NORDSTROM INC
Form 10-K
March 18, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 2, 2019
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to___________
Commission file number 001-15059
NORDSTROM, INC.
(Exact name of registrant as specified in its charter)

Washington	91-0515058
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
1617 Sixth Avenue, Seattle, Washington	98101
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (206) 628-2111
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, without par value	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 þ NO ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES þ 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. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	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 Act). YES ¨ NO þ

As of August 3, 2018 the aggregate market value of the Registrant’s voting and non-voting stock held by non-affiliates of the Registrant was approximately $6.6 billion using the closing sales price on that day of $50.58. On March 11, 2019, 155,002,755 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2019 Annual Meeting of Shareholders scheduled to be held on May 23, 2019 are incorporated into Part III.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "goal," "would," "expect," "plan," "anticipate," "estimate," "project," "predict," "potential," "pursue," "going forward," and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Annual Report on Form 10-K in Item 1A: Risk Factors, including, but not limited to, our anticipated financial outlook for the fiscal year ending February 1, 2020, our anticipated annual total sales rates, our anticipated new store openings in existing, new and international markets, our anticipated Return on Invested Capital, trends in our operations and the following:

Strategic and Operational

- timely and effective implementation of evolving our business model and successful execution of our customer strategy to provide a differentiated and seamless experience across all Nordstrom channels,
- our ability to execute and manage the costs of our evolving business model, including the execution of new supply chain capabilities and enhancement of existing ones, development of applications for electronic devices, improvement of customer-facing technologies, timely delivery of products purchased digitally, enhancement of inventory management systems, more fluid inventory availability between our digital channels and retail stores through our local market strategy, and greater consistency in marketing strategies,
- our ability to respond to the business and retail environment, as well as fashion trends and consumer preferences, including changing expectations of service and experience in stores and online,
- our ability to properly balance our investments in existing and new store locations, technology and supply chain facilities, especially our investments in our Nordstrom Men's Store NYC and Nordstrom NYC and our Los Angeles market integration,
- successful execution of our information technology strategy, including engagement with third-party service providers,
- our ability to effectively utilize internal and third-party data in strategic planning and decision making,
- our ability to maintain or expand our presence, including timely completion of construction associated with new, relocated and remodeled stores, and Supply Chain Network facilities, all of which may be impacted by third parties, consumer demand and other natural or man-made disruptions,
- efficient and proper allocation of our capital resources,
- effective inventory management processes and systems, fulfillment and supply chain processes and systems, disruptions in our supply chain and our ability to control costs,
- the impact of any systems or network failures, cybersecurity and/or security breaches, including any security breach of our systems or those of a third-party provider that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information or compliance with information security and privacy laws and regulations in the event of such an incident,
- our ability to safeguard our reputation and maintain relationships with our vendors and third-party service providers,
- our ability to maintain relationships with and motivate our employees and to effectively attract, develop and retain our future leaders,
- our ability to realize the expected benefits, respond to potential risks and appropriately manage costs associated with our program agreement with TD Bank, N.A. ("TD"),
- the effectiveness of planned advertising, marketing and promotional campaigns in the highly competitive and promotional retail industry,
-

market fluctuations, increases in operating costs, exit costs and overall liabilities and losses associated with owning and leasing real estate,

- potential goodwill impairment charges, future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames,
- compliance with debt and operating covenants, availability and cost of credit, changes in our credit rating and changes in interest rates,
- the timing, price, manner and amounts of future share repurchases by us, if any, or any share issuances by us,

Economic and External

- the impact of the seasonal nature of our business and cyclical customer spending,
- the impact of economic and market conditions and the resultant impact on consumer spending and credit patterns,
- the impact of economic, environmental or political conditions in the U.S. and countries where our third-party vendors operate,
- weather conditions, natural disasters, health hazards, national security or other market and supply chain disruptions, including the effects of tariffs, or the prospects of these events and the resulting impact on consumer spending patterns or information technology systems and communications,

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Legal and Regulatory

- our compliance with applicable domestic and international laws, regulations and ethical standards, including those related to employment and tax, information security and privacy, consumer credit and the outcome of any claims and litigation and resolution of such matters,
- the impact of the current regulatory environment and financial system, health care and tax reforms,
- the impact of changes in accounting rules and regulations, changes in our interpretation of the rules or regulations, or changes in underlying assumptions, estimates or judgments,
- the impact of claims, litigation and regulatory investigations, including those related to information security, privacy and consumer credit.

Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

All references to “Nordstrom,” “we,” “us,” “our,” or the “Company” mean Nordstrom, Inc. and its subsidiaries.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the filing date of this Annual Report on Form 10-K, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

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PART I

Item 1. Business.

DESCRIPTION OF BUSINESS

Founded in 1901 as a retail shoe business in Seattle, Nordstrom later incorporated in Washington State in 1946 and went on to become one of the leading fashion retailers based in the U.S. We aspire to be the best fashion retailer in a digital world by remaining focused on our customers, serving them through our three strategic pillars: providing a compelling product offering, delivering outstanding services and experiences and leveraging the strength of the Nordstrom brand. We offer an extensive selection of high-quality brand-name and private label merchandise focused on apparel, shoes, cosmetics and accessories. No matter how customers choose to shop, we are committed to delivering the best possible service, product and experience, including alterations, dining and styling, to make shopping fun, personalized and convenient.

We invested early in our omni-channel capabilities, integrating our operations, merchandising and technology across our stores and online, in both our Full-Price and Off-Price businesses. Today, we have more than 60 combinations in which merchandise is ordered, fulfilled and delivered. Though this has enabled us to serve customers in multiple ways, we are focused on providing a seamless experience for our customer across stores and online. As a result of the evolution of our operations, our reportable segments have become progressively more integrated such that, in the first quarter of 2018, we changed our reportable segments to one reportable segment to align with how management views the results of our operations. For more information about our business and our reportable segments, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 16: Segment Reporting in Item 8.

As of March 18, 2019, our reportable segment, Retail, includes:

Full-Price

- 115 Nordstrom-branded full-line stores in the U.S.
- six full-line and six Rack stores in Canada
- Full-Price Nordstrom.com website and mobile application
- TrunkClub.com website and six Trunk Club clubhouses
- three Jeffrey boutiques
- three Nordstrom Local neighborhood hubs ("Nordstrom Local")

Our Full-Price operating segment integrates Nordstrom full-line stores and Nordstrom.com to allow us to provide our customers with a seamless shopping experience. We engage with our customers on their terms, blurring the lines between the digital and in-store experience. Our customers can pick up online orders in our Nordstrom full-line stores if inventory is available or it can be shipped to that location. Full-Price also includes our full-line and Rack stores in Canada. We include our Canada operations in Full-Price as this is how we view and manage our operations internally. Trunk Club offers personalized styling services for men and women, which enables customers to shop and try on at home, paying only for what they decide to keep. Customers may also choose to shop using these personalized styling services in-person at our clubhouses. We provide customers with the same quality merchandise available at Nordstrom full-line stores and online. Nordstrom Local is a retail concept that is focused on services, providing customers convenient access to personal stylists, alterations, online orders and more. Trunk Club stylists are able to meet customers at select full-line and Nordstrom Local locations. We also leverage the expertise of our salespeople to enable customers to receive personalized product recommendations on their mobile phones through our digital Style Board selling tool. These capabilities allow us to better serve customers across various channels and improve sales.

Off-Price

- 239 Off-Price Nordstrom Rack stores in the U.S.
- Off-Price Nordstromrack.com/HauteLook website and mobile application
- two Last Chance clearance stores

In Off-Price, Nordstrom Rack and Nordstromrack.com purchase merchandise primarily from the same vendors carried in our Full-Price channel and also serve as outlets for clearance merchandise from the Full-Price channel.

Nordstromrack.com/HauteLook offers both a persistent selection of Off-Price merchandise, as well as limited-time flash sale events on fashion and lifestyle brands, and is integrated with a single customer log-in, shared shopping cart and streamlined checkout process. Nordstromrack.com combines the technology expertise of HauteLook with the merchant expertise of Nordstrom Rack.

FISCAL YEAR

We operate on a 52/53-week fiscal year ending on the Saturday closest to January 31st. References to 2018 and all years except 2017 within this document are based on a 52-week fiscal year, while 2017 is based on a 53-week fiscal year.

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RETURN POLICY

We have a fair and reasonable approach to returns, handling them on a case-by-case basis with the ultimate objective of making our customers happy. We have no formal policy on how long we accept returns at our Nordstrom full-line stores or Nordstrom.com. Our goal is to take care of our customers, which includes making returns and exchanges easy, whether in stores or online, where we offer free shipping on purchases and returns. Trunk Club accepts returns within five days of delivery, which are free for the customer if the items are returned in the box provided by Trunk Club with the original price tag and packaging. Our Nordstrom Rack stores and Nordstromrack.com/HauteLook generally accept returns of apparel, footwear, accessories and HauteLook home products up to 45 days from the date of purchase or date of shipment with the original price tag and sales receipt. Off-Price merchandise can be returned by mail or at any Nordstrom Rack store location.

SEASONALITY

Our business, like that of other retailers, is subject to seasonal fluctuations. Our sales are typically higher during our Anniversary Sale in July and the holidays in the fourth quarter. Our Anniversary Sale shifted to the second quarter in 2018 compared with the second and third quarters in 2017. Results for any one quarter are not indicative of the results that may be achieved for a full fiscal year.

LOYALTY PROGRAM

We evolved our customer loyalty program with the launch of The Nordy Club in October 2018, which incorporates a traditional point system and the favorite benefits of our previous program, while providing customers exclusive access to products and events, enhanced services, personalized experiences and more convenient ways to shop. Customers accumulate points based on their level of spending and type of participation. Upon reaching certain point thresholds, customers receive Nordstrom Notes (“Notes”), which can be redeemed for goods or services offered at Nordstrom full-line stores, Nordstrom.com, Nordstrom Rack and Nordstromrack.com/HauteLook. Nordstrom cardmembers can also earn rewards at Trunk Club. The Nordy Club member benefits will vary based on the level of customer spend, and include Bonus Points days and shopping and fashion events.

We offer customers access to a variety of payment products and services, including a selection of Nordstrom-branded Visa® credit cards in the U.S. and Canada, as well as a Nordstrom-branded private label credit card for Nordstrom purchases. When customers use a Nordstrom-branded credit or debit card, they also participate in The Nordy Club and receive additional benefits, which can vary depending on the level of spend, including early access to the Anniversary Sale, Nordstrom to You (an in-home stylist) and incremental accumulation of points toward Notes. See Note 3: Credit Card Receivable Transaction in Item 8.

COMPETITIVE CONDITIONS

We operate in a highly competitive business environment. We compete with other international, national, regional and local retailers, including internet-based businesses, omni-channel department stores, specialty stores, off-price stores and boutiques, which may carry similar lines of merchandise. Our specific competitors vary from market to market. We believe the keys to competing in our industry are what will always matter most to our customers: providing compelling product and outstanding service backed by people who care, both digitally and in stores. This includes serving customers on their terms, by providing a seamless digital and physical experience, offering compelling, curated and quality products at multiple price points, and strategically partnering with relevant and limited distribution brands, all in top markets.

SUPPLY CHAIN NETWORK

Our “Supply Chain Network” consists of:

- fulfillment centers that process and ship orders to our customers, located in Cedar Rapids, Iowa; Elizabethtown, Pennsylvania; and San Bernardino, California,
- distribution centers that process and ship merchandise to our stores and other facilities and
- future Omni-channel centers that both fulfill customer orders and ship merchandise to our stores. These will open in 2019 and include large-scale centers and smaller local hubs (Local Omni-channel Hub).

We have expanded our Supply Chain Network facilities and enhanced our inventory management systems to support our omni-channel capabilities and provide greater access to merchandise selection and faster delivery. We select locations and customize inventory allocations to enable merchandise to flow more efficiently and quickly to our customers.

Full-Price online purchases are primarily shipped to our customers from our Fulfillment Centers but may also be shipped from our Nordstrom full-line stores or Omni-channel centers. Full-Price in-store purchases are primarily fulfilled from that store’s inventory, but when inventory is unavailable at that store, it may also be shipped to our customers from our Fulfillment Centers, Omni-channel centers, or from other Nordstrom full-line stores. Off-Price online purchases are shipped to our customers from our Fulfillment Centers. Both channels selectively use vendor dropship to supplement their online offerings, which are then shipped directly from the vendor to the end customer.

Our first large-scale Omni-channel center in Riverside, California will open in late 2019 and will initially support our Full-Price customers in the West Coast region. Off-Price inventory and fulfillment will be added to this facility in the future. We also plan to open a smaller Local Omni-channel Hub in Torrance, California in 2019, which will support the greater Los Angeles market as part of our new local market strategy and will have highly customized inventory that serves the specialized needs of that market.

INVENTORY

We plan our merchandise purchases and receipts to coincide with expected sales trends. For instance, our merchandise purchases and receipts increase prior to our Anniversary Sale, which has historically extended over the last two weeks of July. We also purchase and receive a larger amount of merchandise in the fall as we prepare for the holiday shopping season (from late November through December). At Nordstrom Rack, we also invest in pack and hold inventory, which involves the strategic purchase of merchandise from some of our top Full-Price brands in advance of the upcoming selling seasons, to take advantage of favorable buying opportunities. This inventory is typically held for six months on average.

In order to offer merchandise that our customers want, we purchase from a wide variety of high-quality domestic and foreign suppliers. We also have arrangements with agents and contract manufacturers to produce our private label merchandise. We expect our suppliers to meet our “Nordstrom Partnership Guidelines,” which address our corporate social responsibility standards for matters such as legal and regulatory compliance, labor, health and safety and the environment. This is available on our website at Nordstrom.com.

EMPLOYEES

During 2018, we employed approximately 71,000 employees on a full- or part-time basis. Due to the seasonal nature of our business, employment increased to approximately 76,000 employees in July 2018 and 74,000 in December 2018. All of our employees are non-union. We believe our relationship with our employees is good.

TRADEMARKS

Our most notable trademarks include Nordstrom, Nordstrom Rack, HauteLook, Trunk Club, Halogen, BP., Caslon, Zella, Leith, 1901, Treasure & Bond, Tucker+Tate and 14th & Union. Each of our trademarks is renewable indefinitely, provided that it is still used in commerce at the time of the renewal.

SEC FILINGS

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (“SEC”). The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file with the SEC.

WEBSITE ACCESS

Our website address is Nordstrom.com. Our annual and quarterly reports on Form 10-K and Form 10-Q (including related filings in eXtensible Business Reporting Language (“XBRL”) format), current reports on Form 8-K, proxy statements, our executives’ statements of changes in beneficial ownership of securities on Form 4 and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are available for free on or through our website as soon as reasonably practicable after we electronically file the report with or furnish it to the SEC. Interested parties may also access a webcast of quarterly earnings conference calls and other financial events through our website.

CORPORATE GOVERNANCE

We have a long-standing commitment to upholding a high level of ethical standards. In addition, as the listing standards of the New York Stock Exchange (“NYSE”) and the rules of the SEC require, we have adopted Codes of Business Conduct and Ethics for our employees, officers and directors (“Codes of Ethics”) and Corporate Governance Guidelines. Our Codes of Ethics, Corporate Governance Guidelines and Committee Charters for the Audit and Finance, Compensation, Corporate Governance and Nominating, and Technology Committees are posted on our website. Any amendments to these documents, or waivers of the requirements they contain, will also be available on our website.

For printed versions of these items or any other inquiries, please contact:

Nordstrom Investor Relations
1700 Seventh Avenue, Suite 1500
Seattle, Washington 98101
(206) 303-3200
invrelations@nordstrom.com

Item 1A. Risk Factors.

Our business faces many risks. We believe the risks described below outline the items of most concern to us. In evaluating Nordstrom and our business, you should carefully consider the following factors, in addition to the other information in this Annual Report on Form 10-K. Before you buy our common stock or invest in our debt, you should know that making such an investment involves risks including, but not limited to, the risks described below. Any one of the following risks could harm our business, financial condition, results of operations, or reputation, which could cause our stock price to decline or a default on our debt payments, and you may lose all or a part of your investment. Additional risks, trends and uncertainties not presently known to us or that we currently believe are immaterial may also harm our business, financial condition, results of operations or reputation.

RISKS DUE TO STRATEGIC AND OPERATIONAL FACTORS

Our inability to successfully execute our customer strategy or evolve our business model could negatively impact our business and future profitability and growth.

The retail environment is rapidly evolving with customer shopping preferences continuing to shift to digital channels. Computers and mobile electronic devices allow customers to browse and transact anywhere and anytime. In this changing landscape, we continue to focus on better serving our customers through our three strategic pillars: providing a compelling product offering, delivering exceptional services and experiences, and leveraging the strength of the Nordstrom brand. Our customer strategy focuses on providing a differentiated and seamless experience in a digital world across all Nordstrom channels, including mobile and social channels. Our “One Nordstrom” model, in which engagement across our four boxes of Full-Price, Off-Price, Stores and Digital encourages more visits and more spend, allows for our company as a whole to be greater than the sum of the parts. Our local market strategy is an example of this where we bring all of our assets together in one market to serve customers when, where and how they want by connecting physical and digital assets.

Our focus on the customer will require us to execute new supply chain capabilities and enhance existing ones, develop applications for electronic devices, improve customer-facing technology, deliver digitally purchased products timely, enhance inventory management systems, allow greater and more fluid inventory availability between digital and retail locations through our local market strategy, and create greater consistency in marketing strategies. In addition, these strategies will require further expansion and reliance on data science and analytics across all our channels. This business model has a high variable cost structure driven by fulfillment and marketing costs and will continue to require investments in cross-channel operations and supporting technologies.

With the accelerated pace of change in the retail environment, we may not be able to meet our customers’ changing expectations of how they shop in stores or through digital experiences. If we do not successfully implement our customer strategy, including our local market strategy, or expand our digital and supply chain initiatives, or do not seamlessly integrate or maintain them properly, we may fall short of our customer’s expectations, impacting our brand, reputation, profitability and growth. In addition, if customers shift to digital channels at a different pace than we anticipate, we may need to quickly modify our initiatives and investments, which may adversely impact our profitability and harm our competitive position. We also may not gather accurate and relevant data or effectively utilize that data, which may impact our strategic planning, marketing and loyalty programs and our overall decision making.

Our business could suffer if we do not appropriately assess and react to competitive market forces and changes in customer behavior.

