxes that relate to temporary differences between financial reporting carrying values and tax bases of assets and liabilities. Deferred tax assets and liabilities result from deductible or taxable amounts in future years when such assets and liabilities are recovered or settled, and are measured using the enacted tax rates and laws that are expected to be in effect when the assets and liabilities are recovered or settled. We include any estimated interest and penalties on tax related matters in income taxes payable. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition of measurement are recorded in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense.
For a discussion of our evaluation of and accounting for valuation allowances, refer to Note 13.
Revenue Recognition and Classification of Costs. Revenue and related profit are recognized by us at the time of the closing of a sale, when title to and possession of the property, as well as risk of loss, are transferred to the buyer. Sales discounts and incentives include items such as cash discounts, discounts on options included in the home, option upgrades (such as upgrades for cabinetry, countertops and flooring) and seller-paid financing or closing costs. In addition, from time to time, we may also provide homebuyers with retail gift certificates and/or other nominal retail merchandise. All sales incentives other than cash discounts are recognized as a cost of selling the home and are included in home construction expense in our consolidated statements of income. Cash discounts are accounted for as a reduction in the sales price of the home, thereby decreasing the amount of revenue we recognize on that closing.

Estimated future warranty costs are charged to home construction expense in the period when the revenues from home closings are recognized. Such estimated warranty costs generally range from 0.3% to 1.2% of total revenue recognized for each home

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closed. Additional warranty costs are charged to home construction expense as necessary based on management's estimate of the costs to remediate existing claims. See Note 9 for a more detailed discussion of warranty costs and related reserves.

Advertising costs related to continuing operations of $17.5 million, $19.2 million and $18.0 million for our fiscal years 2017, 2016 and 2015, respectively, were expensed as incurred and were included in general and administrative (G&A) expenses.

Fair Value Measurements. 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 are 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 may not be recovered (level 3). For example, we review our long-lived assets, including inventory, for recoverability when factors indicate an impairment may exist, but no less than quarterly. Fair value is based on estimated cash flows discounted for market risks associated with the long-lived assets. The fair value of certain of our financial instruments approximates their carrying amounts due to the short maturity of these assets and liabilities or the variable interest rates on such obligations. The fair value of our publicly-held debt is generally estimated based on quoted bid prices for these instruments (level 2). Certain of our other financial instruments are estimated by discounting scheduled cash flows through maturity or using market rates currently being offered on loans with similar terms and credit quality. 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. See Note 10 for additional discussion of our fair value measurements.

Stock-Based Compensation. We use the Black-Scholes model to value our stock option grants. Other stock-based awards with only performance conditions granted to employees are valued based on the market price of the common stock on the date of the grant. Stock-based awards with market conditions granted to employees are valued using the Monte Carlo valuation method. Any portion of our stock-based awards that can be settled in cash is initially valued based on the market price of the underlying common stock on the date of the grant, and is adjusted to fair value until vested and recorded as a liability on our consolidated balance sheets. On the date of grant, we estimate forfeitures in calculating the expense related to stock-based compensation. In addition, we reflect the benefits of tax deductions in excess of recognized compensation cost as an operating cash outflow. Compensation cost arising from all stock-based compensation awards is recognized as expense using the straight-line method over the vesting period and is included in G&A in our consolidated statements of income. See Note 16 for additional discussion of our stock-based compensation.

Recent Accounting Pronouncements

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 requires entities to recognize revenue at an amount that the entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under the existing revenue recognition guidance. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for one year, which makes the guidance effective for the Company's first fiscal year beginning after December 15, 2017. Additionally, the FASB is permitting entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We have been involved in industry-specific discussions with the FASB on the treatment of certain items related to our business. However, due to the nature of our operations, we expect to identify similar performance obligations under ASU 2014-09 compared with the deliverables and separate units of account we have identified under existing accounting standards. As a result, we expect the timing of our revenues to remain generally the same. Nonetheless, we expect our revenue-related disclosures to change. We expect to adopt the provisions of ASU 2014-09 effective October 1, 2018.

Leases. In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires lessees to record most leases on their balance sheets. The timing and classification of lease-related expenses for lessees will depend on whether a lease is determined to be an operating lease or a finance lease using updated criteria within ASU 2016-02. Operating leases will result in straight-line expense (similar to current operating leases), while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Regardless of lease type, the lessee will recognize a right-of-use asset, representing the right to use the identified asset during the lease term, and a related lease liability, representing the present value of the lease payments over the lease term. Lessor accounting will be largely similar to that under the current lease accounting rules. The guidance within ASU 2016-02 will be effective for the Company's first fiscal year beginning after December 15, 2018, with early adoption permitted. ASU 2016-02 must be adopted using a modified retrospective approach, which requires application of the standard at the beginning of the earliest comparative period presented, with certain optional practical expedients. ASU 2016-02 also requires significantly enhanced disclosures around an entity's leases and the related accounting. We continue to evaluate the impact of ASU 2016-02 on our consolidated financial statements. However, a large majority of our leases are for office space, which we have determined will be treated as operating leases under ASU 2016-02. As such, we anticipate recording a right-of-use asset and related lease liability for these leases, but we do not expect our expense recognition pattern to change. Therefore, we do not anticipate any significant change to our statements of income or cash flows as a result of adopting ASU 2016-02.

Statement of Cash Flows. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flow - Restricted Cash (ASU 2016-18). ASU 2016-18 requires that an entity's statement of cash flows explain the change during the period in that entity's total cash and cash equivalents, including amounts generally described as restricted cash or restricted cash equivalents. Therefore, changes in restricted cash and restricted cash equivalents will no longer be shown as specific line items within the statement of cash flows. Additionally, an entity is to reconcile its cash and cash equivalents as per its balance sheet to the cash and cash equivalent balances presented in its statement of cash flows. The Company early adopted the guidance within ASU 2016-18 as of September 30, 2017. The impact of ASU 2016-18 on our financial statements was as follows: (1) changes in our restricted cash balances are no longer shown in our statements of cash flows, as these balances are included in the beginning and ending cash balances in our statements of cash flows; and (2) we included within Note 3 a reconciliation between our cash balances presented on our balance sheets with the amounts presented in our statements of cash flows.

The following table presents the changes to our consolidated statements of cash flows as of September 30, 2016 and 2015 due to the adoption of ASU 2016-18:

	Fiscal Year Ended September 30,	
	2016	2015
Consolidated Statements of Cash Flows:		
Net cash provided by investing activities (as originally reported)	$11,802	$27,377
Movements in restricted cash	(24,496)	(24,040)
Net cash (used in) provided by investing activities (as re-casted)	$(12,694)	$3,337

(3) Supplemental Cash Flow Information

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

	Fiscal Year Ended September 30,		
(In thousands)	2017	2016	2015
Supplemental disclosure of non-cash activity:			
Decrease in obligations related to land not owned under option agreements	$—	$—	$(2,916)
Non-cash land acquisitions [(a)]	14,651	8,265	12,904
Non-cash capital expenditure	—	—	674
Supplemental disclosure of cash activity:			
Interest payments [(b)]	$100,125	$131,730	$117,177
Income tax payments	1,616	1,420	942
Tax refunds received	351	201	—
Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	$292,147	$228,871	$251,583
Restricted cash	12,462	14,405	38,901
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$304,609	$243,276	$290,484

[(a)] For the fiscal year ended September 30, 2017, non-cash land acquisitions were comprised of $6.3 million related to non-cash seller financing and $8.4 million in lot takedowns from one of our unconsolidated land development joint ventures. For the fiscal year ended September 30, 2016, non-cash land acquisitions were comprised of lot takedowns from one of our unconsolidated land development joint ventures. For the fiscal year ended September 30, 2015, non-cash land acquisitions were comprised of $7.8 million related to non-cash seller financing and $5.1 million in lot takedowns from one of our unconsolidated land development joint ventures.

[(b)] Elevated interest payments made during our fiscal 2016 was due to early redemption of certain of our outstanding debt obligations; refer to Note 8.

(4) Investments in Unconsolidated Entities

Unconsolidated Entities

As of September 30, 2017, we participated in certain joint ventures and other unconsolidated entities in which Beazer had less than a controlling interest. The following table presents our investment in these unconsolidated entities, as well as the total equity and outstanding borrowings of these unconsolidated entities as of September 30, 2017 and September 30, 2016:

(In thousands)	September 30, 2017	September 30, 2016
Beazer's investment in unconsolidated entities	$ 3,994	$ 10,470
Total equity of unconsolidated entities	11,811	31,615
Total outstanding borrowings of unconsolidated entities	15,797	14,702

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

	Fiscal Year Ended September 30,		
(In thousands)	2017	2016	2015
Income from unconsolidated entity activity	$371	$131	$536

For the fiscal years ended September, 2017, 2016 and 2015, there were no impairments related to our investments in these unconsolidated entities.

Guarantees. Our joint ventures typically obtain secured acquisition, development and construction financing. Historically, Beazer and our land development joint venture partners had provided varying levels of guarantees of debt and other debt-related obligations for these unconsolidated entities. However, as of September 30, 2017 and September 30, 2016, we had no outstanding guarantees or other debt-related obligations related to our investments in unconsolidated entities.

We and our joint venture partners generally provide unsecured environmental indemnities to land development joint venture project lenders. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During our fiscal years ended September 30, 2017 and 2016, we were not required to make any payments related to environmental indemnities.

In assessing the need to record a liability for the contingent aspect of these guarantees, we consider our historical experience in being required to perform under the guarantees, the fair value of the collateral underlying these guarantees and the financial condition of the applicable unconsolidated entities. In addition, we monitor the fair value of the collateral of these unconsolidated entities to ensure that the related borrowings do not exceed the specified percentage of the value of the property securing the borrowings. We have not recorded a liability for the contingent aspects of any guarantees that we determined were reasonably possible but not probable.

(5) Inventory

The components of our owned inventory are as follows as of September 30, 2017 and September 30, 2016:

(In thousands)	September 30, 2017	September 30, 2016
Homes under construction	$ 419,312	$ 377,191
Development projects in progress	785,777	742,417
Land held for future development	112,565	213,006
Land held for sale	17,759	29,696
Capitalized interest	139,203	138,108
Model homes	68,191	68,861
Total owned inventory	$ 1,542,807	$ 1,569,279

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 171 (with a cost of $52.6 million) and 178 (with a cost of $56.1 million) substantially completed homes that were not subject to a sales contract (spec homes) as of September 30, 2017 and 2016, respectively.