We compete with other international, national, regional and local retailers, including internet-based businesses, omni-channel department stores, specialty stores, off-price stores and boutiques, which may carry similar lines of merchandise. Digital channels continue to facilitate comparison shopping, intensifying competition in the retail market, and marketing digitally is controlled by a few key platforms. If we fail to adequately anticipate and respond to customer and market dynamics, we may lose market share or our ability to remain competitive, causing our sales and profitability to suffer. If our loyalty marketing, advertising and promotional campaigns that attract customers through various programs and media, including social media, database marketing and print, are unsuccessful in influencing consumer behavior, or if our expenses increase and our competitors are more effective with their programs than we are, our growth and profitability could suffer. If we do not properly allocate our capital between the store and digital environment, or between the Full-Price and Off-Price channels to accommodate changes in consumer behavior, or adjust the effectiveness and efficiency of our stores and digital channels, our growth and profitability could suffer.

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Our customer relationships and sales may be negatively impacted if we do not anticipate and respond to consumer preferences and fashion trends or manage inventory levels appropriately.

Our ability to predict or respond to constantly changing fashion trends, consumer preferences and spending patterns significantly impacts our sales and operating results. If we do not identify and respond to emerging trends in consumer spending and preferences quickly enough, we may harm our ability to retain our existing customers or attract new customers. Ensuring we optimize our inventory and improve the planning and management of inventory through use of data and analytics is critical to serving the customer, driving growth and maximizing profitability. If we purchase too much inventory, we may be forced to sell our merchandise at lower average margins, which could harm our business. Conversely, if we fail to purchase enough merchandise, we may lose opportunities for additional sales and potentially harm relationships with our customers.

The investment in existing and new locations, including our Nordstrom Men's Store NYC and Nordstrom NYC and Supply Chain Network facilities, may not achieve our expected returns.

The locations of our existing stores, planned store openings and Supply Chain Network facilities are assessed based upon desirability, demographics and retail environment. This involves certain risks, including properly balancing our capital investments between new stores, relocations, remodels, fulfillment capabilities, technology and digital channels, assessing the suitability of locations, especially in new domestic and international markets, and constructing, furnishing and supplying a store or facility in a timely and cost-effective manner, which may be affected by the actions of third parties, including but not limited to private entities and local, state or federal regulatory agencies. In particular, we opened our Nordstrom Men's Store NYC in April 2018 and plan to open Nordstrom NYC in October 2019.

We open our stores in the Spring and Fall, and a delay in a store opening could negatively impact sales and profitability. Sales at our stores may not meet projections, particularly in light of the changing trends between digital and brick-and-mortar shopping channels, which could adversely affect our return on investment. As we enter new domestic and international markets, such as Manhattan and Canada, our efforts will require additional management attention and resources and may distract us from executing our core operations. If we do not select effective locations for our Supply Chain Network facilities, we could incur significantly higher costs and shipping times that do not meet customer expectations, which in turn could have a material adverse effect on our business.

Even if we take appropriate measures to safeguard our information, network and environment from security breaches, our customers, employees and business could still be exposed to risk.

Nordstrom, our subsidiaries and third-party providers access, collect, store and transmit customers' and employees' sensitive, confidential or personal data or information, consumer preferences and credit card information that is subject to privacy and security laws and regulations, as well as our financial and strategic data. Security breaches of this information may be the result of intentional or inadvertent activities by our employees, contractors or by third-party providers that may result in the unauthorized release of customer or employee personal or confidential information. In addition, the regulatory environment surrounding information security, cybersecurity and privacy is increasingly demanding, with new and constantly changing requirements imposed by local, state, federal and foreign governments.

Worldwide regulatory authorities are considering and have approved various legislative proposals concerning privacy and data protection, which continue to evolve and apply to our business. For example, following the European Union's adoption of the General Data Protection Regulation, a number of jurisdictions where we do business have enacted or are considering new privacy and data protection laws. Complying with these changing laws may cause us to incur substantial costs, which could have an adverse effect on our business and results of operations. Further, failure to comply with existing or new laws may result in significant penalties or orders to stop the alleged noncompliant activity.

We have taken measures to help prevent a breach of our information and comply with cybersecurity requirements by implementing safeguards and procedures designed to protect the security, confidentiality and access of such information. In addition, where possible, we require our third-party providers to implement administrative, physical and technical safeguards and procedures to protect the security, confidentiality and availability of our information. We have suffered breaches of our cybersecurity in the past and are at risk for such breaches in the future. Any measures we or our third-party providers have implemented to prevent intentional or inadvertent information security breaches may not be completely effective and may nevertheless result in the unauthorized release of customer, employee or Company confidential information. Concerns about our practices with regard to the collection, use, retention, security or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation and adversely affect our operating results.

Security breaches and cyber incidents and their remediation, whether at Nordstrom, our third-party providers or other retailers, could expose us to a risk of loss or misappropriation of personal or confidential information, litigation, investigation, regulatory enforcement action, fines, information technology system failures or network disruptions, potential liability, reputation damage and loss of customers', employees' or third-party providers' trust and business, any of which could adversely impact our reputation, competitiveness and financial performance. In the event of a significant security breach or cyberattack, we maintain insurance that may mitigate damages such as financial losses and remediation costs. Other impacts include higher insurance deductibles, increased insurance premiums, and increased cyber-protection costs, which may include the costs associated with making organizational changes, deploying additional personnel and protection technologies, training employees and engaging third party experts and consultants.

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Our business may be impacted by information technology system failures or network disruptions.

Our ability to transact with customers and operate our business depends on the efficient operation of various information systems, including data centers, hardware, software and applications, to manage certain aspects of our Company, including store and online transactions, logistics and communication, inventory and reporting systems. We seek to build quality systems or select reputable system vendors and we implement procedures intended to enable us to protect our systems when we modify them. We test our systems to expose and address vulnerabilities, and we train our employees regarding practices to protect and maintain the safety of our systems.

There are inherent risks associated with modifying or replacing systems, and with new or changed relationships, including accurately capturing and maintaining data, realizing the expected benefit of the change and managing the potential disruption of the operation of the systems as the changes are implemented. Potential issues associated with implementing technology initiatives and the time and resources required to optimize the benefits of new elements of our systems and infrastructure could reduce the efficiency of our operations in the short term.

If we encounter an interruption or deterioration in critical systems or processes or experience the loss of critical data, which may result from security or cybersecurity threats or attacks, natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins or third-party or other disruptions, our business could be harmed or our digital activity may decrease because it is more difficult to use. Depending on the severity of the failure, our disaster recovery plans may be inadequate or ineffective. These events could also damage our reputation, result in loss of sales and be expensive to remedy.

Improvements to our merchandise buying and fulfillment processes and systems could adversely affect our business if not successfully executed.

We are making investments to improve our merchandise planning, procurement, allocation and fulfillment capabilities through changes in personnel, processes, location logistics and technology over a period of several years. If we encounter challenges associated with change management, the ability to hire and retain key personnel involved in these efforts, implementation of associated information technology or adoption of new processes, features or capabilities, our ability to continue to successfully execute our strategy or evolve our strategy with changes in the retail environment could be adversely affected. As a result, we may not derive the expected benefits to our sales and profitability, or we may incur increased costs relative to our current expectations.

Our customer, employee and vendor relationships could be negatively affected if we fail to maintain our corporate culture and reputation.

We have a well-recognized culture and reputation that consumers may associate with a high level of integrity, customer service and quality merchandise, and it is one of the reasons customers shop with us and employees choose us as a place of employment. Any significant damage to our reputation, including damages arising from factors outside our control or on social media, could diminish customer trust, weaken our vendor relationships, reduce employee morale and productivity and lead to difficulties in recruiting and retaining qualified employees.

Additionally, management may not accurately assess the impact of significant legislative changes, including those that relate to privacy, employment matters and health care, impacting our relationship with our customers or our workforce and adversely affecting our sales and operations.

If we do not effectively design and implement our strategic and business planning processes to attract, retain, train and develop talent and future leaders, our business may suffer.

We rely on the experience of our senior management, who have specific knowledge relating to us and our industry that is difficult to replace, and the talents of our workforce to execute our business strategies and objectives. We have succession plans in place and our Board of Directors reviews these succession plans. If our succession plans do not adequately cover significant and unanticipated turnover, the loss of the services of any of these individuals, or any resulting negative perceptions of our business, could damage our reputation and our business.

Our program agreement with TD could adversely impact our business.

The program agreement with TD was consummated on terms that allow us to maintain customer-facing activities while TD provides Nordstrom-branded payment methods and payment processing services. If we fail to meet certain service levels, TD has the right to assume certain individual servicing functions including managing accounts and collection activities. If we lose control of such activities and functions, if we do not successfully respond to potential risks and appropriately manage potential costs associated with the program agreement with TD, or if these transactions negatively impact the customer service associated with our cards, resulting in harm to our business reputation and competitive position, our operations, cash flows and returns to shareholders could be adversely affected. If TD became unwilling or unable to provide these services or if there are changes to the risk management policies implemented under our program agreement with TD, our results may be negatively impacted. If we lose control over certain servicing functions and TD is unable to successfully manage accounts and collection activities, it may heighten the risk of credit losses.

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Ownership and leasing real estate exposes us to possible liabilities and losses.

We own or lease the land, buildings and equipment for all of our stores and Supply Chain Network facilities and are therefore subject to all of the risks associated with owning and leasing real estate. In particular, the value of the assets could decrease, their operating costs could increase, or a store or facility may not be opened as planned due to changes in the real estate market, demographic trends, site competition, dependence on third-party performance or overall economic environment. Additionally, we are potentially subject to liability for environmental conditions, exit costs associated with disposal of a store and commitments to pay base rent for the entire lease term or operate a store for the duration of an operating covenant.

Investment and partnerships in new business strategies and acquisitions could disrupt our core business.

We have invested in or are pursuing strategic growth opportunities, which may include acquisitions of, or investments in, other businesses, as well as new technologies or other investments to provide a superior customer shopping experience in our stores and digital channels. Additionally, our business model will continue to rely more on partnerships with third parties for certain strategic initiatives and technologies. If these investments, acquisitions or partnerships do not perform as expected or create operational difficulties, we may record impairment charges. If we do not realize our anticipated return on investments, our profitability and growth could be adversely affected.

If we fail to appropriately manage our capital, we may negatively impact our operations and shareholder return.

We utilize working capital to finance our operations, make capital expenditures and acquisitions, manage our debt levels and return value to our shareholders through dividends and share repurchases. Changes in the credit and capital markets, including market disruptions, limited liquidity and interest rate fluctuations, may increase the cost of financing or restrict access to a potential source of liquidity. A deterioration in our capital structure or the quality and stability of our earnings could result in noncompliance with our debt covenants or a downgrade of our credit rating, constraining the financing available to our Company. If our access to financing is restricted or our borrowing costs increase, our operations and financial condition could be adversely impacted. Further, if we do not properly allocate our capital to maximize returns, our operations, cash flows and returns to shareholders could be adversely affected.

The concentration of stock ownership in a small number of our shareholders could limit our shareholders' ability to influence corporate matters.

We have regularly reported in our annual proxy statements the holdings of members of the Nordstrom family, including Bruce A. Nordstrom, our former Co-President and Chairman of the Board, his sister Anne E. Gittinger and members of the Nordstrom family within our Executive Team. According to the Schedule 13D/A filed with the SEC on February 4, 2019, these individuals beneficially owned an aggregate of approximately 31% of our common stock. As a result, either individually or acting together, they may be able to exercise considerable influence over matters requiring shareholder approval. In addition, as reported in our periodic filings, our Board of Directors has from time to time authorized share repurchases. While these share repurchases may be offset in part by share issuances under our equity incentive plans and as consideration for acquisitions, the repurchases may nevertheless have the effect of increasing the overall percentage ownership held by these shareholders. The corporate law of the State of Washington, where the Company is incorporated, provides that approval of a merger or similar significant corporate transaction requires the affirmative vote of two-thirds of a company's outstanding shares. The beneficial ownership of these shareholders may have the effect of discouraging offers to acquire us, delay or otherwise prevent a significant corporate transaction because the consummation of any such transaction would likely require the approval of these shareholders. As a result, the market price of our common stock could be affected.

RISKS DUE TO ECONOMIC AND EXTERNAL MARKET FACTORS

Our revenues and operating results are affected by the seasonal nature of our business and cyclical trends in consumer spending.

Our business, like that of other retailers, is subject to seasonal fluctuations and cyclical trends in consumer spending. Due to our Anniversary Sale in July and the holidays in the fourth quarter, our sales are typically higher in the second and fourth quarters than in the first and third quarters of the fiscal year. Any factor that negatively impacts these selling seasons could have an adverse effect on our results of operations for the entire year. To provide shareholders a

better understanding of management's expectations surrounding results, we provide public guidance on our expected operating and financial results for future periods comprised of forward-looking statements subject to certain risks and uncertainties.
A downturn in economic conditions and other external market factors could have a significant adverse effect on our business and stock price.
During economic downturns, fewer customers may shop for the high-quality items in our stores and on our websites, as these products may be seen as discretionary, and those who do shop may limit the amount of their purchases. This reduced demand may lead to lower sales, higher markdowns and an overly promotional environment or increased marketing and promotional spending.
Additionally, factors such as results differing from guidance, changes in sales and operating income in the peak seasons, changes in our market valuations, performance results for the general retail industry, announcements by us or our industry peers or changes in analysts' recommendations may cause volatility in the price of our common stock and our shareholder returns.

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Our stores located in shopping centers may be adversely affected by any declines in consumer traffic of shopping centers.

The majority of our stores are located within shopping centers and benefit from the abilities that we and other anchor tenants have to generate consumer traffic. A substantial decline in shopping center traffic, the development of new shopping centers, the lack of availability of favorable locations within existing or new shopping centers, the success of individual shopping centers and the success of other anchor tenants may negatively impact our ability to maintain or grow our sales in existing stores, as well as our ability to open new stores, which could have an adverse effect on our financial condition or results of operations.

Our business depends on third parties for the production, supply or delivery of goods, and a disruption could result in lost sales or increased costs.

Timely receipts of quality merchandise from third parties is critical to our business. Our process to identify qualified vendors and access quality products in an efficient manner on acceptable terms and cost can be complex. Violations of law with respect to quality and safety by our importers, manufacturers or distributors could result in delays in shipments and receipt of goods or damage our reputation, resulting in lost sales. These vendors may experience difficulties due to economic, political or environmental conditions or the countries in which merchandise is manufactured could become subject to new trade restrictions, including increased customs restrictions, tariffs or quotas. Additionally, changes in tax and trade policies that impact the retail industry, such as increased taxation on imported goods, could have a material adverse effect on our business, results of operations and liquidity.

The results from our credit card operations could be adversely affected by changes in market conditions or laws.

Revenues earned under our program agreement with TD are indirectly subject to economic and market conditions that are beyond our control, including, but not limited to, interest rates, consumer credit availability, demand for credit, consumer debt levels, payment patterns, delinquency rates, employment trends, laws and other factors. Changes in these economic and market conditions could impair our revenues and profitability.

Our business and operations could be materially and adversely affected by supply chain disruptions, port disruptions, severe weather patterns, natural disasters, widespread pandemics and other natural or man-made disruptions.

These disruptions could cause, among other things, a decrease in consumer spending that would negatively impact our sales, staffing shortages in our stores, Supply Chain Network facilities or corporate offices, interruptions in the flow of merchandise to our stores, disruptions in the operations of our merchandise vendors or property developers, increased costs and a negative impact on our reputation and long-term growth plans. We have a significant amount of our total sales, stores and square footage in the west coast of the United States, particularly in California, which increases our exposure to any market-disrupting conditions in this region.

RISKS DUE TO LEGAL AND REGULATORY FACTORS

We are subject to certain laws, litigation, regulatory matters and ethical standards, and compliance or our failure to comply with or adequately address developments as they arise could adversely affect our reputation and operations.

Our policies, procedures and practices and the technology we implement are designed to comply with applicable federal, state, local and foreign laws, tariffs, rules and regulations, including those imposed by federal, state and local jurisdictions, the SEC, consumer protection and other regulatory agencies, the marketplace, and foreign countries, as well as responsible business, social and environmental practices, all of which may change from time to time. Compliance with laws and regulations and/or significant legislative changes may cause our business to be adversely impacted, or even limit or restrict the activities of our business. In addition, if we fail to comply with applicable laws and regulations or implement responsible business, social, environmental and supply chain practices, we could be subject to damage to our reputation, class action lawsuits, regulatory investigations, legal and settlement costs, charges and payments, civil and criminal liability, increased cost of regulatory compliance, losing our ability to accept credit and debit card payments from our customers, restatements of our financial statements, disruption of our business and loss of customers. New and emerging privacy and data protection laws may increase compliance expenses and limit business opportunities and strategic initiatives, including customer engagement. Any required changes to our employment practices could result in the loss of employees, reduced sales, increased employment costs, low employee

morale and harm to our business and results of operations. In addition, political and economic factors could lead to unfavorable changes in federal, state and foreign tax laws, which may affect our tax assets or liabilities and adversely affect our results of operations. We are also regularly involved in various litigation matters that arise in the ordinary course of business. Litigation or regulatory developments could adversely affect our business and financial condition.
Changes to accounting rules and regulations could affect our financial results or financial condition.
Accounting principles and related pronouncements, implementation guidelines and interpretations with regard to a wide variety of accounting matters that are relevant to our business, including, but not limited to, revenue recognition, merchandise inventories, leasing, impairment of long-lived assets and tax matters are highly complex and involve subjective assumptions, estimates and judgments. Changes in these rules and regulations, changes in our interpretation of the rules or regulations or changes in underlying assumptions, estimates or judgments could adversely affect our financial performance or financial position.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The following table summarizes the number of retail stores we own or lease, and the percentage of total store square footage represented by each listed category as of February 2, 2019:

	Number of stores			
	Full-Price[1]	Off-Price[2]	% of total store square footage	
Leased stores on leased land	43	239	44	%
Owned stores on leased land	63	—	37	%
Owned stores on owned land	32	1	18	%
Partly owned and partly leased store	1	—	1	%
Total	139	240	100	%

[1] Full-Price includes U.S. & Canada full-line stores, Canada Rack stores, Trunk Club clubhouses, Jeffrey boutiques and Nordstrom Local.

[2] Off-Price includes U.S. Rack stores and Last Chance clearance stores.

The following table summarizes our store count and square footage activity:

	Store count			Square footage (000's)		
Fiscal year	2018	2017	2016	2018	2017	2016
Total, beginning of year	366	349	323	30,218	29,792	28,610
Store openings[1]:						
Full-Price[2]	10	2	5	277	184	629
Off-Price[3]	6	17	22	170	559	702
Stores closed	(3)	(2)	(1)	(280)	(317)	(149)
Total, end of year	379	366	349	30,385	30,218	29,792
Relocations and other[1]	1	3	3	(5)	33	(9)

[1] Store opening square footage includes adjustments due to store relocations or remodels.