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Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a 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 is classified as such once certain criteria is 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 is dependent upon 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 September 30, 2017 and September 30, 2016:

(In thousands)	Projects in Progress [(a)]	Land Held for Future Development	Land Held for Sale	Total Owned Inventory
September 30, 2017				
West Segment	$673,828	$ 87,231	$ 3,848	$764,907
East Segment	250,002	14,391	11,578	275,971
Southeast Segment	301,268	10,943	1,233	313,444
Corporate and unallocated [(b)]	187,385	—	1,100	188,485
Total	$1,412,483	$ 112,565	$ 17,759	$1,542,807
September 30, 2016				
West Segment	$586,420	$ 172,015	$ 6,577	$765,012
East Segment	276,785	30,036	20,930	327,751
Southeast Segment	276,385	10,955	1,090	288,430
Corporate and unallocated [(b)]	186,987	—	1,099	188,086
Total	$1,326,577	$ 213,006	$ 29,696	$1,569,279

[(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. Land held for sale amount includes parcels held by our discontinued operations.

Inventory Impairments. When conducting our community level review for the recoverability of our inventory related to projects in progress, we establish a quarterly “watch list” of communities that carry profit margins in backlog and in our forecast that are below a minimum threshold of profitability, as well as recent closings that have gross margins less than a specific 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 substantial additional financial and operational analyses and review that consider 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, we determined that it is 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 these factors may be other than temporary, which may call into question the recoverability of our investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analyses and a quantitative analysis reflecting market and asset specific information. Market deterioration that exceeds our initial estimates may lead us to incur impairment charges on previously impaired homebuilding assets, in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if markets deteriorate.

For the year ended September 30, 2017, there were two communities that were included in our watch list that required further analysis to be performed after considering the number of lots remaining in each community and certain other qualitative factors. This additional analysis led to an impairment charge of $1.7 million for one of these communities, principally due to a reduction in price taken that is other than temporary based on current competitive and market dynamics. For the year ended September 30, 2016, there were seven communities on our watch list that required further analysis. This additional analysis led to an impairment charge of $13.7 million for three of these communities, principally due to a reduction in price taken at each community that is other than temporary based on current competitive and market dynamics. For the year ended September 30, 2015, there were no communities on our watch list that required further analysis to be performed. The table below summarizes the results of our undiscounted cash flow analysis by reportable segment, where applicable, for the periods ended September 30, 2017 and 2016 (the years that such analyses were required):

($ in thousands)		Undiscounted Cash Flow Analyses Prepared			
Segment [a]	Number of Communities on Watch List [b]	Number of Communities [c]	Pre-analysis Book Value (BV)	Aggregate Undiscounted Cash Flow as a % of BV [d]	
Year Ended September 30, 2017					
West	4	2	$ 15,801	94.4	%
Southeast	2	—	—	—	%
Corporate and unallocated [e]	—	—	3,337	N/A [f]	
Total	6	2	$ 19,138		
Year Ended September 30, 2016					
West	9	6	$ 75,028	114.0	%
East	4	1	22,469	88.5	%
Southeast	1	—	—	—	%
Corporate and unallocated [e]	—	—	3,899	N/A [f]	
Total	14	7	$ 101,396		

[a] We have elected to aggregate our disclosure at the reportable segment level because we believe this level of disclosure is most meaningful to the readers of our financial statements.
[b] Number of communities in this column excludes communities that are closing out and have less than ten closings remaining.
[c] Number of communities in this column is lower than the number of communities on our watch list because it excludes communities due to certain qualitative considerations that would imply that the low profitability levels are temporary in nature.
[d] An aggregate undiscounted cash flow as a percentage of book value under 100% would indicate a possible impairment and is consistent with our "watch list" methodology. While this metric for the communities in the West segment was above 100% for the year ended September 30, 2016 in total, for the two communities that we ultimately impaired, the metric was below 100%, while the metric for communities we did not impair was above 100%.
[e] Amount represents capitalized interest and indirects balance related to the communities for which an undiscounted cash flow analysis was prepared. Capitalized interest and indirects are maintained within our Corporate and unallocated segment.
[f] N/A - not applicable.

The following table presents, by reportable segment, details around the impairment charges taken on projects in progress for the periods presented (no impairment were recorded on projects in progress during our fiscal 2015):

($ in thousands)	Results of Discounted Cash Flow Analyses Prepared			
Segment	# of Communities Impaired	# of Lots Impaired	Impairment Charge	Estimated Fair Value of Impaired Inventory at time of Impairment
Year Ended September 30, 2017				
West	1	46	$ 1,625	$ 3,791
Corporate and unallocated [a]	—	—	68	—

Total	1 46	$ 1,693	$ 3,791
Year Ended September 30, 2016			
West	2 213	$ 6,729	$ 16,345
East	1 78	5,894	18,073
Corporate and unallocated [a]	——	1,101	—
Total	3 291	$ 13,724	$ 34,418

[a] Amount represents capitalized interest and indirects balance that was impaired. Capitalized interest and indirects are maintained within our Corporate and unallocated segment.

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The following table presents the ranges or values of significant quantitative unobservable inputs we used in determining the fair value of the communities we impaired during the periods presented (the years that such analyses were required):

	Fiscal Year Ended September 30,	
Unobservable Inputs	2017	2016
Average selling price (in thousands) [a]	$405	$355 - $560
Closings per community per month	1 - 4	2 - 4
Discount rate	12.83%	14.15% - 15.33%

[a] For the fiscal year ended September 30, 2016, the lower end of this ASP range was related to the communities we impaired in our West segment, while the higher end of the ASP range was for the community we impaired in our East segment.

Impairments on land held for sale generally represent write downs of these properties to net realizable value, less estimated costs to sell, and are based on current market conditions and our review of recent comparable transactions. Our assumptions about land sales prices require significant judgment because the real estate market is highly sensitive to changes in economic conditions. We calculate the estimated fair value of land held for sale based on current market conditions and assumptions made by management, which may differ materially from actual results and may result in additional impairments if market conditions deteriorate.

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.

The following table presents, by reportable segment, our total impairment and abandonment charges for the periods presented:

	Fiscal Year Ended September 30,		
(In thousands)	2017	2016	2015
Projects in Progress:			
West	$1,625	$6,729	$—
East	—	5,894	—
Corporate and unallocated [a]	68	1,101	—
Total impairment charges on projects in progress	$1,693	$13,724	$—
Land Held for Sale:			
West	$94	$119	$—
East	470	280	1,433
Southeast	—	371	—
Total impairment charges on land held for sale	$564	$770	$1,433
Abandonments:			
East	$188	$—	$1,676
Southeast	—	788	—
Total abandonments charges	$188	$788	$1,676
Total impairment and abandonment charges	$2,445	$15,282	$3,109

[a] Amount represents capitalized interest and indirects balance that was impaired. Capitalized interest and indirects are maintained within our Corporate and unallocated segment.

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 September 30, 2017 and September 30, 2016:

(In thousands)	Deposits & Non-refundable Preacquisition Costs Incurred	Remaining Obligation
As of September 30, 2017		
Unconsolidated lot option agreements	$ 91,854	$ 408,300
As of September 30, 2016		
Unconsolidated lot option agreements	$ 80,433	$ 446,414

(6) Interest

Our ability to capitalize interest incurred during the fiscal years ended September 30, 2017, 2016 and 2015 was limited by our inventory eligible for capitalization. The following table presents certain information regarding interest for the periods presented:

	Fiscal Year Ended September 30,		
(In thousands)	2017	2016	2015
Capitalized interest in inventory, beginning of period	$ 138,108	$ 123,457	$ 87,619
Interest incurred	105,551	119,360	121,754
Capitalized interest impaired	(56)	(710)	—
Interest expense not qualified for capitalization and included as other expense [a]	(15,636)	(25,388)	(29,752)
Capitalized interest amortized to home construction and land sales expenses [b]	(88,764)	(78,611)	(56,164)
Capitalized interest in inventory, end of period	$ 139,203	$ 138,108	$ 123,457

[a] The amount of interest we are able to capitalize is dependent upon 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.

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

(7) Property and Equipment

The following table presents our property and equipment as of September 30, 2017 and September 30, 2016:

(In thousands)	September 30, 2017	September 30, 2016
Model furnishings and sales office improvements	$ 28,589	$ 28,036
Information systems	14,326	14,326
Furniture, fixtures and office equipment	10,971	12,247
Leasehold improvements	3,698	4,069
Property and equipment, gross	57,584	58,678
Less: Accumulated Depreciation	(40,018)	(39,540)
Property and equipment, net	$ 17,566	$ 19,138

(8) Borrowings

As of September 30, 2017 and September 30, 2016, we had the following debt, net of premium/discounts and unamortized debt issuance costs:

(In thousands)	Maturity Date	September 30, 2017	September 30, 2016
5 3/4% Senior Notes	June 2019	$ 321,393	$ 321,393
7 1/2% Senior Notes	September 2021	—	198,000
8 3/4% Senior Notes	March 2022	500,000	500,000
7 1/4% Senior Notes	February 2023	199,834	199,834
6 3/4% Senior Notes	March 2025	250,000	—
Unamortized debt premium, net		3,413	2,362
Unamortized debt issuance costs		(14,800)	(14,063)
Total Senior Notes, net		1,259,840	1,207,526
Term Loan (net of unamortized discount of $880 and unamortized debt issuance costs of $1,451)	March 2018	—	52,669
Junior Subordinated Notes (net of unamortized accretion of $38,837 and $40,903, respectively)	July 2036	61,937	59,870
Other Secured Notes Payable	Various Dates	5,635	11,813
Total debt, net		$ 1,327,412	$ 1,331,878

As of September 30, 2017, the future maturities of our borrowings were as follows:

Fiscal Year Ended September 30,	
(In thousands)	
2018	$ 1,468
2019	325,479
2020	—
2021	—
2022	500,000
Thereafter	550,608
Total	$ 1,377,555

Secured Revolving Credit Facility. Our Secured Revolving Credit Facility (the Facility) provides us with working capital and letter of credit capacity. On October 13, 2016, we executed a third amendment (the Third Amendment) to the Facility. The Third Amendment (1) extended the termination date of the Facility from January 15, 2018 to February 15, 2019; (2) increased the available maximum aggregate amount of commitments under the Facility (including borrowings and letters of credit) from $145.0 million to $180.0 million; (3) reduced the aggregate collateral ratio (as defined by the underlying Credit Agreement) from 5.00 to 1.00 to 4.00 to 1.00; and (4) reduced the after-acquired exclusionary condition (also as defined by the underlying Credit Agreement) from $1.0 billion to $800.0 million. The Facility continues to be with three lenders.