[2] Full-Price includes U.S. & Canada full-line stores, Canada Rack stores, Trunk Club clubhouses, Jeffrey boutiques and Nordstrom Local. Store openings for 2018 consist of one full-line store, six Canada Rack stores, one Jeffrey boutique and two Nordstrom Locals.

[3] Off-Price includes U.S. Rack stores and Last Chance clearance stores.

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The following table lists our retail store count and square footage by state/province as of February 2, 2019:

Business	Full-Price[1]		Off-Price[2]		Total	
	Count	Square Footage (000's)	Count	Square Footage (000's)	Count	Square Footage (000's)
U.S.						
Alabama	—	—	1	35	1	35
Alaska	1	97	1	35	2	132
Arizona	2	384	9	313	11	697
California	35	5,225	53	1,974	88	7,199
Colorado	3	559	6	213	9	772
Connecticut	1	189	1	36	2	225
Delaware	1	127	1	32	2	159
Florida	9	1,389	16	545	25	1,934
Georgia	3	395	4	153	7	548
Hawaii	1	195	2	78	3	273
Idaho	—	—	1	37	1	37
Illinois	5	973	16	594	21	1,567
Indiana	1	134	2	60	3	194
Iowa	—	—	1	35	1	35
Kansas	1	219	1	35	2	254
Kentucky	—	—	1	33	1	33
Louisiana	—	—	3	90	3	90
Maine	—	—	1	30	1	30
Maryland	4	765	5	186	9	951
Massachusetts	5	604	7	266	12	870
Michigan	3	552	5	178	8	730
Minnesota	2	380	5	173	7	553
Missouri	2	342	2	69	4	411
Nevada	1	207	3	101	4	308
New Jersey	5	991	8	284	13	1,275
New Mexico	—	—	1	34	1	34
New York	5	547	12	433	17	980
North Carolina	2	300	2	74	4	374
Ohio	3	549	6	224	9	773
Oklahoma	—	—	2	67	2	67
Oregon	3	484	6	218	9	702
Pennsylvania	2	381	7	240	9	621
Puerto Rico	1	143	—	—	1	143
Rhode Island	—	—	1	38	1	38
South Carolina	—	—	3	101	3	101
Tennessee	1	145	2	69	3	214
Texas	10	1,580	18	613	28	2,193
Utah	2	277	4	126	6	403
Virginia	4	746	7	268	11	1,014
Washington	7	1,392	9	354	16	1,746
Washington D.C.	1	8	3	107	4	115
Wisconsin	1	150	2	67	3	217

Canada						
Alberta	3	208	—	—	3	208
British Columbia	1	231	—	—	1	231
Ontario	8	899	—	—	8	899
Total	139	21,767	240	8,618	379	30,385

[1] Full-Price includes U.S. & Canada full-line stores, Canada Rack stores, Trunk Club clubhouses, Jeffrey boutiques and Nordstrom Local.
[2] Off-Price includes U.S. Rack stores and Last Chance clearance stores.

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Our headquarters are located in Seattle, Washington, where our offices consist of both leased and owned space. We also have:

- six owned distribution centers (Portland, Oregon; Dubuque, Iowa; Ontario, California; Newark, California; Upper Marlboro, Maryland and Gainesville, Florida),
- two owned fulfillment centers (Cedar Rapids, Iowa and Elizabethtown, Pennsylvania),
- one leased fulfillment center (San Bernardino, California),
- four leased office facilities (Chicago, Illinois; Centennial, Colorado; Los Angeles, California and New York City, New York) and

In 2019, we will be opening:

- one leased Omni-channel center (Riverside, California) and
- one leased Local Omni-channel Hub (Torrance, California)
- two full-line stores in the U.S.
- five Nordstrom Rack stores in the U.S.

Item 3. Legal Proceedings.

We are subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits alleging violations of state and/or federal wage and hour and other employment laws, privacy and other consumer-based claims. Some of these lawsuits include certified classes of litigants, or purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. We believe the recorded accruals in our Consolidated Financial Statements are adequate in light of the probable and estimable liabilities. As of the date of this report, we do not believe any currently identified claim, proceeding or litigation, either alone or in the aggregate, will have a material impact on our results of operations, financial position or cash flows. Since these matters are subject to inherent uncertainties, our view of them may change in the future.

Item 4. Mine Safety Disclosures.

None.

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PART II

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

MARKET AND SHAREHOLDER INFORMATION

Our common stock, without par value, is traded on the New York Stock Exchange under the symbol “JWN.” The approximate number of holders of common stock as of March 11, 2019 was 129,000, based upon the number of registered and beneficial shareholders and the number of employee shareholders in the Nordstrom 401(k) Plan. On this date, we had 155,002,755 shares of common stock outstanding.

For cash dividends declared and paid per share for each fiscal quarter in 2018 and 2017, refer to Note 17: Selected Quarterly Data in Item 8.

SHARE REPURCHASES

(Dollar and share amounts in millions, except per share amounts)

The following is a summary of our fourth quarter share repurchases:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
November 2018 (November 4, 2018 to December 1, 2018)	2.0	$52.78	2.0	$1,336
December 2018 (December 2, 2018 to January 5, 2019)	4.3	$47.15	4.3	$1,133
January 2019 (January 6, 2019 to February 2, 2019)	5.1	$46.82	5.1	$893
Total	11.4	$47.97	11.4	

In August 2018, our Board of Directors authorized a new program to repurchase up to $1,500 of our outstanding common stock, with no expiration date. The actual timing, price, manner and amounts of future share repurchases, if any, will be subject to market and economic conditions and applicable SEC rules.

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STOCK PRICE PERFORMANCE

The following graph compares the cumulative total return of Nordstrom common stock, Standard & Poor's Retail Index ("S&P Retail") and Standard & Poor's 500 Index ("S&P 500") for each of the last five fiscal years, ending February 2, 2019. The Retail Index is composed of 27 retail companies, including Nordstrom, representing an industry group of the S&P 500. The following graph assumes an initial investment of $100 each in Nordstrom common stock, S&P Retail and the S&P 500 on February 1, 2014 and assumes reinvestment of dividends.

End of fiscal year	2013	2014	2015	2016	2017	2018
Nordstrom common stock	100	136	96	87	100	97
S&P Retail	100	123	143	169	239	253
S&P 500	100	117	115	139	171	171

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Item 6. Selected Financial Data.

(Dollars in millions except per square foot and per share amounts)

The following selected financial data are derived from the audited Consolidated Financial Statements and should be read in conjunction with Item 1A: Risk Factors, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8: Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Fiscal year	2018	2017	2016	2015	2014
Earnings Results					
Net sales	$15,480	$15,137	$14,498	$14,095	$13,110
Credit card revenues, net[1]	380	341	259	342	396
Gross profit	5,325	5,247	5,058	4,927	4,704
Selling, general and administrative ("SG&A") expenses[2]	(4,868)	(4,662)	(4,315)	(4,168)	(3,777)
Earnings before interest and income taxes ("EBIT")	837	926	805	1,101	1,323
Net earnings	564	437	354	600	720
Balance Sheet and Cash Flow Data					
Cash and cash equivalents	$957	$1,181	$1,007	$595	$827
Merchandise inventories	1,978	2,027	1,896	1,945	1,733
Land, property and equipment, net	3,921	3,939	3,897	3,735	3,340
Total assets[1]	7,886	8,115	7,858	7,698	9,245
Total long-term debt[1]	2,685	2,737	2,774	2,805	3,131
Net cash provided by operating activities[1]	1,296	1,400	1,658	2,470	1,243
Capital expenditures	654	731	846	1,082	861
Performance Metrics					
Net sales increase	2.3%	4.4%	2.9%	7.5%	7.8%
Comparable sales increase (decrease)[3]	1.7%	0.8%	(0.4%)	2.7%	4.0%
Digital sales as % of net sales[4]	30.0%	27.0%	24.0%	21.0%	18.0%
Gross profit % of net sales	34.4%	34.7%	34.9%	35.0%	35.9%
SG&A % of net sales[2]	31.5%	30.8%	29.8%	29.6%	28.8%
EBIT % of net sales[2]	5.4%	6.1%	5.6%	7.8%	10.1%
Capital expenditures % of net sales	4.2%	4.8%	5.8%	7.7%	6.6%
Return on assets	6.8%	5.4%	4.5%	6.6%	8.1%
Adjusted return on invested capital ("Adjusted ROIC")[5]	12.0%	9.7%	8.4%	10.7%	12.6%
Inventory turnover rate	4.70	4.67	4.53	4.54	4.67
Per Share Information					
Earnings per diluted share[2,6]	$3.32	$2.59	$2.02	$3.15	$3.72
Dividends declared per share[1]	1.48	1.48	1.48	6.33	1.32

[1] Amounts were impacted by the October 1, 2015, credit card receivable transaction. As a result of the transaction, the dividends paid in 2015 included a special cash dividend of $4.85 per share. For further information regarding these impacts, see Note 3: Credit Card Receivable Transaction and Note 12: Shareholders' Equity in Item 8.

[2] Results for 2018 include the Estimated Non-recurring Charge of $72, or $0.28 per diluted share, see Note 1: Nature of Operations and Summary of Significant Accounting Policies in Item 8.

[3] The 53rd week is not included in comparable sales calculations. For the definition of comparable sales, see Results of Operations in Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations.

[4] Digital sales are online sales and digitally assisted store sales which include Buy Online, Pick Up in Store (“BOPUS”), Ship to Store, Reserve Online, Try in Store (Store Reserve) and Style Board, a digital selling tool.
[5] See Adjusted ROIC (non-GAAP financial measure) in Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations for additional information and reconciliation to the most directly comparable GAAP financial measure.
[6] Earnings per diluted share included the impact of the Trunk Club goodwill impairment charge of $1.12 per share in 2016.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(Dollar and share amounts in millions except percentages and per share amounts, except where noted otherwise)
The following discussion and analysis of our financial condition and results of operations contains forward-looking statements and should be read in conjunction with Item 1A: Risk Factors, Item 6: Selected Financial Data, our Consolidated Financial Statements and related Notes thereto, as well as other cautionary statements and risks described elsewhere in this Annual Report on Form 10-K, before deciding to purchase, hold or sell shares of our common stock.

OVERVIEW

Nordstrom is a leading fashion retailer offering an extensive selection of high-quality brand-name and private label apparel, shoes, cosmetics and accessories for women, men, young adults and children. We serve customers through two businesses — Full-Price and Off-Price. With customers increasingly engaging with Nordstrom in multiple ways, we focus on providing a seamless experience across stores and online. Our operations currently consist of our Nordstrom U.S. and Canada full-line stores, U.S. and Canada Nordstrom Rack stores, Jeffrey boutiques, Last Chance clearance stores, Trunk Club clubhouses and Nordstrom Local. Additionally, customers are served online through Nordstrom.com, Nordstromrack.com, HauteLook and TrunkClub.com.

Our unique business model is a key point of difference in serving customers in multiple ways — through stores, online, Full-Price and Off-Price — with meaningful synergies across Nordstrom. We are focused on leveraging our digital and physical assets to provide customers with a best-in-class experience.

In 2018, net earnings were $564, or $3.32 per diluted share, which included a $0.05 favorable income tax benefit related to prior periods and an estimated non-recurring credit-related charge of $0.28 (see Note 1: Nature of Operations and Summary of Significant Accounting Policies). Our net sales grew 2.3%, or approximately 3.8% excluding approximately $220 related to the 53rd week in 2017. We maintained a strong financial position, generating annual operating cash flow of more than $1 billion for the 10th consecutive year and returning nearly $1 billion to shareholders in 2018.

In 2018, we achieved the following milestones in executing our customer strategy through our three strategic pillars: providing a compelling product offering, delivering exceptional services and experiences and leveraging the strength of the Nordstrom brand:

- We continue to see positive customer trends. We had over 35 million customers, an increase of 6% from last year. One-third of our customers shopped across our multiple channels, resulting in incremental customer spend.
- Our early investments to build a robust digital business gives us a competitive advantage. Digital sales increased 16% and made up 30% of net sales. Additionally, Nordstrom.com has achieved scale, with the profitability of Full-Price digital sales at parity with store sales.
- Generational investments continued to scale, contributing approximately $2 billion in sales and improvement in profitability. Nordstromrack.com/HauteLook became our fastest business to reach $1 billion in sales. Trunk Club delivered sales growth of 35%. We opened our Men's Store in New York City and furthered our expansion into Canada with the introduction of six Nordstrom Rack stores.

In 2019, we have two key priorities to drive sales and market share gains. The first key priority is our local market strategy, which launched in 2018 and drove outsized market share gains in Los Angeles. We are focused on scaling in this top market by giving customers greater access to merchandise selection and faster delivery. In addition, we are implementing aspects of our local market strategy in other markets. We will further leverage inventory through our supply chain investments. This includes an Omni-channel Hub in the Los Angeles area to accelerate inventory efficiencies, as well as a one-million square foot Omni-channel center in Riverside, California that will enable faster delivery to the West Coast, which represents 40% of our customer base, at a lower cost to us. While we're launching this local market strategy in Los Angeles first, we anticipate expanding it to our top markets in the future. We expect to expand our presence in New York City with the planned opening of our Nordstrom NYC women's store in October. We expect that our NYC flagship, coupled with our digital presence, will contribute a meaningful sales lift in that market.

Our second key priority to drive sales and market share gains is our loyalty program. In 2018, our loyalty customers grew 16% to 11 million and contributed 56% of our sales. In October 2018, we launched our enhanced program, The Nordy Club. Cardmembers now earn three points for every dollar spent, up from two points. In addition, we added experiential elements, such as exclusive access to services and experiences. Going forward, we plan to pursue additional opportunities to further personalize the customer experience and drive increased spend.

We remain focused on driving higher shareholder returns through three key deliverables: growing market share, improving profitability and shareholder returns and continuing our disciplined capital allocation approach. We are well-positioned to execute against our long-term plans and deliver a differentiated customer experience.

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RESULTS OF OPERATIONS

In our ongoing effort to enhance the customer experience, we are focused on providing customers with a seamless experience across our channels. We invested early in our omni-channel capabilities, integrating our operations, merchandising and technology across our stores and online, in both our Full-Price and Off-Price businesses. While our customers may engage with us through multiple channels, we know they value the overall Nordstrom brand experience and view us simply as Nordstrom, which is ultimately how we view our business. We have one reportable segment in 2018, Retail, and analyze our results on a total Company basis.

Similar to other retailers, Nordstrom follows the retail 4-5-4 reporting calendar, which included an extra week in the fourth quarter of 2017 (the "53rd week"). References to 2018 and all years except 2017 within this document are based on a 52-week fiscal year, while 2017 is based on a 53-week fiscal year. However, the 53rd week is not included in the comparable sales calculations.

We may not calculate certain metrics used to evaluate our business in a consistent manner among industry peers. Provided below are definitions of metrics we present within our analysis:

- Comparable Sales – sales from stores that have been open at least one full year at the beginning of the year. In 2019, we expect net sales growth to approximate comparable sales. As a result, we will only report net sales growth
- Comparable sales include digital sales and actual returns. Our estimate for sales return allowance is not included in the comparable sales calculations.
- Due to the 53rd week in 2017, our 2018 comparable sales are reported on a like-for-like basis with no impact from calendar shifts or the new Revenue Standard (see Note 1: Nature of Operations and Summary of Significant Accounting Policies in Item 8).
- Digital Sales – online sales and digitally assisted store sales which include Buy Online, Pick Up in Store ("BOPUS"), Ship to Store, Reserve Online, Try in Store (Store Reserve) and Style Board, a digital selling tool
- Gross Profit – net sales less cost of sales and related buying and occupancy costs
- Inventory Turnover Rate – trailing 4-quarter cost of sales and related buying and occupancy costs divided by the trailing 4-quarter average inventory

Net Sales

During the first quarter of 2018, we adopted the new Revenue Standard using the modified retrospective adoption method (see Note 1: Nature of Operations and Summary of Significant Accounting Policies in Item 8). Results beginning in the first quarter of 2018 are presented under the new Revenue Standard, while prior period amounts are not adjusted. Also beginning in 2018, we aligned our sales presentation with how we view the results of our operations internally and how our customers shop with us, by our Full-Price and Off-Price businesses. In 2018, we allocated our sales return allowance and loyalty related adjustments to Full-Price and Off-Price. For 2017 and 2016, Other primarily included unallocated sales return, in-transit and loyalty related adjustments necessary to reconcile sales by business to total net sales.

- Full-Price – Nordstrom U.S. full-line stores, Nordstrom.com, Canada, Trunk Club, Jeffrey and Nordstrom Local
- Off-Price – Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores

The following table summarizes net sales and comparable sales by business:

Fiscal year	2018	2017	2016
Net sales by business:			
Full-Price	10,299	10,452	10,259
Off-Price	5,181	4,956	4,509
Other	—	(271)	(270)
Total net sales	$15,480	$15,137	$14,498
Net sales increase	2.3%	4.4%	2.9%
Comparable sales increase (decrease) by business:			

Full-Price	0.9 %	0.1 %	(2.2 %)
Off-Price	3.5 %	2.5 %	4.5 %
Total Company	1.7 %	0.8 %	(0.4 %)
Digital sales as % of total net sales	30 %	27 %	24 %

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Net Sales (2018 vs. 2017)

In 2018, total Company net sales increased 2.3%, compared with 2017. This included a decrease of approximately 150 basis points due to the 53rd week, which contributed approximately $220 in additional net sales in 2017. Digital sales increased 16% compared with 2017. During the year, we opened our Nordstrom Men’s Store NYC, six Nordstrom Rack stores in Canada and six in the U.S., one Jeffrey boutique and two Nordstrom Locals. We closed two full-line stores and one Trunk Club clubhouse.

Full-Price net sales decreased 1.5%, compared with 2017. This included a decrease of approximately 300 basis points primarily due to loyalty related adjustments and the 53rd week. Full-Price sales reflected an increase in the average selling price per item sold, partially offset by a decrease in the number of items sold. Kids’ was the top-performing merchandise category.

Off-Price net sales increased 4.5%, compared with 2017. This included a decrease of approximately 250 basis points primarily due to the 53rd week and loyalty related adjustments. Off-Price sales reflected an increase in the number of items sold, partially offset by a decrease in the average selling price per item sold. The top-performing merchandise category was Shoes.

Net Sales (2017 vs. 2016)

In 2017, total Company net sales increased 4.4%, compared with 2016. Digital sales increased 16% compared with 2016. During the year, we opened two full-line stores, including one in Canada, and 17 Nordstrom Rack stores. The 53rd week contributed approximately $220 in additional net sales.

Full-Price net sales increased 1.9% compared with 2016. Full-Price sales reflected an increase in the average selling price per item sold and an increase in the number of items sold. Kids’ was the top-performing merchandise category.

Off-Price net sales increased 9.9% compared with 2016. Off-Price sales reflected an increase in the number of items sold, partially offset by a decrease in average selling price per item sold. Beauty was the top-performing merchandise category.

Credit Card Revenues, Net

Credit Card Revenues, net include our portion of the ongoing credit card revenue, net of credit losses, pursuant to our program agreement with TD whereby TD is the exclusive issuer of our consumer credit cards and we perform account servicing functions. In 2017 and 2016, we also recorded asset amortization and deferred revenue recognition associated with the assets and liabilities recorded as part of the initial transaction to sell our U.S. Visa and private label credit card portfolio to TD.

Upon adoption of the new Revenue Standard in 2018, the remaining unamortized balances of the investment in contract asset and deferred revenue associated with the sale of the credit card receivables were eliminated as part of a cumulative-effect adjustment, reducing the opening balance of accumulated deficit for 2018. As a result, the asset amortization and deferred revenue recognition are no longer recorded in credit card revenues, net (see Note 1: Nature of Operations and Summary of Significant Accounting Policies in Item 8).

Credit Card Revenues, Net (2018 vs. 2017)

Credit Card Revenues, net increased $39 in 2018 reflecting our strategic partnership with TD to responsibly grow our receivables and associated revenues as well as efforts to drive new account growth. The 53rd week contributed $10 in additional revenue in 2017.

Credit Card Revenues, Net (2017 vs. 2016)

Credit Card Revenues, net increased $82 in 2017 due to the growth of our program and associated revenues as well as a reduction in amortization expense related to the sale of the credit card portfolio. The 53rd week contributed $10 in additional revenue in 2017.

Gross Profit

The following table summarizes gross profit:

Fiscal year	2018	2017	2016
Gross profit	$5,325	$5,247	$5,058
Gross profit as a % of net sales	34.4 %	34.7 %	34.9 %

Inventory turnover rate	4.70	4.67	4.53

Gross Profit (2018 vs. 2017)

Our gross profit rate decreased 26 basis points in 2018 when compared with 2017, largely due to higher Full-Price markdowns in the fourth quarter of 2018. Overall, continued focus on inventory execution led to improvements in inventory turnover rate in 2018.

Gross Profit (2017 vs. 2016)

Our gross profit rate decreased 23 basis points in 2017 when compared with 2016, primarily due to higher planned occupancy expenses related to new store growth for Nordstrom Rack and Canada. Continued focus on inventory execution led to improvements in inventory turnover rate in 2017.

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Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses are summarized in the following table:

Fiscal year	2018	2017	2016
Selling, general and administrative expenses	$4,868	$4,662	$4,315
Selling, general and administrative expenses as a % of net sales	31.5 %	30.8 %	29.8 %

Selling, General and Administrative Expenses (2018 vs. 2017)

Our SG&A rate increased 65 basis points and increased $206 in 2018 compared with 2017. The basis point increase was primarily due to the Estimated Non-recurring Charge of $72 in 2018 (see Note 1: Nature of Operations and Summary of Significant Accounting Policies in Item 8). The dollar increase was primarily due to planned increases in supply chain and marketing costs and the Estimated Non-recurring Charge.

Selling, General and Administrative Expenses (2017 vs. 2016)

Our SG&A rate increased 104 basis points and increased $347 in 2017 compared with 2016 primarily due to planned technology and performance related expenses.

Goodwill Impairment

We recognized a goodwill impairment charge of $197 in 2016 related to Trunk Club (see Note 9: Fair Value Measurements in Item 8).

Earnings Before Interest and Income Taxes

Earnings before interest and income taxes ("EBIT") are summarized in the following table:

Fiscal year	2018	2017	2016
Earnings before interest and income taxes	$837 **w/o I&A**	**I&A**	

West	$	(58,187)	(8.9)%	$	169,108	$	110,921	17.0%
East		6,086	1.0%		96,885		102,971	16.8%
Southeast		(60,470)	(17.0)%		115,640		55,170	15.5%
Corporate & unallocated		(144,442)			21,769		(122,673)	
Total homebuilding	$	(257,013)	(15.9)%	$	403,402	$	146,389	9.0%

Fiscal 2010 versus 2009

For the fiscal year ended September 30, 2010 as compared to the prior year, the increase in gross margins across all segments is primarily due to increased revenues, cost reductions and lower inventory impairments and lot option abandonment charges. Our segments realized a nominal increase in gross margins excluding impairments as prices have begun to stabilize in certain of our markets and we benefitted from cost reductions. A few of our markets experienced a decrease in gross margins excluding inventory impairments for the fiscal year ended September 30, 2010 as compared to the prior year due to our decision to reduce prices in certain of our communities in order to compete with similar product for sale in the locale and to increase the frequency of new home orders.

Fiscal 2009 versus 2008

The increase in homebuilding gross margins across all segments is primarily due to decreases in corporate costs and inventory impairments and lot option abandonment charges (impairments and abandonments). Excluding impairments and abandonments, homebuilding gross margins increased slightly in our West segment due to continued focus on cost reduction initiatives; whereas they decreased in our East and Southeast segments which continued to be challenged by the further deterioration of market conditions and an increased use of incentives. The decrease in corporate and unallocated costs relates primarily to 1) a reduction of approximately $8 million in investigation-related costs given the resolution of the previously disclosed investigations despite $16 million of expense related to our obligations under the Deferred Prosecution Agreement (see Note 13 to the Consolidated Financial Statements), 2) a reduction of $57.5 million in the amortization of capitalized interest costs due to a lower capitalizable inventory base and an increase in disallowed interest for capitalization which is recorded as other expense, net in the accompanying Consolidated Statements of Operations, and 3) a reduction of $16.7 million in expenses related to the impairment of capitalized interest and indirect costs in connection with the reduced level of inventory impairments in fiscal 2009 compared to fiscal 2008.

Land Sales and Other Revenues. Land sales and other revenues relate to land and lots sold that did not fit within our homebuilding programs and strategic plans in these markets and net fees we received for general

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contractor services we performed on behalf of a third party. The table below summarizes land sales and other revenues and gross profit (loss) by reportable segment ($ *in thousands*):

	Land Sales & Other Revenues					Land Sales and Other Gross Profit (Loss)				
	2010	**2009**	**2008**	**10 v 09**	**09 v 08**	**2010**	**2009**	**2008**	**10 v 09**	**09 v 08**
West	**$ 3,774**	$ 1,529	$ 5,203	**146.8%**	(70.6)%	**$ 424**	$ (1)	$ 2,139	**n/m**	(100.0)%
East	**4,300**	1,120	107,024	**283.9%**	(99.0)%	**2,421**	562	7,349	**330.8%**	(92.4)%
Southeast	**1,236**	740	3,510	**67.0%**	(78.9)%	**1,235**	59	82	**n/m**	(28.0)%
Total	**$ 9,310**	$ 3,389	$ 115,737	**174.7%**	(97.1)%	**$ 4,080**	$ 620	$ 9,570	**558.1%**	(93.5)%

Fiscal 2010 versus 2009

The increase in land sales and other revenue and gross profit in fiscal 2010 from fiscal 2009 relates to our ability to dispose of land and lots that did not fit into our strategic plans. Our fiscal 2010 land sales and other revenue and gross profit in our Southeast segment also include net fees received for general contractor services we performed on behalf of a third party.

Fiscal 2009 versus 2008

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

Derivative Instruments and Hedging Activities. We are exposed to fluctuations in interest rates. From time to time, we enter into derivative agreements to manage interest costs and hedge against risks associated with fluctuating interest rates. As of September 30, 2010, 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, cash from operations, proceeds from Senior Notes and other bank borrowings, the issuance of equity and equity-linked securities and other external sources of funds. Our short-term and long-term liquidity depend primarily upon our level of net income, working capital management (cash, accounts receivable, accounts payable and other liabilities) and available credit facilities.

During the fiscal year ended September 30, 2010, we generated $29.8 million in cash primarily from our operations. Our liquidity position consisted of $537.1 million in cash and cash equivalents plus $39.2 million of restricted cash as of September 30, 2010. We expect to maintain a significant liquidity position during fiscal 2011, subject to changes in market conditions that would alter our expectations for land and land development expenditures or capital market conditions which could increase or decrease our cash balance on a quarterly basis.

Our net cash provided by operating activities for the fiscal year ended September 30, 2010 was $69.7 million primarily due to reductions in inventory due to increased closings and timing of strategic land purchases. Net cash used in investing activities was $6.2 million for the fiscal year ended September 30, 2010 compared to $79.7 million and $18.4 million for the fiscal years ended September 30, 2009 and 2008, respectively. For the fiscal year ended September 30, 2010 our use of cash was primarily related to investments in our property, plant and equipment and joint ventures, $3.9 million of which was used by one joint venture to repay outstanding debt, offset by a net reduction in our restricted cash of $10.3 million.

Net cash used in financing activities was $33.7 million for fiscal year ended September 30, 2010 as compared to $91.1 million for fiscal 2009 and $167.2 million in fiscal 2008. During fiscal 2010, we completed a $57.5 million Mandatory Convertible Subordinated Notes offering, two common stock offerings totaling 34,925,000 total shares, a $300 million senior unsecured debt offering and an offering of 3 million 7.25% Tangible Equity Units. The net proceeds from these offerings were used to repay our outstanding 2011 Senior Notes, 2012 Senior Notes and our 2024 Convertible Senior Notes.

As a result of our 2011 and 2012 Senior Notes and 2024 Convertible Senior Notes repayments, our next scheduled debt payment is not until November 2013. In addition, on January 15, 2010, we completed a partial exchange of $75 million of our outstanding Junior Subordinated Notes. We recorded a net gain of approximately

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$43.9 million during fiscal year ended September 30, 2010 primarily related to the exchange of our Junior Subordinated Notes (see Note 7 to the Consolidated Financial Statements where further discussed).

During our fiscal 2010, we received upgrades from S&P in our corporate credit rating to B-. Also during the fiscal year, Moody s raised its corporate credit rating of the Company to Caa1 and Fitch raised its corporate credit rating of the Company to B-. 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, results of operations, financial condition 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, result in a credit rating downgrade or change in outlook, or otherwise increase our cost of borrowing.

We fulfill our short-term cash requirements with cash generated from our operations. There were no amounts outstanding under the Secured Revolving Credit Facility at September 30, 2010; however, $37.9 million is currently used for letters of credit. We have entered into a number of stand-alone, cash secured letter of credit agreements with banks. These facilities will continue to provide for future working capital and letter of credit needs collateralized by either cash or assets of the Company at our option, based on certain conditions and covenant compliance. As of September 30, 2010, we have secured our letters of credit under these facilities using cash collateral which is maintained in restricted accounts totaling $38.8 million. In addition, we have elected to pledge approximately $925 million of inventory assets to our revolving credit facility. We believe that cash and cash equivalents at September 30, 2010 of $537.1 million, cash generated from our operations and the availability of new debt and equity financing, if any, will be adequate to meet our liquidity needs during fiscal 2011.

In addition to our continued focus on generation and preservation of cash, we are also focused on increasing our stockholders equity and reducing our leverage. In fiscal 2010, we raised $166.7 million of common equity capital, $128.2 million of equity linked capital (Mandatory Convertible Subordinated Notes and Tangible Equity Units) and $300 million Senior Notes while repaying $585.4 million of our Senior Notes. In addition, we restructured $75 million of our subordinated indebtedness due 2036. In addition, we received federal income tax refunds totaling $133 million.

We may also determine in the future that we need to issue additional new common or preferred equity. Any new issuance may take the form of public or private offerings for cash, equity issued to consummate acquisitions of assets or equity issued in exchange for a portion of our outstanding debt. We may also from time to time seek to continue to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity or other debt securities, in open market purchases, privately negotiated transactions or otherwise. In addition, any material variance from our projected operating results or land investments, or investments in or acquisitions of businesses, or amounts paid to fulfill obligations with governmental entities, could require us to obtain additional equity or debt financing. Any such equity transactions or debt financing may be on terms less favorable or at higher costs than our current financing sources, depending on future market conditions and other factors including any possible downgrades in our credit ratings or adverse commentaries issued by rating agencies in the future. Also, there can be no assurance that we will be able to complete any of these transactions in the future on favorable terms or at all.

Stock Repurchases and Dividends Paid The Company did not repurchase any shares in the open market during fiscal 2010, 2009 or 2008. Any future stock repurchases as allowed by our debt covenants must be approved by the Company s Board of Directors or its Finance Committee.

On November 2, 2007, our Board of Directors suspended payment of quarterly dividends. The Board concluded that suspending dividends, which will allow us to conserve approximately $16 million of cash annually, was a prudent effort in light of the continued deterioration of the housing market. In addition, the indentures under which our Senior

Notes were issued contain certain restrictive covenants, including limitations on the payment of dividends. At September 30, 2010, under the most restrictive covenants of each indenture, none of our retained earnings was available for cash dividends. Hence, there were no dividends paid in fiscal 2010, 2009 or 2008.

Off-Balance Sheet Arrangements and Aggregate Contractual Commitments. At September 30, 2010, we controlled 28,996 lots (a 6-year supply based on fiscal 2010 closings). We owned 80%, or 23,176 lots, and 5,820 lots, 20%, were under option contracts which generally require the payment of cash or the posting of a letter of credit for the right to acquire lots during a specified period of time at a certain price. We historically have attempted to control a portion of our land supply through options. As a result of the flexibility that these options provide us, upon a change in market conditions we may renegotiate the terms of the options prior to exercise or terminate the agreement. Under option contracts, 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, letters of credit and other non-refundable amounts incurred, which aggregated approximately $38.7 million at September 30, 2010. This amount includes non-refundable letters of credit of approximately $3.7 million. The total remaining purchase price, net of cash deposits, committed under all options was $221.3 million as of September 30, 2010. When market conditions improve, we may expand our use of option agreements to supplement our owned inventory supply.

We expect to exercise, subject to market conditions, 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 land options will be exercised.

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

We participate in a number of land development joint ventures in which we have less than a controlling interest. We enter into joint ventures in order to acquire attractive land positions, to manage our risk profile and to leverage our capital base. Our joint ventures are typically entered into with developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. We account for our interest in these joint ventures under the equity method. Our consolidated balance sheets include investments in joint ventures totaling $8.7 million and $30.1 million at September 30, 2010 and 2009, respectively.

Our joint ventures typically obtain secured acquisition and development financing. At September 30, 2010, our unconsolidated joint ventures had borrowings outstanding totaling $394.3 million, of which $327.9 million related to one joint venture in which we are a 2.58% partner. Generally, we and our joint venture partners have provided varying levels of guarantees of debt or other obligations of our unconsolidated joint ventures. At September 30, 2010, we had repayment guarantees of $15.8 million. One of our unconsolidated joint ventures, in which we have a 2.58% interest, is in default under its debt agreement at September 30, 2010. To the extent that we are unable to reach satisfactory resolutions, we may be called upon to perform under our applicable guarantees. See Note 3 to the Consolidated Financial Statements.

The following summarizes our aggregate contractual commitments at September 30, 2010 (*in thousands*):

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Senior Notes, Senior Secured Notes & other notes payable	$ 1,230,968	$ 9,307	$ 15,204	$ 374,575	$ 831,882
Interest commitments under Senior Notes, Senior Secured Notes & other notes payable(1)	787,310	104,400	197,660	181,540	303,710

Obligations related to lots under option	221,341	77,189	88,385	29,614	26,153
Operating leases	24,683	7,534	11,792	4,104	1,253
Uncertain tax positions(2)					
Total	$ 2,264,302	$ 198,430	$ 313,041	$ 589,833	$ 1,162,998

(1) Interest on variable rate obligations is based on rates effective as of September 30, 2010.

(2) Due to the uncertainty of the timing of settlement with taxing authorities, the Company is unable to make reasonably reliable estimates of the period of cash settlement of unrecognized tax benefits related to uncertain

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tax positions. See Note 9 to Consolidated Financial Statements for additional information regarding the Company s unrecognized tax benefits as of September 30, 2010.

We had outstanding performance bonds of approximately $184.7 million, at September 30, 2010 related principally to our obligations to local governments to construct roads and other improvements in various developments.

Recently Adopted Accounting Pronouncements. In September 2006, the FASB issued SFAS 157, *Fair Value Measurements (ASC 820)*. SFAS 157 (ASC 820) provides guidance for using fair value to measure assets and liabilities. SFAS 157 (ASC 820) applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS 157 (ASC 820) includes provisions that require expanded disclosure of the effect on earnings for items measured using unobservable data. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157 (ASC 820)*, delaying the effective date of certain non-financial assets and liabilities to fiscal periods beginning after November 15, 2008. The company adopted SFAS 157 (ASC 820) on October 1, 2009 as discussed in Note 8.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (ASC 825). SFAS 159 (ASC 825) permits companies to measure certain financial instruments and other items at fair value. We have not elected the fair value option applicable under SFAS 159 (ASC 825).

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* (ASC 815). SFAS 141R (ASC 815) amends and clarifies the accounting guidance for the acquirer s recognition and measurement of assets acquired, liabilities assumed and noncontrolling interests of an acquiree in a business combination. SFAS 141R (ASC 815) is effective for any acquisitions completed by the Company after September 30, 2009.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB 51* (ASC 810). SFAS 160 (ASC 810) requires that a noncontrolling interest (formerly a minority interest) in a subsidiary be classified as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be included in the consolidated financial statements. The adoption of SFAS 160 (ASC 810) did not have a material impact on our consolidated financial condition and results of operations as of June 30, 2010.

In June 2008, the FASB issued FSP EITF Issue No 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (ASC 260). FSP 03-6-1 (ASC 260) clarifies that non-vested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in SFAS 128, *Earnings per Share* (ASC 260) and requires that prior period EPS and share data be restated retrospectively for comparability. The Company grants restricted shares under a share-based compensation plan that qualify as participating securities. FSP 03-6-1 (ASC 260) was effective for the Company beginning October 1, 2009. The adoption of this guidance did not have a material impact on the Company s diluted earnings per share for the periods ended June 30, 2010 and 2009.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (ASC 470). FSP APB 14-1 (ASC 470) applies to convertible debt instruments that have a net settlement feature permitting settlement partially or fully in cash upon conversion. FSP APB 14-1 (ASC 470) was effective for the Company beginning October 1, 2009. Due to the fact that the Company s convertible securities cannot be settled in cash upon conversion, the adoption of FSP APB 14-1 (ASC 470) did not have a material impact on our consolidated financial condition and results of operations.