The Facility allows us to issue letters of credit against the undrawn capacity. Subject to our option to cash collateralize our obligations under the Facility upon certain conditions, our obligations under the Facility are secured by liens on substantially all of our personal property and a significant portion of our owned real property. We also pledged approximately $800.0 million of inventory assets to the Facility to collateralize potential future borrowings or letters of credit (in addition to the letters of credit already issued under the Facility). As of September 30, 2017 and September 30, 2016, we had no borrowings outstanding under the Facility. The Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. As of September 30, 2017, we were in compliance with all such covenants.

Subsequent to September 30, 2017, we executed a fourth amendment to the Facility (the Fourth Amendment). The Fourth Amendment, among other things, extends the termination date of the Facility to February 15, 2020 and increases its capacity from $180.0 million to $200.0 million. For a further discussion of the Fourth Amendment, refer to Note 22.

Letter of Credit Facilities. We have entered into stand-alone, cash-secured letter of credit agreements with banks to maintain our 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 September 30, 2017 and September 30, 2016, we had letters of credit outstanding under these additional facilities of $10.8 million and $12.1 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.

Senior Notes. Our Senior Notes are unsecured obligations ranking pari passu with all other existing and future senior indebtedness. Substantially all of our significant subsidiaries are full and unconditional guarantors of the Senior Notes and are jointly and severally liable for obligations under the Senior Notes and the Facility. Each guarantor subsidiary is a 100% owned subsidiary of Beazer Homes. See Note 19 for further information.

All unsecured Senior Notes rank equally in right of payment with all of our 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 to make certain investments. Compliance with our Senior Note covenants does not significantly impact our operations. We were in compliance with the covenants contained in the indentures of all of our Senior Notes as of September 30, 2017.

Subsequent to September 30, 2017, we issued and sold $400.0 million aggregate principal amount of 5.875% unsecured Senior Notes due October 2027 (the 2027 Notes) and redeemed $225.0 million of our 5.75% unsecured Senior Notes due 2019 and $175.0 million of our 7.25% unsecured Senior Notes due 2023. For a further discussion of the 2027 Notes, refer to Note 22.

In March 2017, we issued and sold $250.0 million aggregate principal amount of 6.75% unsecured Senior Notes due March 2025 at par (before underwriting and other issuance costs) through a private placement to qualified institutional buyers (the 2025 Notes). Interest on the 2025 Notes is payable semi-annually, beginning on September 15, 2017. The 2025 Notes will mature on March 15, 2025. We may redeem the 2025 Notes at any time prior to March 15, 2020, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, together with accrued and unpaid interest to, but excluding, the redemption date, plus a customary make-whole premium. In addition, 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. Upon the occurrence of certain specified changes of control, the holders of the 2025 Notes will have the right to require us to purchase all or a part of the notes at a repurchase price equal to 101% of their principal amount, plus accrued and unpaid interest to, but excluding, the repurchase date.

In September 2016, we issued and sold $400.0 million aggregate principal amount of 8.75% unsecured Senior Notes due March 2022 at par (before underwriting and other issuance costs) through a private placement to qualified institutional buyers. Soon thereafter, we issued an additional $100.0 million "tack on" aggregate principal amount of 8.75% unsecured Senior Notes due March 2022 at a premium of 104.25, for a total issuance of $500.0 million (collectively, the 2022 Notes). Interest on the 2022 Notes is payable semi-annually, beginning on March 15, 2017. The 2022 Notes will mature on March 15, 2022. We may redeem the 2022 Notes at any time prior to March 15, 2019, in whole or in part, at a redemption price equal to 100% of the principal amount, together with accrued and unpaid interest to, but excluding, the redemption date, plus a customary make-whole premium. In addition, on or prior to March 15, 2019, we may redeem up to 35% of the aggregate principal amount of the 2022 Notes with the net cash proceeds of certain equity offerings at a redemption price equal to 108.75% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, provided at least 65% of the aggregate principal amount of the 2022 Notes originally issued remain outstanding immediately after such redemption. Upon the occurrence of certain specified changes of control, the holders of the 2022 Notes will have the right to require us to purchase all or a part of the notes at a repurchase price equal to 101% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

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

Senior Note Description	Issuance Date	Maturity Date	Redemption Terms
5 3/4% Senior Notes	April 2014	June 2019	Callable at any time before March 15, 2019, 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 March 15, 2019, callable at 100% of the principal amount plus, in each case, accrued and unpaid interest
8 3/4% Senior Notes	September 2016	March 2022	Callable at any time prior to March 15, 2019, 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 March 15, 2019, callable at a redemption price equal to 104.375% of the principal amount; on or after March 15, 2020, callable at a redemption price equal to 102.188% of the principal amount; on or after March 15, 2021, callable at a redemption price equal to 100% of the principal amount plus, in each case, accrued and unpaid interest
7 1/4% Senior Notes	February 2013	February 2023	Callable at any time prior to February 1, 2018, 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 February 1, 2018, callable at a redemption price equal to 103.625% of the principal amount; on or after February 1, 2019, callable at a redemption price equal to 102.41% of the principal amount; on or after February 1, 2020, callable at a redemption price equal to 101.208% of the principal amount; on or after February 1, 2021, callable at 100% of the principal amount plus, in each case, accrued and unpaid interest
6 3/4% Senior Notes	March 2017	March 2025	Callable at any time prior to March 15, 2020, 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 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