Recent Accounting Pronouncements Not Yet Adopted.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC 810), which revises the approach to determining the primary beneficiary of a variable interest entity (VIE) to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. SFAS 167 (ASC 810) also requires enhanced disclosures to provide more information about an enterprise s

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involvement in a variable interest entity. SFAS 167 (ASC 810) is effective for the Company s fiscal year beginning October 1, 2010. The adoption of this standard is expect to result in the deconsolidation of certain VIEs and is not expected to have a material impact on our consolidated financial condition.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

We are exposed to a number of market risks in the ordinary course of business. Our primary market risk exposure relates to fluctuations in interest rates. We do not believe that our exposure in this area is material to cash flows or earnings. As of September 30, 2010, we had no variable rate debt outstanding. The estimated fair value of our fixed rate debt at September 30, 2010 was $1.2 billion, compared to a carrying value of $1.2 billion. In addition, the effect of a hypothetical one-percentage point decrease in our estimated discount rates would increase the estimated fair value of the fixed rate debt instruments from $1.21 billion to $1.26 billion at September 30, 2010.

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Item 8. ***Financial Statements and Supplementary Data***

Beazer Homes USA, Inc.

Consolidated Statements of Operations

	Fiscal Year Ended September 30, 2010	2009	2008
	(In thousands, except share and per share amounts)		
Total revenue	**$ 1,009,841**	$ 971,703	$ 1,736,727
Home construction and land sales expenses	**874,197**	860,733	1,580,768
Inventory impairments and option contract abandonments	**50,036**	95,216	403,402
Gross profit (loss)	**85,608**	15,754	(247,443)
Selling, general and administrative expenses	**186,556**	222,691	298,274
Depreciation and amortization	**12,874**	18,392	23,802
Goodwill impairment		16,143	48,105
Operating loss	**(113,822)**	(241,472)	(617,624)
Equity in loss of unconsolidated joint ventures	**(8,807)**	(12,112)	(57,819)
Gain on extinguishment of debt	**43,901**	144,503	
Other expense, net	**(69,543)**	(74,791)	(35,405)
Loss from continuing operations before income taxes	**(148,271)**	(183,872)	(710,848)
(Benefit from) provision for income taxes	**(118,355)**	(8,350)	68,951
Loss from continuing operations	**(29,916)**	(175,522)	(779,799)
Loss from discontinued operations, net of tax	**(4,133)**	(13,861)	(172,113)
Net loss	**$ (34,049)**	$ (189,383)	$ (951,912)
Weighted average number of shares:			
Basic and diluted	**59,801**	38,688	38,549
Basic and diluted loss per share:			
Continuing operations	**$ (0.50)**	$ (4.54)	$ (20.23)
Discontinued operations	**$ (0.07)**	$ (0.36)	$ (4.46)
Total	**$ (0.57)**	$ (4.90)	$ (24.69)
Cash dividends per share	**$**	$	$

See Notes to Consolidated Financial Statements.

Beazer Homes USA, Inc.

Consolidated Balance Sheets

	September 30, 2010	September 30, 2009
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	**$ 537,121**	$ 507,339
Restricted cash	**39,200**	49,461
Accounts receivable (net of allowance of $3,567 and $7,545, respectively)	**32,647**	28,405
Income tax receivable	**7,684**	9,922
Inventory		
Owned inventory	**1,153,703**	1,265,441
Consolidated inventory not owned	**49,958**	53,015
Total inventory	**1,203,661**	1,318,456
Investments in unconsolidated joint ventures	**8,721**	30,124
Deferred tax assets, net	**7,779**	7,520
Property, plant and equipment, net	**23,995**	25,939
Other assets	**42,094**	52,244
Total assets	**$ 1,902,902**	$ 2,029,410
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	**$ 53,418**	$ 70,285
Other liabilities	**210,170**	227,315
Obligations related to consolidated inventory not owned	**30,666**	26,356
Total debt (net of discounts of $23,617 and $27,257, respectively)	**1,211,547**	1,508,899
Total liabilities	**1,505,801**	1,832,855
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, 180,000,000 shares authorized, 75,669,381 and 43,150,472 issued and 75,669,381 and 39,793,316 outstanding, respectively)	**76**	43
Paid-in capital	**618,612**	568,019
Accumulated deficit	**(221,587)**	(187,538)
Treasury stock, at cost (0 and 3,357,156 shares, respectively)		(183,969)
Total stockholders equity	**397,101**	196,555

Total liabilities and stockholders equity	**$ 1,902,902**	$ 2,029,410

See Notes to Consolidated Financial Statements.

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Beazer Homes USA, Inc.

Consolidated Statement of Stockholders Equity

	Preferred Stock	Common Stock	Paid in Capital	Accumulated Deficit ($ in thousands)	Treasury Stock	Total
Balance, September 30, 2007	$	$ 43	$ 543,705	$ 963,869	$ (183,895)	$ 1,323,722
Net loss and comprehensive loss				(951,912)		(951,912)
Amortization of nonvested stock awards			6,160			6,160
Amortization of stock option awards			6,404			6,404
Tax benefit from stock transactions			(1,158)			(1,158)
Issuance of bonus stock (43,075 shares)			1,799			1,799
Adoption of FIN 48				(10,112)		(10,112)
Common stock redeemed (7,255 shares)					(52)	(52)
Balance, September 30, 2008		43	556,910	1,845	(183,947)	374,851
Net loss and comprehensive loss				(189,383)		(189,383)
Amortization of nonvested stock awards			6,562			6,562
Amortization of stock option awards			5,277			5,277
Tax benefit from stock transactions			(2,273)			(2,273)
Issuance of bonus stock (27,708 shares)			1,543			1,543
Issuance of restricted stock (544,143 shares)						
Common stock redeemed (14,393 shares)					(22)	(22)
Balance, September 30, 2009		43	568,019	(187,538)	(183,969)	196,555
Net loss and comprehensive loss				(34,049)		(34,049)
Amortization of nonvested stock awards			5,552			5,552
Amortization of stock option awards			5,817			5,817
Tax benefit from stock transactions			(3,099)			(3,099)
Issuance of bonus stock (67,358 shares)			2,337			2,337
Issuance of restricted stock (1,006,145 shares)		1	(1)			

Issuance of prepaid stock purchase contracts			57,429			57,429
Common stock issued (34,925,000 shares)		35	166,683			166,718
Common stock redeemed (32,944 shares)			(25)		(134)	(159)
Treasury stock utilized (3,384,466 shares)		(3)	(184,100)		184,103	
Balance, September 30, 2010	$	$ 76	$ 618,612	$ (221,587)	$	$ 397,101

See Notes to Consolidated Financial Statements.

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Beazer Homes USA, Inc.

Consolidated Statements of Cash Flows

	Fiscal Year Ended September 30, 2010	2009	2008
	(In thousands)		
Cash flows from operating activities:			
Net loss	**$ (34,049)**	$ (189,383)	$ (951,912)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	**13,405**	18,884	27,709
Stock-based compensation expense	**11,369**	11,839	12,564
Inventory impairments and option contract abandonments	**51,839**	107,127	510,628
Goodwill impairment		16,143	52,470
Deferred income tax (benefit) provision	**(259)**	12,696	260,410
Provision for doubtful accounts	**(3,978)**	(1,370)	8,710
Excess tax benefit from equity-based compensation	**3,099**	2,273	1,158
Equity in loss of unconsolidated joint ventures	**24,350**	14,275	81,314
Cash distributions of income from unconsolidated joint ventures	**208**	2,991	2,439
Gain on extinguishment of debt	**(44,602)**	(148,077)	
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	**(264)**	19,520	(7,820)
Decrease (increase) in income tax receivable	**2,238**	163,578	(109,519)
Decrease in inventory	**82,504**	208,371	572,746
Decrease in other assets	**3,835**	25,072	49,600
Decrease in trade accounts payable	**(16,867)**	(20,086)	(27,916)
Decrease in other liabilities	**(22,530)**	(150,260)	(161,113)
Other changes	**(613)**	232	(5,901)
Net cash provided by operating activities	**69,685**	93,825	315,567
Cash flows from investing activities:			
Capital expenditures	**(10,849)**	(7,034)	(10,566)
Investments in unconsolidated joint ventures	**(5,602)**	(25,537)	(13,758)
Increases in restricted cash	**(37,439)**	(72,168)	(109,609)
Decreases in restricted cash	**47,700**	23,004	114,483
Distributions from unconsolidated joint ventures		2,054	1,050
Net cash used in investing activities	**(6,190)**	(79,681)	(18,400)
Cash flows from financing activities:			
Repayment of debt	**(619,806)**	(305,399)	(143,625)
Proceeds from issuance of new debt	**374,438**	223,750	
Debt issuance costs	**(9,234)**	(7,195)	(22,335)
Proceeds from issuance of common stock	**166,718**		
Proceeds from issuance of TEU prepaid stock purchase contracts	**57,429**		

Common stock redeemed	**(159)**	(22)	(52)
Excess tax benefit from equity-based compensation	**(3,099)**	(2,273)	(1,158)
Net cash used in financing activities	**(33,713)**	(91,139)	(167,170)
Increase (decrease) in cash and cash equivalents	**29,782**	(76,995)	129,997
Cash and cash equivalents at beginning of period	**507,339**	584,334	454,337
Cash and cash equivalents at end of period	**$ 537,121**	$ 507,339	$ 584,334

See Notes to Consolidated Financial Statements.

Beazer Homes USA, Inc.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Organization. Beazer Homes USA, Inc. is one of the ten largest homebuilders in the United States, based on number of homes closed. We are a geographically diversified homebuilder with active operations in 15 states: Arizona, California, Delaware, Florida, Georgia, Indiana, Maryland, Nevada, New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia. Through Beazer Mortgage Corporation, or Beazer Mortgage, we historically offered mortgage origination services to our homebuyers. Through January 31, 2008, Beazer Mortgage financed certain of our mortgage lending activities with borrowings under a warehouse line of credit or from general corporate funds prior to selling the loans and their servicing rights shortly after origination to third-party investors. In addition, through September 30, 2010, we offered title insurance services to our homebuyers in many of our markets. Effective February 1, 2008, we exited the mortgage origination business and effective September 30, 2010 we exited the title services business. Over the past few years, we have discontinued homebuilding operations in certain of our markets. Results from our mortgage origination business, title services business and exit markets are reported as discontinued operations in the accompanying Consolidated Statements of Operations for all periods presented (see Note 15 for further discussion of our Discontinued Operations). We evaluated events that occurred after the balance sheet date but before the financial statements were issued or are available to be issued for accounting treatment and disclosure in accordance with Accounting Standards Codification (ASC) No. 855, *Subsequent Events*.

Presentation. The accompanying consolidated financial statements include the accounts of Beazer Homes USA, Inc. and our subsidiaries. Intercompany balances have been eliminated in consolidation. Certain items in prior period financial statements have been reclassified to conform to the current presentation.

Cash and Cash Equivalents and Restricted Cash. We consider investments with maturities of three months or less when purchased to be cash equivalents. At September 30, 2010, the majority of our cash and cash equivalents were invested in high-quality money market mutual funds or on deposit with major banks, which were valued at par with no withdrawal restrictions. The underlying investments of these funds were predominately U.S. Government and U.S. Government Agency obligations. Restricted cash includes cash restricted by state law or a contractual requirement and, as of September 30, 2010 relates primarily to cash collateral for our outstanding letters of credit.

Accounts Receivable. Accounts receivable primarily consist of escrow deposits to be received from title companies associated with closed homes. Generally, we receive cash from title companies within a few days of the home being closed.

Inventory. Owned inventory consists solely of residential real estate developments. Interest, real estate taxes and development costs are capitalized in inventory during the development and construction period. Construction and land costs are comprised of direct and allocated costs, including estimated future costs for warranties and amenities. Land, land improvements and other common costs are typically allocated to individual residential lots on a pro-rata basis, and the costs of residential lots are transferred to construction in progress when home construction begins. Consolidated inventory not owned represents the fair value of land under option agreements consolidated pursuant to FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities* , an Interpretation of ARB No. 51 (FIN 46R) (ASC 810). FIN 46R requires us to consolidate the financial results of a variable interest entity (VIE) if the Company is the primary beneficiary of the VIE. VIEs are entities in which 1) equity investors do not have a controlling financial interest and/or 2) the entity is unable to finance its activities without additional subordinated financial support from other parties. In addition to lot options recorded in accordance with FIN 46R, we evaluate lot options in accordance with the provisions of SFAS No. 49, *Product Financing Arrangements* (ASC 470). When our deposits and pre-acquisition development costs exceed certain thresholds, we record the remaining purchase price of the lots as consolidated inventory not owned and obligations related to consolidated inventory not owned in the Consolidated Balance Sheets.

Investments in Unconsolidated Joint Ventures. We participate in a number of land development joint ventures in which we have less than a controlling interest. Our joint ventures are typically entered into with unrelated developers, other homebuilders and financial partners to develop finished lots for sale to the joint venture s members and other third parties. We have determined that our interest in these joint ventures should be accounted for under the equity method as prescribed by SOP 78-9, *Accounting for Investments in Real Estate Ventures*. We recognize our share of profits from the sale of lots to other buyers. Our share of profits from lots we purchase from the joint ventures is deferred and treated as a reduction of the cost of the land purchased from the joint venture. Such profits are subsequently recognized at the time the home closes and title passes to the homebuyer. We evaluate our investments in unconsolidated entities for impairment during each reporting period in accordance with APB 18, *The Equity Method of Accounting for Investments in Common Stock* (ASC 323). A series of operating losses of an investee or other factors may indicate that a decrease in the value of our investment in the unconsolidated entity has occurred which is other-than-temporary. The amount of impairment recognized is the excess of the investment s carrying value over its estimated fair value. Our joint ventures typically obtain secured acquisition and development financing. See Note 3, *Investments in Unconsolidated Joint Ventures*.

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

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

Inventory Valuation Held for Development. Our homebuilding inventories that are accounted for as held for development include land and home construction assets grouped together as communities. Homebuilding inventories held for development are stated at cost (including direct construction costs, capitalized indirect costs, capitalized interest and real estate taxes) unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. We assess these assets no less than quarterly for recoverability in accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (ASC 360). 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. However, the impact of the recent downturn in our business has significantly lengthened the estimated life of many communities. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If the expected undiscounted cash flows generated are expected to be less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its estimated fair value based on discounted cash flows.

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

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

Actual Net Contribution Margin (defined as homebuilding revenues less homebuilding costs and direct selling expenses) for homes closed in the current fiscal quarter, fiscal year to date and prior two fiscal

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quarters. Homebuilding costs include land and land development costs (based upon an allocation of such costs, including costs to complete the development, or specific lot costs), home construction costs (including an estimate of costs, if any, to complete home construction), previously capitalized indirect costs (principally for construction supervision), capitalized interest and estimated warranty costs Direct selling expenses include commissions, closing costs and amortization related to model home furnishings and improvements;

Projected Net Contribution Margin for homes in backlog;

Actual and trending new orders and cancellation rates;

Actual and trending base home sales prices and sales incentives for home sales that occurred in the prior two fiscal quarters that remain in backlog at the end of the fiscal quarter and expected future homes sales prices and sales incentives and absorption over the expected remaining life of the community;

A comparison of our community to our competition to include, among other things, an analysis of various product offerings including, the size and style of the homes currently offered for sale, community amenity levels, availability of lots in our community and our competition s, desirability and uniqueness of our community and other market factors; and

Other events that may indicate that the carrying value may not be recoverable.

In determining the recoverability of the carrying value of the assets of a community that we have evaluated as requiring a test for impairment, significant quantitative and qualitative assumptions are made relative to the future home sales prices, sales incentives, direct and indirect costs of home construction and land development and the pace of new home orders. In addition, these assumptions are dependent upon the specific market conditions and competitive factors for each specific community and may differ greatly between communities within the same market and communities in different markets. Our estimates are made using information available at the date of the recoverability test, however, as facts and circumstances may change in future reporting periods, our estimates of recoverability are subject to change.

For assets in communities for which the undiscounted future cash flows are less than the carrying value, the carrying value of that community is written down to its then estimated fair value based on discounted cash flows. The carrying value of assets in communities that were previously impaired and continue to be classified as held for development is not written up for future estimates of increases in fair value in future reporting periods. Market deterioration that exceeds our estimates may lead us to incur additional impairment charges on previously impaired homebuilding assets in addition to homebuilding assets not currently impaired but for which indicators of impairment may arise if the market continues to deteriorate.

The fair value of the homebuilding inventory held for development is estimated using the present value of the estimated future cash flows using discount rates commensurate with the risk associated with the underlying community assets. The discount rate used may be different for each community. The factors considered when determining an appropriate discount rate for a community include, among others: (1) community specific factors such as the number of lots in the community, the status of land development in the community, the competitive factors influencing the sales performance of the community and (2) overall market factors such as employment levels, consumer confidence and the existing supply of new and used homes for sale. The assumptions used in our discounted cash flow models are specific to each community tested for impairment. Historically we did not include market improvements except in limited circumstances in the latter years of long-lived communities. Beginning in the fourth quarter of fiscal 2009, we assumed limited market improvements in some communities beginning in fiscal 2011 and continuing improvement in these communities in subsequent years. We assumed the remaining communities would have market improvements beginning in fiscal 2012.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in our historical analyses. Our assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. We calculated the estimated fair values of inventory held for development that were evaluated for impairment based on current market conditions and assumptions made by management relative to future results. Because our projected cash flows are significantly impacted by changes in market conditions, it is reasonably possible that actual results could differ materially from our estimates and result in additional impairments.

Asset Valuation Land Held for Future Development. For those communities for which construction and development activities are expected to occur in the future or have been idled (land held for future development), all applicable interest and real estate taxes are expensed as incurred and the inventory is stated at cost unless facts and circumstances indicate that the carrying value of the assets may not be recoverable. The future enactment of a development plan or the occurrence of events and circumstances may indicate that the carrying amount of an asset may not be recoverable. We evaluate the potential development plans of each community in land held for future development if changes in facts and circumstances occur which would give rise to a more detailed analysis for a change in the status of a community to active status or held for development.

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

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

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

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

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

Goodwill. Goodwill represents the excess of the purchase price over the fair value of assets acquired. We historically have tested goodwill for impairment annually as of April 30 or more frequently if an event occurred or circumstances indicated that the asset might be impaired. From late fiscal 2006 through the first half of fiscal 2009, the deterioration of the housing industry resulted in an oversupply of inventory, reduced levels of demand, increased cancellation rates, aggressive price competition and increased incentives for homes sales. Based on our impairment tests and consideration of the current and expected future market conditions, over this time we determined that all of our goodwill was impaired. We recorded a non-cash, pre-tax goodwill impairment of $16.1 million in fiscal 2009. In fiscal 2008, we had determined that the goodwill was impaired related to our Southern California, Arizona,

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Colorado, New Jersey and Virginia reporting units and recorded non-cash, pre-tax goodwill impairment charges totaling $52.5 million, of which $4.4 million has been included in loss from discontinued operations, net of tax. The Company has no goodwill remaining as of September 30, 2010 or 2009.

Goodwill impairment charges are reported in Corporate and Unallocated and are not allocated to our homebuilding segments. Goodwill balances by reporting segment as of October 1, 2008 and 2009 were as follows.

	October 1, 2008	Fiscal 2009 Impairments	September 30, 2009
		(In thousands)	
West	$ 6,885	**$ (6,885)**	$
East	9,258	**(9,258)**	
Total	$ 16,143	$ (16,143)	$

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

Income Taxes. Income taxes are accounted for in accordance with SFAS 109, *Accounting for Income Taxes and* FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* (FIN 48) (ASC 740). Under ASC 740, the provision for income taxes is comprised of taxes that are currently payable and deferred taxes that relate to temporary differences between financial reporting carrying values and tax bases of assets and liabilities. Deferred tax assets and liabilities result from deductible or taxable amounts in future years when such assets and liabilities are recovered or settled and are measured using the enacted tax rates and laws that are expected to be in effect when the assets and liabilities are recovered or settled. 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.

Other Liabilities. Other liabilities include the following:

	September 30, 2010	September 30, 2009
	(In thousands)	
Income tax liabilities	**$ 53,508**	$ 50,850
Accrued warranty expenses	**25,821**	30,100
Accrued interest	**35,477**	32,533
Accrued and deferred compensation	**31,474**	29,379
Customer deposits	**3,678**	5,507
Other	**60,212**	78,946

Total	**$**	**210,170**	$	227,315

Income Recognition and Classification of Costs. Revenue and related profit are generally recognized at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer. As appropriate, revenue for condominiums under construction is recognized based on the percentage-of-completion method in accordance with SFAS 66, *Accounting for Sales of Real-Estate and* Emerging Issues Task Force (EITF) Issue No. 06-8, *Applicability of the Assessment of a Buyer s Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominium*s (ASC 360), when certain criteria are met.

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

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

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

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

Advertising costs related to our continuing operations of $11.4 million, $11.8 million and $22.9 million for fiscal years 2010, 2009, and 2008, respectively, were expensed as incurred and are included in selling, general and administrative expenses. The decrease in advertising costs relates primarily to the reduced number of communities being marketed and our more efficient use of advertising dollars in connection with our cost control initiatives.

Earnings Per Share (EPS). The computation of basic earnings per common share is determined by dividing net income applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS additionally gives effect (when dilutive) to stock options, other stock based awards and other potentially dilutive securities. In computed diluted loss per share for the fiscal years ended September 30, 2010, 2009 and 2008, all common stock equivalents were excluded from the computation of diluted loss per share as a result of their anti-dilutive effect.

Fair Value Measurements. 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. We review our long-lived assets, including inventory for recoverability when factors that 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 approximate 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. 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. See Note 8 for additional discussion of our fair value measurements.

Stock-Based Compensation. We use the Black-Scholes model to value stock-settled appreciation rights (SSARs) and stock option grants under SFAS 123R, *Share-Based Payme*nt (ASC 718), and applied the modified prospective method for existing grants which required us to value the grants made prior to our adoption of SFAS 123R under the fair value method and expense the unvested portion over the remaining vesting period. 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 a financing cash inflow and an operating cash outflow. Nonvested stock granted to employees is valued based on the market price of the common stock on the date of the grant. Performance based, nonvested stock granted to employees is valued using the Monte Carlo valuation method. Cash-settled, stock-based awards granted to employees are initially valued based on the market price of the underlying common stock on the date of the grant and are adjusted to fair value until vested. Stock options issued to non-employees are valued using the Black-Scholes option pricing model. Nonvested stock granted to non-employees is initially valued based on the market price of the common stock on the date of the grant and is adjusted to fair value until vested.

Compensation cost arising from nonvested stock granted to employees, from cash-settled, stock-based employee awards and from non-employee stock awards is recognized as expense using the straight-line method over the vesting period. Unearned compensation is included in paid in capital. As of September 30, 2010 and 2009, there was $10.0 million and $9.6 million, respectively, of total unrecognized compensation cost related to nonvested stock. The cost remaining at September 30, 2010 is expected to be recognized over a weighted average period of 2.4 years.

For the years ended September 30, 2010, 2009, and 2008, total non-cash stock-based compensation expense, included in SG&A expenses, was $11.4 million ($7.6 million net of tax), $11.8 million ($8.3 million net of tax) and $12.3 million ($8.7 million net of tax), respectively.

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

Recently Adopted Accounting Pronouncements. In September 2006, the FASB issued SFAS 157, *Fair Value Measurements (ASC 820)*. SFAS 157 (ASC 820) provides guidance for using fair value to measure assets and liabilities. SFAS 157 (ASC 820) applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS 157 (ASC 820) includes provisions that require expanded disclosure of the effect on earnings for items measured using unobservable data. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157 (ASC 820)*, delaying the effective date of certain non-financial assets and liabilities to fiscal periods beginning after November 15, 2008. The company adopted SFAS 157 (ASC 820) on October 1, 2009 as discussed in Note 8.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (ASC 825). SFAS 159 (ASC 825) permits companies to measure certain financial instruments and other items at fair value. We have not elected the fair value option applicable under SFAS 159 (ASC 825).

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* (ASC 815). SFAS 141R (ASC 815) amends and clarifies the accounting guidance for the acquirer s recognition and measurement of assets acquired, liabilities assumed and noncontrolling interests of an acquiree in a business combination. SFAS 141R (ASC 815) is effective for any acquisitions completed by the Company after September 30, 2009.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB 51* (ASC 810). SFAS 160 (ASC 810) requires that a noncontrolling interest (formerly a minority interest) in a subsidiary be classified as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be included in the consolidated financial statements. The adoption of SFAS 160 (ASC 810) did not have a material impact on our consolidated financial condition and results of operations as of September 30, 2010.

In June 2008, the FASB issued FSP EITF Issue No 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (ASC 260). FSP 03-6-1 (ASC 260) clarifies that non-vested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in SFAS 128, *Earnings per Share* (ASC 260) and requires that prior period EPS and share data be restated retrospectively for comparability. The Company grants restricted shares under a share-based compensation plan that qualify as participating securities. FSP 03-6-1 (ASC 260) was effective for the Company beginning October 1, 2009. The adoption of this guidance did not have a material impact on the Company s diluted earnings per share for any periods in the fiscal years ended September 30, 2010 and 2009.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (ASC 470). FSP APB 14-1 (ASC 470) applies to convertible debt instruments that have a net settlement feature permitting settlement partially or fully in cash upon conversion. FSP APB 14-1 (ASC 470) was effective for the Company beginning October 1, 2009. Due to the fact that the Company s convertible securities cannot be settled in cash upon conversion, the adoption of FSP APB 14-1 (ASC 470) did not have a material impact on our consolidated financial condition and results of operations.

Recent Accounting Pronouncements Not Yet Adopted.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC 810), which revises the approach to determining the primary beneficiary of a variable interest entity (VIE) to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. SFAS 167 (ASC 810) also requires enhanced disclosures to provide more information about an enterprise s involvement in a variable interest entity. SFAS 167 (ASC 810) is effective for the Company s fiscal year beginning October 1, 2010. The Company expects the adoption of SFAS 167 (ASC 810) to result in the deconsolidation of certain VIEs and a reduction in the amount of consolidated inventory not owned reported in our consolidated financial statements and is not expected to have a material impact on our consolidated financial condition.

(2) Supplemental Cash Flow Information

We had the following cash and non-cash activity *(in thousands)*:

	2010	2009	2008
Supplemental disclosure of non-cash activity:			
Increase (decrease) in obligations related to consolidated inventory not owned	**$ 4,310**	$ (44,252)	$ (107,323)
Non-cash land acquisitions	**515**	16,860	33,285
Issuance of stock under deferred bonus stock plans	**2,337**	1,543	1,799
Decrease in retained earnings from FIN 48 adoption			(10,112)
Supplemental disclosure of cash activity:			
Interest payments	**113,885**	129,724	133,482
Income tax payments	**655**	9,692	2,879
Tax refunds received	**135,803**	172,465	59,242

(3) Investments in Unconsolidated Joint Ventures

As of September 30, 2010, we participated in certain land development joint ventures in which Beazer Homes had less than a controlling interest. The following table presents our investment in our unconsolidated joint ventures, the total equity and outstanding borrowings of these joint ventures and our guarantees of these borrowings as of September 30, 2010 and September 30, 2009:

	2010	2009
	(In thousands)	
Beazer s investment in joint ventures	**$ 8,721**	$ 30,124
Total equity of joint ventures	**94,392**	328,875
Total outstanding borrowings of joint ventures	**394,301**	422,682
Beazer s estimate of its maximum exposure to our loan-to-value maintenance guarantees		3,850

Beazer s estimate of its maximum exposure to our repayment guarantees	**15,789**	15,789

The decrease in our investment in unconsolidated joint ventures from September 30, 2009 to September 30, 2010 relates primarily to impairments offset slightly by additional investments of $5.6 million. In addition, during fiscal 2010, together with our joint venture partners, we terminated our involvement in two joint ventures. For the fiscal years ended September 30, 2010, 2009 and 2008, our loss from joint venture activities, the impairments of our investments in certain of our unconsolidated joint ventures, and the overall equity in loss of unconsolidated joint ventures is as follows:

	2010	2009	2008
		(In thousands)	
Continuing operations:			
Income (loss) from joint venture activity	**$ 10**	$ 518	$ (12,527)
Impairment of joint venture investment	**(8,817)**	(12,630)	(45,292)
Equity in loss of unconsolidated joint ventures	$ (8,807)	$ (12,112)	$ (57,819)
Reported in loss from discontinued operations, net of tax			
(Loss) income from joint venture activity	**$ (32)**	$	$ 4
Impairment of joint venture investment	**(15,511)**	(2,163)	(23,499)
Equity in loss of unconsolidated joint ventures discontinued operations	$ (15,543)	$ (2,163)	$ (23,495)

The aggregate debt of the unconsolidated joint ventures was $394.3 million and $422.7 million at September 30, 2010 and 2009, respectively. At September 30, 2010, total borrowings outstanding include $327.9 million related to one joint venture in which we are a 2.58% member. The $28.4 million reduction in total outstanding joint venture debt during fiscal 2010 resulted primarily from debt payments of $35.0 million in accordance with loan agreements and/or negotiated settlements offset by loan draws of $6.6 million to fund the development activities of certain joint ventures. In December 2009, together with our joint venture partner, we reached agreement with a lender to the joint venture to pay down the joint venture s outstanding debt by $7.4 million. In connection with this loan repayment, which was funded by capital contributions from both joint venture partners, the lender released the obligations under the related loan-to-value maintenance guarantees.

During the fourth quarter of fiscal 2009, one of our unconsolidated joint ventures completed a modification of its loan agreement with its lender, which resulted in, among other things, an extension of its maturity, enhanced guarantees from our joint venture partner and the release of Beazer under all guarantees related to this joint venture. Beazer contributed $9.7 million as an additional investment in the joint venture as part of the loan modification. Also during the fourth quarter of fiscal 2009, the Company and its joint venture partners entered into agreements with a lender to repay the notes payable of one of its unconsolidated joint ventures at a discount. The Company contributed an additional $4.3 million as an investment which was used to reduce the loan balance of this joint venture. We also entered into an agreement with a lender and our joint venture partner to purchase the notes payable and our partner s interest in one of our unconsolidated joint ventures for a total of $13.6 million. This joint venture is consolidated in our financial statements as of September 30, 2009. In fiscal 2009, we also paid $3.0 million to settle our obligations under guarantees for three ventures which we had previously estimated at a maximum potential obligation of $16.6 million. As part of the settlement agreements, the lenders also cancelled $48.6 million of the outstanding debt of these three joint ventures.

One of our joint ventures is in default under its debt obligations. During fiscal 2008, the lender to the joint venture, in which we have a 2.58% investment, notified the joint venture members that it believes the joint venture is in default of certain joint venture loan agreements as a result of certain of the Company s joint venture members not complying with all aspects of the joint ventures loan agreements. The joint venture members are currently in discussions with the lender. In December 2008, the lender filed individual lawsuits against some of the joint venture members and certain of those members parent companies (including the Company), seeking to recover damages under completion guarantees, among other claims. We intend to vigorously defend against this legal action. The Company s share of the outstanding debt is approximately $15.1 million at September 30, 2010. Under the terms of the agreement, our repayment guarantee is estimated at $15.1 million, which is only triggered in the event of bankruptcy of the joint venture. Due to discussions with our other joint venture members, and based on our revised estimates regarding the realizability of our investment, we impaired our equity interest of $8.8 million in this joint venture during fiscal 2010. In addition, one member of the joint venture filed an arbitration proceeding against the remaining members related to the plaintiff-member s allegations that the other members failed to perform under the applicable membership agreements. The arbitration proceeding in this matter was held in February 2010 and the arbitration panel issued its decision on July 6, 2010. Under the decision, the panel denied the plaintiff s specific performance claims and awarded damages in the amount well below the amount claimed. The Company does not believe that its proportional share of the award is considered material to our consolidated financial position or results of operations. The Company has recorded an accrual for such matter (see Note 13 for additional information). In addition, certain of the joint venture members have curtailed their funding of their allocable joint venture obligations. Given the inherent uncertainties involved in the ongoing negotiations among the joint venture members, as of September 30, 2010, no accrual has been recorded with respect to the unfunded amounts, as obligations to Beazer, if any, related to these matters were not both probable and reasonably estimable.

Our joint ventures typically obtain secured acquisition, development and construction financing. Generally Beazer and our joint venture partners provide varying levels of guarantees of debt and other obligations for our unconsolidated joint ventures. At September 30, 2010, these guarantees included, for certain joint ventures, construction completion guarantees, loan-to-value maintenance agreements, repayment guarantees and environmental indemnities.

In assessing the need to record a liability for the contingent aspect of these guarantees in accordance with FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Oth*ers (ASC 400), 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 joint ventures. In addition, we monitor the fair value of the collateral of these unconsolidated joint ventures 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.

Construction Completion Guarantees

We and our joint venture partners may be obligated to the project lenders to complete land development improvements and the construction of planned homes if the joint venture does not perform the required development. Provided the joint venture and the partners are not in default under any loan provisions, the project lenders typically are obligated to fund these improvements through any financing commitments available under the applicable loans. A majority of these construction completion guarantees are joint and several with our partners. In those cases, we generally have a reimbursement arrangement with our partner which provides that neither party is responsible for more than its proportionate share of the guarantee. However, if our joint venture partner does not have adequate financial resources to meet its obligations under such reimbursement arrangement, we may be liable for more than our proportionate share, up to our maximum exposure, which is the full amount covered by the relevant joint and several guarantee. The guarantees cover a specific scope of work, which may range from an individual development phase to the completion of the entire project. As of September 30, 2010, we have a completion guarantee related to one joint venture loan which also has a repayment guarantee associated with it. No accrual has been recorded, as losses, if any, related to construction completion guarantees are not both probable and reasonably estimable.

Loan-to-Value Maintenance Agreements

We and our joint venture partners may provide credit enhancements to acquisition, development and construction borrowings in the form of loan-to-value maintenance agreements, which can limit the amount of additional funding provided by the lenders or require repayment of the borrowings to the extent such borrowings plus construction completion costs exceed a specified percentage of the value of the property securing the borrowings. The agreements generally require periodic reappraisals of the underlying property value. To the extent that the underlying property gets reappraised, the amount of the exposure under the loan-to value-maintenance (LTV) guarantee would be adjusted accordingly and any such change could be significant. In certain cases, we may be required to make a re-balancing payment following a reappraisal in order to reduce the applicable loan-to-value ratio to the required level. As of September 30, 2010, we do not have any obligations related to LTV guarantees. Our estimate of the Company s portion of LTV guarantees of the unconsolidated joint ventures was $3.9 million at September 30, 2009. During fiscal 2010, the Company and its joint venture partner reached an agreement with the lender of a joint venture to release the LTV guarantee and extend the related loan maturity up to two years in exchange for a loan repayment of $7.4 million. The Company invested an additional $3.9 million in the joint venture to facilitate this repayment during fiscal 2010.

Repayment Guarantees

We and our joint venture partners have repayment guarantees related to certain joint ventures borrowings. These repayment guarantees require the repayment of all or a portion of the debt of the unconsolidated joint venture only in the event the joint venture defaults on its obligations under the borrowing or in some cases only in the event the joint venture files for bankruptcy. Our estimate of Beazer s maximum exposure to our repayment guarantees related to the outstanding debt of its unconsolidated joint ventures was $15.8 million at both September 30, 2010 and 2009.

Environmental Indemnities

Additionally, we and our joint venture partners generally provide unsecured environmental indemnities to joint venture project lenders. In each case, we have performed due diligence on potential environmental risks. These indemnities obligate us to reimburse the project lenders for claims related to environmental matters for which they are held responsible. During the fiscal years ended September 30, 2010 and 2009, we were not required to make any payments related to environmental indemnities. No accrual has been recorded, as losses, if any, related to environmental indemnities are not both probable and reasonably estimable

(4) Inventory

	September 30, 2010	September 30, 2009
	(In thousands)	
Homes under construction	**$ 210,104**	$ 219,724
Development projects in progress	**444,062**	487,457
Land held for future development	**382,889**	417,834
Land held for sale	**36,259**	42,470
Capitalized interest	**36,884**	38,338
Model homes	**43,505**	59,618
Total owned inventory	**$ 1,153,703**	$ 1,265,441

Homes under construction includes homes finished and ready for delivery and homes in various stages of construction. We had 423 ($71.5 million) and 270 ($46.3 million) completed homes that were not subject to a sales contract at September 30, 2010 and 2009, respectively (spec homes). The increase in spec homes at September 30, 2010 was primarily due to homes started in anticipation of increased demand related to the expiration of the federal and state tax rebates in June 2010 that remained unsold at fiscal year end. Development projects in progress consist principally of land and land improvement costs. Certain of the fully developed lots in this category are reserved by a deposit or sales contract. Land held for 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. During the fiscal year 2010, we reclassified $33.5 million of land held for future development to development projects in progress. Since 2008, the Company has made strategic decisions to re-allocate capital employed through sales of select properties and through the exiting of certain markets no longer viewed as strategic and has recorded such land as held for sale. Land held for sale as of September 30, 2010 and 2009 principally included land held for sale in the markets we have decided to exit including Colorado, New Mexico, Jacksonville, Florida and Charlotte, North Carolina.