During the current fiscal year, we redeemed our outstanding Senior Notes due 2021, as well as the remaining balance on our term loan (discussed below), mainly by utilizing the proceeds received from the 2025 Notes issued during the current fiscal year, which is discussed above, as well as cash on hand. This debt repurchase activity resulted in a loss on extinguishment of debt of $15.6 million for the year ended September 30, 2017.

During the fiscal 2016, we redeemed the then outstanding 2018 Notes and the May 2019 Notes principally by utilizing the proceeds received from the issuance of the 2022 Notes, as well as cash on hand. We also redeemed the then outstanding Senior Notes due 2016, mainly by utilizing the proceeds received from the term loan issued in March 2016, which is discussed below. Additionally, we redeemed $3.6 million of our Senior Notes due June 2019 and $2.0 million of our Senior Notes due September 2021 during fiscal 2016, as well as a de minimus amount of our Senior Notes due February 2023. These debt repurchase activities resulted in a total net loss on extinguishment of debt of $13.4 million for the year ended September 30, 2016.

Term Loan. In March 2016, we entered into a credit agreement (the Credit Agreement) that provided us with a $140 million, two-year secured term loan (the Term Loan). We prepaid the then outstanding balance on the Term Loan in full in March 2017 with the proceeds of the 2025 Notes, along with cash on hand.

Junior Subordinated Notes. Our 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 4.12% as of September 30, 2017 (because the rate on the portion of the Junior Subordinated Notes that was modified, as discussed below, is subject to a floor). The obligations relating to these notes are subordinated to the Facility and the Senior Notes. In January 2010, we 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 September 30, 2017, the unamortized accretion was $38.8 million and will be amortized over the remaining life of the notes. As of September 30, 2017, we were in compliance with all covenants under our Junior Subordinated Notes.

Other Secured Notes Payable. We periodically acquire land through the issuance of notes payable. As of September 30, 2017 and September 30, 2016, we had outstanding notes payable of $5.6 million and $11.8 million, respectively, primarily related to land acquisitions. These secured notes payable have varying expiration dates between 2017 and 2019, have a weighted average fixed interest rate of 1.41% as of September 30, 2017 and are secured by the real estate to which they relate.
The agreements governing these other secured notes payable contain various affirmative and negative covenants. There can be no assurance that we will be able to obtain any future waivers or amendments that may become necessary without significant additional cost or at all. In each instance, however, a covenant default can be cured by repayment of the indebtedness.

(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, as well as our ability to reasonably estimate the amount of such loss or liability. 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 standards of performance. 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 that typically must agree to indemnify us with regard to their work and provide us with certificates of insurance demonstrating that they have met our insurance requirements and that we are named 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.
Our warranty reserves are included in other liabilities on our consolidated balance sheets, and the provision for warranty accruals is included in home construction expenses in our consolidated statements of income. We record reserves covering anticipated warranty expense for each home we close. Management reviews the adequacy of warranty reserves each reporting period based on historical experience and management’s estimate of the costs to remediate the claims and adjusts these provisions accordingly. Our review includes a quarterly analysis of the historical data and trends in warranty expense by division. An analysis by division allows us to consider market specific factors such as our warranty experience, the number of home closings, the prices of homes, product mix and other data in estimating our warranty reserves. In addition, our analysis also contemplates the existence of any non-recurring or community-specific warranty-related matters that might not be included in our historical data and trends. While we adjust our estimated warranty liabilities each reporting period to the extent required as a result of our quarterly analyses, historical data and trends may not accurately predict actual warranty costs, which could lead to a significant change in the reserve.
Changes in our warranty reserves are as follows for the periods presented:

	Fiscal Year Ended September 30,		
(In thousands)	2017	2016	2015
Balance at beginning of period	$39,131	$27,681	$16,084
Accruals for warranties issued [a]	14,215	13,835	10,356
Changes in liability related to warranties existing in prior periods [b]	4,807	53,109	30,482
Payments made [b]	(40,062)	(55,494)	(29,241)
Balance at end of period	$18,091	$39,131	$27,681

[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.

(b) Changes in liability related to warranties existing and payments made in all periods are elevated due to charges and subsequent payments related to water intrusion issues in certain of our communities located in Florida (refer to separate discussion below).

Florida and New Jersey Water Intrusion Issues

In the latter portion of our fiscal 2014, we began to experience an increase in calls from homeowners reporting stucco and water intrusion issues in certain of our communities in Florida (the Florida stucco issues). These issues continued to be reported to us in Florida throughout our fiscal 2015, fiscal 2016 and fiscal 2017. Through September 30, 2017, we cumulatively recorded charges related to these issues of $85.6 million.

During our fiscal 2017, the number of homeowner calls beyond those anticipated based on our procedures and previous call history has continued to trend down. However, largely due to increased cost estimates for repairs of homes discovered in more recent periods, we recorded additional warranty adjustments related to the Florida stucco issues of $5.2 million during the current fiscal year, compared to $48.0 million in the prior year. As of September 30, 2017, 710 homes have been identified as likely to require repairs (an increase of 20 homes to those that were anticipated to require repairs as of the end of our fiscal 2016), of which 640 homes have been repaired. We made payments related to the Florida stucco issues of $23.1 million during the current fiscal year, including payments on fully repaired homes, as well as payments on homes for which remediation is not yet complete, bringing the remaining accrual to $4.7 million as of September 30, 2017, compared to $22.6 million as of September 30, 2016. The accrual for the Florida stucco issues is included in our overall warranty liability detailed above. As of September 30, 2017, additional homes in the impacted communities remain within the period specified by the applicable statute of repose but are not yet deemed likely to require repairs and have not been reserved for. The cost to repair these additional homes would be approximately $2.5 million if the current cost estimates were applied to these additional homes.

Our assessment of the Florida stucco issues is ongoing. As a result, we anticipate that the ultimate magnitude of our liability may change as additional information is obtained. Certain visual and other inspections of the homes that could be subject to defect often do not reveal the severity or extent of the defects, which can only be discovered once we receive a homeowner call and begin repairs. The current fiscal year charges were offset by additional insurance recoveries; for a discussion of the amounts we have already recovered or anticipate recovering from our insurers, refer to the “Insurance Recoveries” section below.

In addition, we believe that we will also recover a portion of such repair costs from sources other than our own insurer, including the subcontractors involved with the construction of these homes and their insurers; however, no amounts related to subcontractor recoveries have been recorded in our consolidated financial statements as of September 30, 2017. Any amounts recovered from our subcontractors related to homes closed during policy years for which we have exceeded the deductible in our insurance policies would be remitted to our insurers, while recoveries in other policy years would be retained by us.

Insurance Recoveries

The Company has insurance policies that provide for the reimbursement of certain warranty costs incurred by us above a specified threshold for each period covered. We have surpassed these thresholds for certain policy years, particularly those that cover most of the homes impacted by the water intrusion issues discussed above. As such, beginning with the first quarter of our fiscal 2015, we expect a substantial majority of additional costs for warranty work on homes within these policy years to be reimbursed by our insurers. For two policy years, our exposure has exceeded the insurance claim limit for one division under our first layer of coverage; however, we are claiming and recovering additional amounts under our excess insurance coverage.

Warranty expense beyond the thresholds set in our insurance policies was recorded related to homes impacted by the Florida stucco issues, as well as other various warranty issues that are in excess of our insurance thresholds. We adjust our insurance receivable balance each quarter to reflect our estimate of future costs to be incurred, as well as amounts received from our insurers. The adjustments were an increase of $4.8 million and $59.3 million during our fiscal 2017 and 2016, respectively, to reflect the amount that we deem probable of receiving. The changes to our insurance receivable fully offset the current fiscal year movements in our reserve related to the Florida stucco issues. The recoveries recorded during our fiscal 2016 were $3.6 million greater than the underlying expense related to the Florida stucco issues, as we began to recover more costs than initially anticipated. The remaining insurance recovery amount for the year ended September 30, 2016 beyond the Florida stucco issues related to expenditures for warranty issues that were individually immaterial but were also in excess of our insurance thresholds.

Amounts recorded for anticipated insurance recoveries are reflected within our consolidated statements of income as a reduction of our home construction expenses, and associated amounts not yet received from our insurer were recorded on a gross basis, i.e., not net of any associated warranty expense, as a receivable within accounts receivable on our consolidated balance sheets.

Amounts still to be recovered under our insurance policies will vary based on whether expected additional warranty costs are actually incurred for periods for which our threshold has already been met. As a result, we anticipate the balance of our established receivable for insurance recoveries to fluctuate for potential future reimbursements, as well as the amounts ultimately owed to us from our insurer.

Additionally, we entered into agreements with our third-party insurer during our fiscal 2016 to resolve certain issues related to the extent of our insurance coverage for multiple policy years. These agreements resulted in our recognition of $15.5 million in further insurance recoveries (in addition to those discussed above), which was recorded within our consolidated statement of income as a reduction of our home construction expenses.

Litigation

From time to time, we receive claims from institutions that have acquired mortgages originated by our subsidiary, Beazer Mortgage Corporation (BMC), demanding damages or indemnity or that we repurchase such mortgages. BMC stopped originating mortgages in 2008. We have been able to resolve these claims for no cost or for amounts that are not material to our consolidated financial statements. At present there are no such claims outstanding, however, we cannot rule out the potential for additional mortgage loan repurchase or indemnity claims in the future. At this time, we do not believe that the exposure related to any such claims would be material to our consolidated financial condition, results of operations or cash flows. As of September 30, 2017, no liability has been recorded for any such additional claims, as such exposure is not both probable and reasonably estimable.

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, which 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.