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

	September 30, 2010				September 30, 2009			
	Projects in Progress	Held for Future Development	Land Held for Sale	Total Owned Inventory	Projects in Progress	Held for Future Development	Land Held for Sale	Total Owned Inventory
est Segment	**$ 281,912**	**$ 311,472**	**$ 5,273**	**$ 598,657**	$ 276,348	$ 345,050	$ 8,171	$ 629,569
ast Segment	**269,210**	**47,381**	**1,376**	**317,967**	318,888	48,748	2,927	370,563
outheast Segment	**121,509**	**24,036**		**145,545**	136,015	24,036		160,051
nallocated	**53,157**			**53,157**	56,992			56,992
iscontinued Operations	**8,767**		**29,610**	**38,377**	16,894		31,372	48,266
otal	**$ 734,555**	**$ 382,889**	**$ 36,259**	**$ 1,153,703**	$ 805,137	$ 417,834	$ 42,470	$ 1,265,441

Inventory located in California, the state with our largest concentration of inventory, was $345.7 million and $358.7 million at September 30, 2010 and 2009, respectively.

Inventory Impairments. The following tables set forth, by reportable homebuilding segment, the inventory impairments and lot option abandonment charges recorded for the fiscal years ended September 30, 2010, 2009 and 2008 *(in thousands)* :

	Fiscal Year Ended September 30, 2010	2009	2008
Development projects and homes in process (Held for Development)			
West	**$ 18,056**	$ 42,704	$ 145,710
East	**18,703**	6,383	70,152
Southeast	**7,973**	24,536	53,103
Unallocated	**3,404**	5,116	21,769
Subtotal	**$ 48,136**	$ 78,739	$ 290,734
Land Held for Sale			
West	**$ 1,061**	$ 9,357	$ 8,505
East		1,071	16,883
Southeast		2,094	35,793
Subtotal	**$ 1,061**	$ 12,522	$ 61,181
Lot Option Abandonments			
West	**$ 783**	$ 99	$ 14,893
East	**35**	2,884	9,850

Southeast	**21**	972	26,744
Subtotal	**$ 839**	$ 3,955	$ 51,487
Continuing Operations	**$ 50,036**	$ 95,216	$ 403,402
Discontinued Operations			
Held for Development	**$ 781**	$ 1,477	$ 21,888
Land Held for Sale	**1,003**	9,370	55,593
Lot Option Abandonments	**19**	1,064	29,745
Subtotal	**$ 1,803**	$ 11,911	$ 107,226
Total Company	**$ 51,839**	$ 107,127	$ 510,628

The inventory held for development that was impaired during fiscal 2010, 2009 and 2008 was based on our estimated discounted cash flow impairment calculations. The fair value below represents the fair value immediately after a community s impairment, or the last impairment taken for communities impaired multiple times (*$ in millions*).

	2010	2009	2008
Discount Rate low	**14%**	17%	16%
Discount Rate high	**20%**	22%	23%
Continuing operations			
Communities impaired	**26**	34	103
Lots impaired	**1,855**	3,361	8,838
Estimated fair value	**$ 68.3**	$ 103.7	$ 363.7
Discontinued operations			
Communities impaired	**3**	1	37
Lots impaired	**40**	121	641
Estimated fair value	**$ 4.5**	$ 2.4	$ 47.9

During fiscal 2009 and 2010, for certain communities we determined it was prudent to reduce sales prices or further increase sales incentives in response to factors including competitive market 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, the change in sales prices and changes in absorption estimates led to additional impairments in certain communities during the fiscal year. In future periods, we may again determine that it is prudent to reduce sales prices, further increase sales incentives or reduce absorption rates which may lead to additional impairments, which could be material. The impairments recorded on our held for development inventory for the fiscal years ended September 30, 2010, 2009 and 2008, primarily resulted from the continued decline in the homebuilding environment across our submarkets.

The impairments on land held for sale above represent further write downs of these properties to net realizable value, less estimated costs to sell and are as a result of challenging market conditions and our review of recent comparable transactions.

Lot Option Agreements and Abandonments. 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. A 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 certain 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, which aggregated approximately $38.7 million at September 30, 2010. This amount includes non-refundable letters of credit of approximately $3.7 million. The total remaining purchase price, net of cash deposits, committed under all options was $221.3 million as of September 30, 2010.

We have determined the proper course of action with respect to a number of communities within each homebuilding segment was to abandon the remaining lots under option and to write-off the deposits securing the option takedowns, as well as preacquisition costs. In determining whether to abandon a lot option contract, we evaluate the lot option primarily based upon the expected cash flows from the property that is the subject of the option. If we intend to abandon or walk-away from a lot option contract, we record a charge to earnings in the period such decision is made for the deposit amount and any related capitalized costs associated with the lot option contract. We recorded lot option abandonment charges during the fiscal years ended September 30, 2010, 2009 and 2008 as indicated in the table above. The abandonment charges relate to our decision to abandon certain option contracts that no longer fit in our long-term strategic plan and related to our prior year decision to exit certain markets.

We expect to exercise, subject to market conditions, 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 land options will be exercised.

Certain of our option contracts are with sellers who are deemed to be VIEs under FIN 46R. FIN 46R defines a VIE as an entity with insufficient equity investment to finance its planned activities without additional financial support or an entity in which the equity investors lack certain characteristics of a controlling financial interest. Pursuant to FIN 46R, an enterprise that absorbs a majority of the expected losses or receives a majority of the expected residual returns of a VIE is deemed to be the primary beneficiary of the VIE and must consolidate the VIE.

We have determined that we are the primary beneficiary of certain of these option contracts. Our risk is generally limited to the option deposits that we pay, and creditors of the sellers generally have no recourse to the general credit of the Company. Although we do not have legal title to the optioned land, for those option contracts for which we are the primary beneficiary, we are required to consolidate the land under option at fair value. We believe that the exercise prices of our option contracts approximate their fair value. Our consolidated balance sheets at September 30, 2010 and 2009 reflect consolidated inventory not owned of $50.0 million and $53.0 million, respectively. Obligations related to consolidated inventory not owned totaled $30.7 million at September 30, 2010 and $26.4 million at September 30, 2009. The difference between the balances of consolidated inventory not owned and obligations related to consolidated inventory not owned represents cash deposits paid under the option agreements. Effective October 1, 2010, the Company will adopt the provisions of ASC 810. The adoption of this standard is expected to result in the deconsolidation of certain VIEs and is not expected to have a material impact on our consolidated financial condition.

(5) Interest

Our ability to capitalize all interest incurred during fiscal 2010, 2009 and 2008 has been limited by the reduction in our inventory eligible for capitalization. The following table sets forth certain information regarding interest (*in thousands*):

	Fiscal Year Ended September 30,		
	2010	**2009**	**2008**
Capitalized interest in inventory, beginning of year	**$ 38,338**	$ 45,977	$ 87,560
Interest incurred	**127,316**	133,481	139,659
Capitalized interest impaired	**(2,313)**	(3,376)	(13,795)
Interest expense not qualified for capitalization and included as other expense	**(74,214)**	(83,030)	(55,185)
Capitalized interest amortized to house construction and land sales expenses	**(52,243)**	(54,714)	(112,262)
Capitalized interest in inventory, end of year	**$ 36,884**	$ 38,338	$ 45,977

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(6) Property, Plant and Equipment

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

	September 30, 2010	September 30, 2009
Building	**$ 2,378**	$ 2,378
Model and sales office improvements	**43,147**	57,010
Leasehold improvements	**6,875**	8,298
Computer and office equipment	**13,306**	18,709
Information systems	**20,078**	25,148
Furniture and fixtures	**7,069**	8,168
	92,853	119,711
Less: Accumulated depreciation	**(68,858)**	(93,772)
	$ 23,995	$ 25,939

(7) Borrowings

At September 30, 2010 and 2009 we had the following long-term debt *(in thousands)*:

	Maturity Date	September 30, 2010	September 30, 2009
Secured Revolving Credit Facility	August 2011	$	$
85/8% Senior Notes	May 2011		127,254
83/8% Senior Notes	April 2012		303,599
61/2% Senior Notes	November 2013	**164,473**	164,473
67/8% Senior Notes	July 2015	**209,454**	209,454
81/8% Senior Notes	June 2016	**180,879**	180,879
12% Senior Secured Notes	October 2017	**250,000**	250,000
91/8% Senior Notes	June 2018	**300,000**	
TEU Senior Amortizing Notes	August 2013	**14,594**	
45/8% Convertible Senior Notes	June 2024		154,500
Unamortized debt discounts		**(23,617)**	(27,257)
Total Senior Notes, net		**1,095,783**	1,362,902
Mandatory Convertible Subordinated Notes	January 2013	**57,500**	
Junior subordinated notes	July 2036	**47,470**	103,093
Other secured notes payable	Various Dates	**10,794**	12,543
Model home financing obligations	Various Dates		30,361

Total debt, net	**$**	**1,211,547**	$	1,508,899

As of September 30, 2010, future maturities of our borrowings, excluding our Mandatory Convertible Subordinated Notes which are convertible to common stock upon maturity, are as follows *(in thousands)*:

Year Ending September 30,	
2011	$ 9,307
2012	8,347
2013	6,857
2014	164,797
2015	209,778
Thereafter	831,882
Total	$ 1,230,968

Secured Revolving Credit Facility On August 5, 2009, we entered into an amendment to our Secured Revolving Credit Facility that reduced the size of the facility to $22 million. The Secured Revolving Credit Facility is provided by one lender. The Secured Revolving Credit Facility provides for future working capital and letter of credit needs collateralized by either cash or assets of the Company at our option, based on certain conditions and covenant compliance. As of September 30, 2010, we have elected to cash collateralize all letters of credit; however, we have pledged approximately $925 million of inventory assets to our Senior Secured Revolving Credit Facility to collateralize potential future borrowings or letters of credit. The Secured Revolving Credit Facility contains certain covenants, including negative covenants and financial maintenance covenants, with which we are required to comply. Subject to our option to cash collateralize our obligations under the Secured Revolving Credit Facility upon certain conditions, our obligations under the Secured Revolving Credit Facility are secured by liens on substantially all of our personal property and a significant portion of our owned real properties. There were no outstanding borrowings under the Secured Revolving Credit Facility as of September 30, 2010 or 2009.

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. The letter of credit arrangements combined with our Senior Secured Revolving Credit Facility provide a total letter of credit capacity of approximately $82.7 million. As of September 30, 2010 and 2009, we have secured letters of credit using cash collateral in restricted accounts totaling $38.8 million and $48.3 million, respectively. The Company may enter into additional arrangements to provide additional letter of credit capacity.

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

The indentures under which the Senior Notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At September 30, 2010, under the most restrictive covenants of each indenture, no portion of our retained earnings was available for cash dividends or for share repurchases. The indentures provide that, in the event of defined changes in control or if our consolidated tangible net worth falls below a specified level or in certain circumstances upon a sale of assets, we are required to offer to repurchase certain specified amounts of outstanding Senior Notes. Specifically, each indenture requires us to offer to purchase 10% of each series of Senior Notes at par if our consolidated tangible net worth (defined as stockholders equity less intangible assets) is less than $85 million at the end of any two consecutive fiscal quarters. If triggered and fully subscribed, this could result in our having to purchase $82.5 million of notes, based on the original amounts of the applicable notes; however, this amount may be reduced by certain Senior Note repurchases (potentially at less than par) made after the triggering date. As of September 30, 2010, our consolidated tangible net worth was $349.4 million.

On January 8, 2010, we redeemed our 85/8% Senior Notes due 2011 at par totaling $127.3 million. This redemption resulted in a loss on debt extinguishment of $0.9 million due primarily to the acceleration of debt discount and issuance costs. In May 2010, we redeemed our 83/8% Senior Notes due 2012 at par for a total of $303.6 million. This redemption resulted in a loss on debt extinguishment of $2.9 million, which includes the acceleration of debt issuance cost amortization. In addition, during the fiscal year ended September 30, 2010, we redeemed for cash all of the outstanding Convertible Senior Notes for a total of $155.5 million. The redemption resulted in a loss on debt extinguishment of $6.2 million, which includes the acceleration of debt issuance cost amortization.

On September 11, 2009, we issued and sold $250 million aggregate principal amount of our 12% Senior Secured Notes due 2017 (Senior Secured Notes) through a private placement. The Senior Secured Notes were issued at a price of 89.5% of their face amount (before underwriting and other issuance costs). Interest on the Senior Secured Notes is payable semi-annually in cash in arrears, commencing April 15, 2010. During the quarter ended March 31, 2010, we completed an offer to exchange substantially all of the $250 million 12% Senior Secured Notes due 2017 (the Senior Secured Notes), which were registered under the Securities Act of 1933. The Senior Secured Notes were issued under an indenture, dated as of September 11, 2009. The indenture contains covenants which, subject to certain exceptions, limit the ability of the Company and its restricted subsidiaries 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 assets of the Company. Upon a change of control, as defined, the indenture requires us to make an offer to repurchase the Senior Secured Notes at 101% of their principal amount, plus accrued and unpaid interest. If we sell certain assets and do not reinvest the net proceeds in compliance with the indenture, then we must use the net proceeds to offer to repurchase the Senior Secured Notes at 100% of their principal amount, plus accrued and unpaid interest. After October 15, 2012, we may redeem some or all of the Senior Secured Notes at redemption prices set forth in the indenture. The Senior Secured Notes are secured on a second priority basis by, subject to exceptions specified in the related agreements, substantially all of the tangible and intangible assets of the Company as defined.

In May 2010, we issued $300 million aggregate principal amount of 91/8% Senior Notes due June 15, 2018. Interest on these notes is payable semi-annually in cash in arrears, commencing on June 15, 2010. These notes are unsecured and rank equally with our unsecured indebtedness. We may, at our option, redeem the 91/8% Senior Notes in whole or in part at any time at specified redemption prices which include a make whole provision through June 15, 2014.

Also in May 2010, we issued 3 million 7.25% tangible equity units which were comprised of prepaid stock purchase contracts (see Note 11) and senior amortizing notes. The amortizing notes had an aggregate initial principal amount of $15,738,000 as determined under the relative fair value method. These notes will pay quarterly installments of principal and interest aggregating approximately $1.4 million per quarter, beginning August 15, 2010 through August 15, 2013, and in the aggregate, these installments will be equivalent to a 7.25% cash payment per year with respect to each $25 stated amount of the TEUs. The amortizing notes will be unsecured senior obligations and will rank equally with all of our other unsecured indebtedness. If we elect to settle the prepaid stock purchase contracts early, we may be required to repurchase certain amortizing notes, plus accrued and unpaid interest as provided for in the TEU agreement.

During the second half of fiscal 2009, we voluntarily repurchased in open-market transactions $384.8 million principal amount of our Senior Notes ($52.7 million of 85/8% Senior Notes due 2011, $36.4 million of 83/8% Senior Notes due 2012, $35.6 million of 61/2% Senior Notes due 2013, $140.5 million of 67/8% Senior Notes due 2015, $94.1 million of 81/8% Senior Notes due 2016, and $25.5 million of Convertible Senior Notes due 2024). The aggregate purchase price was $247.7 million, plus accrued and unpaid interest as of the purchase date. The repurchase of the notes resulted in a $130.2 million pre-tax gain on extinguishment of debt, net of unamortized discounts and debt issuance costs related to these notes. Senior Notes purchased by the Company were cancelled.

As of September 30, 2010, we were in compliance with all covenants under our Senior Notes.

Mandatory Convertible Subordinated Notes On January 12, 2010, we issued $57.5 million aggregate principal amount of 71/2% Mandatory Convertible Subordinated Notes due 2013 (the Mandatory Convertible Subordinated Notes). Interest on the Mandatory Convertible Subordinated Notes is payable quarterly in cash in arrears, commencing April 15, 2010. Holders of the Mandatory Convertible Subordinated Notes have the right to convert their notes, in whole or in part, at any time prior to maturity, into shares of our common stock at a variable conversion rate based on the price of our stock. The conversion rate will range from 4.4547 to 5.4348 shares per $25 principal amount of notes. On the stated maturity date, the Mandatory Convertible Subordinated Notes, unless previously converted, will automatically convert into shares of our common stock, based on the conversion rate applicable on that date.

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

On January 15, 2010, we completed an exchange of $75 million of our trust preferred securities issued by Beazer Capital Trust I for a new issue of $75 million of junior subordinated notes due July 30, 2036 issued by the Company (the New Junior Notes). The exchanged trust preferred securities and the related junior subordinated notes issued in 2006 were cancelled effective January 15, 2010. The material terms of the New Junior Notes are identical to the terms of the original trust securities except that when the New Junior Notes change from a fixed rate to a variable rate in August 2016, the variable rate is subject to a floor of 4.25% and a cap of 9.25%. In addition, the Company now has the option to redeem the New Junior Notes beginning on June 1, 2012 at 75% of par value and beginning on June 1, 2022, the redemption price of 75% of par value will increase by 1.785% per year.

The aforementioned exchange has been accounted for as an extinguishment of debt as there has been a significant modification of cash flows and, as such, the New Junior Notes were recorded at their estimated fair value at the exchange date. Over the remaining life of the New Junior Notes, we will increase their carrying value until this carrying value equals the face value of the notes. During the fiscal year ended September 30, 2010, we recorded a pre-tax gain on extinguishment of $53.6 million in connection with this exchange. As of September 30, 2010, unamortized accretion was $53.3 million and will be amortized over the remaining life of the notes.

Other Secured Notes Payable We periodically acquire land through the issuance of notes payable. As of September 30, 2010 and 2009, we had outstanding notes payable of $10.8 million and $12.5 million, respectively, primarily related to land acquisitions. These notes payable expire at various times through 2013 and had fixed rates ranging from 7.3% to 9.0% at September 30, 2010. These notes are secured by the real estate to which they relate. During fiscal 2009, we negotiated a reduced payoff of two of our secured notes payable totaling $39.2 million and recorded gains on debt extinguishment totaling $20.1 million which is included in gain on extinguishment of debt in the accompanying Consolidated Statements of Operations for the fiscal year ended September 30, 2009.