Other Matters

During January 2017, we made our final payment under the Deferred Prosecution Agreement and associated Bill of Information (the DPA) entered into on July 1, 2009 with the United States Attorney for the Western District of North Carolina and a separate but related agreement with the United States Department of Housing and Urban Development (HUD) and the Civil Division of the United States Department of Justice (the HUD Agreement). In total, we paid a cumulative $33.5 million related to the DPA and the HUD Agreement. Our expense related to these agreements was $4.9 million and $5.3 million for our fiscal 2016 and 2015, respectively, which was recorded in G&A in our consolidated statements of income. This will be the last report for this matter.

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 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 $3.9 million and $10.2 million in other liabilities on our consolidated balance sheets related to litigation and other matters, excluding warranty, as of September 30, 2017 and 2016, respectively.

We had outstanding letters of credit and performance bonds of approximately $45.5 million and $200.6 million, respectively, as of September 30, 2017, 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 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 fiscal year ended September 30, 2017, we recorded $1.7 million in impairments on projects in process and impairments on land held for sale impairments of $0.6 million. During the fiscal year ended September 30, 2016, we recorded impairments on projects in process of $13.7 million and impairments related to land held for sale of $0.8 million. During the fiscal year ended September 30, 2015, we recorded impairments on land held for sale of $1.4 million.
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 our 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
Year Ended September 30, 2017					
Deferred compensation plan assets [a]	$ —	$1,114	$ —		$1,114
Development projects in progress [b]	—	—	3,791	[c]	3,791
Land held for sale [b]	—	—	325	[c]	325
Year Ended September 30, 2016					
Deferred compensation plan assets [a]	$ —	$765	$ —		$765
Development projects in progress [b]	—	—	34,418	[c]	34,418
Land held for sale [b]	—	—	19,973	[c]	19,973
Year Ended September 30, 2015					
Deferred compensation plan assets [a]	$ —	$669	$ —		$669
Development projects in progress [b]	—	—	8,814	[c]	8,814

[a] Measured at fair value on a recurring basis.
[b] Measured at fair value on a non-recurring basis.
[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 periods indicated.
The fair value of our 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 of our other financial liabilities as of September 30, 2017 and September 30, 2016:

	As of September 30, 2017		As of September 30, 2016	
(In thousands)	Carrying Amount [a]	Fair Value	Carrying Amount [a]	Fair Value
Senior Notes [b]	$1,259,840	$1,355,657	$1,207,526	$1,253,614
Term Loan	N/A [c]	N/A	52,669	52,669
Junior Subordinated Notes	61,937	61,937	59,870	59,870
	$1,321,777	$1,417,594	$1,320,065	$1,366,153

[a] Carrying amounts are net of unamortized debt premium/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] N/A - Not applicable
(11) Operating Leases
We are obligated under various noncancelable operating leases for our office facilities and equipment. Rental expense under these agreements, which is included in G&A in our consolidated statements of income, amounted to approximately $4.9 million, $4.7 million and $5.2 million for the fiscal years ended September 30, 2017, 2016 and

2015, respectively. This rental expense excludes expense related to our discontinued operations, which is not material in any period presented. Additionally, sublease income received in all periods presented was not material. As of September 30, 2017, future minimum lease payments under noncancelable operating lease agreements are as follows:

Fiscal Year Ended September 30, (In thousands)	
2018	$4,124
2019	4,001
2020	3,161
2021	2,518
2022	1,588
Thereafter	831
Total	$16,223

(12) Other Liabilities

Other liabilities include the following as of September 30, 2017 and September 30, 2016:

(In thousands)	September 30, 2017	September 30, 2016
Accrued bonus and deferred compensation	$ 36,753	$ 30,466
Accrued warranty expenses	18,091	39,131
Customer deposits	11,704	12,140
Accrued interest	11,024	11,530
Litigation accrual	3,899	10,178
Income tax liabilities	811	1,718
Other	25,377	29,090
Total	$ 107,659	$ 134,253

(13) Income Taxes

Our expense (benefit) from income taxes from continuing operations consists of the following for the periods presented:

	Fiscal Year Ended September 30,		
(In thousands)	2017	2016	2015
Current federal	$—	$—	$(64)
Current state	859	595	520
Deferred federal [a]	1,625	5,574	(314,651)
Deferred state [a] [b]	212	10,329	(10,374)
Total	$2,696	$16,498	$(324,569)

[a] Fiscal 2015 benefit is due to release of a substantial portion of the valuation allowance on our deferred tax assets; refer to discussion below titled “Valuation Allowance.”

[b] Fiscal 2016 expense includes $8.6 million of additional valuation allowance on our state deferred tax assets due to a number of changes to the legal forms of our operating entities; refer to discussion below titled “Valuation Allowance.”

The expense (benefit) from income taxes from continuing operations differs from the amount computed by applying the federal income tax statutory rate as follows for the periods presented:

	Fiscal Year Ended September 30,		
(In thousands)	2017	2016	2015
Income tax computed at statutory rate	$12,052	$7,596	$7,711
State income taxes, net of federal benefit	1,287	4,974	2,485
(Decrease) increase in valuation allowance - other [(a)] [(b)] [(c)]	(3,482)	6,457	(334,605)
Changes for uncertain tax positions	(685)	(40)	42
Stock based compensation	741	—	—
State rate change	—	(678)	—
Tax credits	(7,460)	(2,134)	—