The agreements governing these 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.

Model Home Financing Obligations Due to a continuing interest in certain model home sale-leaseback transactions, we had recorded $30.4 million of debt as of September 30, 2009 related to these financing transactions in accordance with SFAS 98 (As amended), *Accounting for Leases* (ASC 840). These model home transactions incurred interest at a variable rate of one-month LIBOR plus 450 basis points, 4.8% as of September 30, 2009. The model homes financed in these transactions were recorded as inventory until such homes were sold to the ultimate homebuyer and the related financing obligation was repaid. At such time, we recognized revenue and related costs, and the inventory associated with the model homes and the model home financing obligations was reduced. As of September 30, 2010, there were no remaining model home financing obligations. The sale transaction above is reflected as cash provided by operating activities and the reduction in the model home financing obligation is presented as cash used in financing activities in the accompanying Consolidated Statements of Cash Flows.

(8) Fair Value Measurements

ASC 820 *Fair Value Measurement and Disclosures* provides guidance for using fair value to measure assets and liabilities and applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. ASC 820 includes provisions that require expanded disclosure of the effect on earnings for items measured using unobservable data.

As of September 30, 2010, we had no assets or liabilities in our Consolidated Balance Sheets that were required to be measured at fair value on a recurring basis. 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. ASC 820 establishes a fair value hierarchy 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; Level 3 Unobservable inputs that reflect our own estimates about the assumptions market participants would use in pricing the asset or liability. The following table presents our assets measured at fair value on a non-recurring basis for each hierarchy level and represents only those assets whose carrying values were adjusted to fair value during fiscal year 2010 (*in thousands*):

	Level 1	Level 2	Level 3	Total
Development projects in progress	$	$	$ 72,806	$ 72,806
Land held for sale			2,419	2,419

As previously disclosed, we review our long-lived assets, including inventory for recoverability when factors that 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 and represents the fair value immediately after impairment, or the last impairment taken for communities impaired multiple times. During the fiscal year ended September 30, 2010, we recorded total inventory impairments of $48.9 million for development projects in progress and total inventory impairments for land held for sale of $2.1 million. See Notes 1 and 4 for additional information related to the fair value accounting for the assets listed above.

The fair values of our investments in unconsolidated joint ventures are determined primarily using a discounted cash flow model to value the underlying net assets of the respective entities. During the fiscal year ended September 30, 2010, we recorded the writedown of our investment in certain of our unconsolidated joint ventures to a fair value of $0, resulting in impairments of $24.3 million, $15.5 million of which is included in loss from discontinued operations, net of tax in the accompanying Consolidated Statement of Operations (see Note 3 for additional information related to the fair value accounting for our unconsolidated joint ventures).

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

The fair value of our cash and cash equivalents, restricted cash, accounts receivable, trade accounts payable, other liabilities and other secured notes payable approximate their carrying amounts due to the short maturity of these assets and liabilities. Obligations related to consolidated inventory not owned are recorded at estimated fair value. The fair value of our model home financing obligations approximate their carrying amounts due to the

variable interest rates associated with those obligations. The carrying values and estimated fair values of other financial assets and liabilities were as follows *(in thousands):*

	As of September 30, 2010		As of September 30, 2009	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Senior Notes	**$ 1,095,783**	**$ 1,093,855**	$ 1,362,902	$ 1,200,612
Mandatory Convertible Subordinated Notes	**57,500**	**61,525**		
Junior Subordinated Notes	**47,470**	**47,470**	103,093	52,377
	$ 1,200,753	**$ 1,202,850**	$ 1,465,995	$ 1,252,989

The estimated fair values shown above for our publicly held Senior Notes have and Mandatory Convertible Subordinated Notes been determined using quoted market rates. The fair value of our publicly held junior subordinated notes is estimated by discounting scheduled cash flows through maturity. The discount rate is estimated using market rates currently being offered on loans with similar terms and credit quality. Judgment is required in interpreting market data to develop these estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange.

(9) Income Taxes

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

	Fiscal Year Ended September 30,		
	2010	**2009**	**2008**
Current federal	**$ (4,528)**	$ (13,024)	$ (139,877)
Current state	**65**	(162)	(3,005)
Deferred federal	**(114,151)**	1,459	204,601
Deferred state	**259**	3,197	7,232
Total	**$ (118,355)**	$ (8,530)	$ 68,951

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

	Fiscal Year Ended September 30,		
	2010	**2009**	**2008**
Income tax computed at statutory rate	**$ (51,895)**	$ (64,355)	$ (248,797)
State income taxes, net of federal benefit	**(5,756)**	(2,936)	6,542
Penalties		5,146	

Impairment of non-deductible goodwill		5,157	16,446
Valuation allowance	**(63,912)**	45,128	298,080
Other, net	**3,208**	3,330	(3,320)
Total	**$ (118,355)**	$ (8,530)	$ 68,951

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

	September 30, 2010	2009
Deferred tax assets:		
Warranty and other reserves	**$ 15,316**	$ 22,407
Incentive compensation	**19,170**	15,660
Property, equipment and other assets	**2,137**	4,803
Federal and state tax carryforwards	**206,119**	186,088
Inventory adjustments	**183,235**	191,119
FIN 48	**39,279**	39,083
Deferred revenue		132
Other	**3,578**	1,567
Total deferred tax assets	**468,834**	460,859
Deferred tax liabilties:		
Deferred revenues	**(57,247)**	
Total deferred tax liabilities	**(57,247)**	
Net deferred tax assets before valuation allowance	**411,587**	460,859
Valuation allowance	**(403,808)**	(453,339)
Net deferred tax assets	**$ 7,779**	$ 7,520

Our fiscal 2010 tax benefit from continuing operations of $118.4 million and $14.8 million from discontinued operations primarily resulted from *The Worker, Homeownership and Business Act of 2009* which allowed us to carry back a portion of our fiscal 2009 federal tax loss. This carry back claim allowed us to claim a refund of taxes paid in prior years and to monetize a deferred tax asset that had previously had a valuation allowance recorded against it. The difference between the carry back claim and our tax benefit results from changes to our estimates of future sources of taxable income and unrecognized tax benefits. Likewise, the principal difference between our effective rate and the U.S. federal statutory rate relates to the carry back of our federal tax losses and valuation allowance.

Our income tax receivable was $7.7 million and $9.9 million as of September 30, 2010 and 2009, respectively. This receivable relates primarily to the carry back of losses incurred in fiscal 2008 to open tax years in which we previously paid significant income taxes. During fiscal 2010 and 2009, we received $135.8 million and $172.5 million of federal and state income tax refunds related to prior tax years in which we previously paid taxes.

At September 30, 2010, we had deferred tax assets totaling $132.0 million for federal net operating loss carryforwards, with losses expiring between 2028 and 2030. We also had deferred tax assets totaling $64.3 million for state net operating loss carryforwards, with losses expiring through 2030.

Deferred tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. In accordance with

ASC 740, we evaluate our deferred tax assets, including net operating losses, to determine if a valuation allowance is required. ASC 740-10 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a more likely than not standard. In making such judgments, significant weight is given to evidence that can be objectively verified. ASC 740-10 provides that a cumulative loss in recent years is significant evidence in considering whether deferred tax assets are realizable and also restricts the amount of reliance on projections of future taxable income to support the recovery of deferred tax assets. Therefore, during fiscal 2008, we determined that we did not meet the more likely than not standard that substantially all of our deferred tax assets would be realized and, therefore, we established a valuation allowance for substantially all of our deferred tax assets.

Given the prolonged economic downturn affecting the homebuilding industry and the continued uncertainty regarding the recoverability of the remaining deferred tax assets, we continue to believe that a valuation allowance is needed for substantially all of our deferred tax assets. In future periods, the allowance could be modified based on sufficient evidence indicating that more likely than not a portion of our deferred tax assets will be realized. Changes in existing tax laws could also affect actual tax results and the valuation of deferred tax assets over time.

Further, 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 carryforwards (NOLs) and certain built-in losses or deductions recognized during the five-year period after the ownership change to offset future taxable income. Therefore, our ability to utilize our pre-ownership change net operating loss carryforwards and recognize certain built-in losses or deductions is limited by Section 382 to an estimated maximum amount of approximately $11.4 million ($4 million tax-effected) annually. Certain deferred tax assets are not subject to any limitation imposed by Section 382.

Due to the Section 382 limitation and the maximum carryforward period of our NOLs, we are unable to fully recognize certain deferred tax assets. Accordingly, during fiscal 2010, we reduced our gross deferred tax assets and corresponding valuation allowance by $5.9 million. As of June 30, 2010, we had disclosed that up to $174.3 million of gross deferred tax assets related to accrued losses on our inventory may have been unavailable due to the limitation imposed by Section 382. Based on certain economic results during fiscal 2010, we have revised our previous estimate and, after adjusting for certain state NOLs and other deferred tax assets which may not be recoverable, we now estimate that up to $183.2 million of gross deferred tax assets may be unavailable due to the limitation imposed by Section 382. However, based on our annual assessment, our current realization projections for our built in losses support that only $61.2 million of our deferred tax asset is likely to be unavailable under Section 382. As future economic conditions unfold, we will be able to confirm that certain deferred tax assets will not provide any future tax benefit. At such time, we will accordingly remove any deferred tax asset and corresponding valuation allowance.

Considering the limitation imposed by Section 382, the table below depicts the classifications of our deferred tax assets:

		September 30, 2010 (In thousands)
Deferred tax assets:		
Subject to annual limitation	$	79,492
Generally not subject to annual limitation		206,134
Certain components likely to be subject to annual limitation		183,208
Total deferred tax assets		468,834
Deferred tax liabilities		(57,247)
Net deferred tax assets before valuation allowance		411,587
Valuation allowance		(403,808)
Net deferred tax assets	$	7,779

Therefore, based on the classification of which deferred tax assets are likely to be impacted by our annual limitation, as of September 30, 2010, we had deferred tax assets, net of $57.2 million of deferred tax liabilities, of $411.6 million. While the actual realization of the deferred tax assets is difficult to predict and is dependent on future events, as evidenced by our current valuation allowance, we currently anticipate that between $228 million and $350 million of these deferred tax assets may be available even after consideration of the Section 382 imposed limitation. Further, we expect to continue to add to our gross deferred tax assets for anticipated NOLs that will not be limited by Section 382.

As of September 30, 2010, we had $47.3 million of gross unrecognized tax benefits, of which $4.4 million, if recognized, would affect our effective tax rate. As of September 30, 2009, we had $41.8 million of gross unrecognized tax benefits, of which $5.3 million would affect the effective rate if recognized. Additionally, we had $6.0 million and $8.0 million of accrued interest and penalties at September 30, 2010 and 2009, respectively. In fiscal years 2010 and 2009, our income tax benefit included tax related interest. Such amounts totaled $1.9 million in fiscal 2010 and $4.8 million in fiscal 2009.

A reconciliation of the beginning and ending amount of unrecognized tax benefits at the beginning and end of fiscal 2010, fiscal 2009 and fiscal 2008 is as follows (*in thousands*):

	Fiscal Year Ended September 30,		
	2010	**2009**	**2008**
Balance at beginning of year	**$ 41,848**	$ 57,916	$ 72,500
Reductions in tax positions related to current year	**(3,435)**	(3,527)	891
Additions for tax positions related to prior years	**11,533**	211	12,232
Reductions for tax positions of prior years	**(289)**	(219)	(22,440)
Settlements with taxing authorities	**(319)**	(8,572)	(3,767)
Lapse of statute of limitations	**(2,067)**	(3,961)	(1,500)
Balance at end of year	**$ 47,271**	$ 41,848	$ 57,916

In the normal course of business, we are subject to audits by federal and state tax authorities regarding various tax liabilities. The IRS is currently conducting a routine examination of our federal income tax returns for fiscal year 2007 through 2009, and certain state taxing authorities are examining various fiscal years. The final outcome of these examinations is not yet determinable and therefore the change that could occur within our unrecognized tax benefits within the next 12 months cannot be estimated at this time.

The statute of limitations for our major tax jurisdictions remains open for examination for fiscal years 2006 and subsequent years. During fiscal 2010, we completed a number of state examinations without any material effect on our net losses.

(10) Leases

We are obligated under various noncancelable operating leases for office facilities, model homes and equipment. Rental expense under these agreements, which is included in selling, general and administrative expenses, amounted to approximately $10.4 million, $12.2 million and $17.1 million for the years ended September 30, 2010, 2009 and 2008, respectively. This rental expense excludes model home transactions accounted for as financing arrangements in accordance with SFAS 98 as discussed in Note 7 and expense related to our discontinued operations. As of September 30, 2010, future minimum lease payments under noncancelable operating lease agreements are as follows *(in thousands)*:

Year Ending September 30,	
2011	$ 7,534

2012	6,373
2013	5,419
2014	2,461
2015	1,643
Thereafter	1,253
Total	$ 24,683

(11) Stockholders Equity

Preferred Stock. We currently have no shares of preferred stock outstanding.

Common Stock Transactions

On January 12, 2010, we closed on our underwritten public offering of 22,425,000 shares of Beazer common stock. The Company utilized 3.4 million shares of treasury stock and received net proceeds of $97.8 million from the offering, after underwriting discounts, commissions and transaction expenses.

On May 10, 2010, we concurrently closed on our underwritten public offerings of 12.5 million shares of Beazer common stock and 3.0 million 7.25% tangible equity units (TEUs) and received net proceeds of $141.6 million from these two offerings, after underwriting discounts, commissions and transaction expenses. Each TEU is comprised of a prepaid stock purchase contract and a senior amortizing note due August 15, 2013 (see Note 7 for discussion of the amortizing notes) which are legally separable and detachable. The prepaid stock purchase contracts will convert to Beazer Homes stock on August 15, 2013 based on the applicable settlement factor, as defined in the offering agreement, which will be between 3.5126 shares per unit and 4.3029 shares per unit. We have accounted for the prepaid stock purchase contracts as equity and recorded $57.4 million, the initial fair value of these contracts, based on the relative fair value method, as additional paid in capital as of September 30, 2010.

Common Stock Repurchases. During fiscal 2010, 2009 and fiscal 2008, we did not repurchase any shares in the open market. Any future stock repurchases as allowed by our debt covenants must be approved by the Company s Board of Directors or its Finance Committee.

During fiscal 2010, 2009 and 2008, 32,944, 14,393 and 7,255 shares, respectively, were surrendered to us by employees in payment of minimum tax obligations upon the vesting of restricted stock and restricted stock units under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of approximately $160,000, or approximately $5 per share in fiscal 2010, $21,000, or less than $2 per share in fiscal 2009 and $52,000, or approximately $7 per share in fiscal 2008.

Dividends. Effective November 2, 2007, our Board of Directors suspended payment of quarterly dividends. The Board concluded that suspending dividends, which will allow us to conserve approximately $16 million of cash annually, was a prudent effort in light of the continued deterioration in the housing market. In addition, the indentures under which our senior notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At September 30, 2010, under the most restrictive covenants of each indenture, none of our retained earnings was available for cash dividends. Hence, there were no dividends paid in fiscal 2010, 2009 or fiscal 2008.

(12) Retirement Plan and Incentive Awards

401(k) Retirement Plan. We sponsor a 401(k) plan (the Plan). Substantially all employees are eligible for participation in the Plan after completing one calendar month of service with us. Participants may defer and contribute to the Plan from 1% to 80% of their salary with certain limitations on highly compensated individuals. We match 50% of the first 6% of the participant s contributions. The participant s contributions vest 100% immediately, while our contributions vest over five years. Our total contributions for the fiscal years ended September 30, 2010, 2009 and 2008 were approximately $1.6 million, $1.1 million and $1.7 million, respectively. During fiscal 2010, 2009 and 2008, participants forfeited $0.1 million, $0.7 million and $1.3, million, respectively, of unvested matching contributions.

Deferred Compensation Plan. During fiscal 2002, we adopted the Beazer Homes USA, Inc. Deferred Compensation Plan (the DCP Plan). The DCP Plan is a non-qualified deferred compensation plan for a select group of executives and highly compensated employees. The DCP Plan allows the executives to defer current compensation on a pre-tax basis to a future year, up until termination of employment. The objectives of the DCP Plan are to assist executives with financial planning and capital accumulation and to provide the Company with a method of attracting, rewarding, and retaining executives. Participation in the DCP Plan is voluntary. Beazer Homes may voluntarily make a contribution to the participants DCP accounts. Deferred compensation assets of $9.9 million and $12.7 million and deferred compensation liabilities of $10.7 million and $13.2 million as of September 30, 2010 and 2009, respectively, are included in other assets and other liabilities on the accompanying Consolidated Balance Sheets. The decrease in the deferred compensation assets and liabilities between fiscal 2009 and fiscal 2010 relates to employee elections to withdraw funds from the plan, forfeitures of matching contributions related to terminated employees and market losses on investments held within the plan. For the years ended September 30, 2010, 2009 and 2008, Beazer Homes contributed approximately $273,000, $355,000 and $517,000, respectively, to the DCP Plan.

Stock Incentive Plans. During fiscal 2010, we adopted the 2010 Stock Incentive Plan (the 2010 Plan) because our 1999 Stock Incentive Plan (the 1999 Plan) had expired. At September 30, 2010, we had reserved approximately 6.6 million shares of common stock for issuance under our various stock incentive plans, of which approximately 4 million shares are available for future grants.

Stock Option and SSAR Awards. We have issued various stock option and SSAR awards to officers and key employees under both the 2010 Plan and the 1999 Plan. Stock options have an exercise price equal to the fair market value of the common stock on the grant date, vest three years after the date of grant and may be exercised thereafter until their expiration, subject to forfeiture upon termination of employment as provided in the applicable plan. Under certain conditions of retirement, eligible participants may receive a partial vesting of stock options. Stock options granted prior to fiscal 2004, generally expire on the tenth anniversary from the date such options were granted. Beginning in fiscal 2004, newly granted stock options expire on the seventh anniversary from the date such options were granted. SSARs generally vest three years after the date of grant, have an exercise price equal to the fair market value of the common stock on the date of grant and are subject to forfeiture upon termination of employment as provided in the applicable plan. Under certain conditions of retirement, eligible participants may receive a partial vesting of SSARs.

The following table summarizes stock options and SSARs outstanding as of September 30 and activity during the fiscal years ended September 30:

	2010		**2009**		**2008**	
Fiscal Year Ended September 30,	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding at beginning of year	**2,108,914**	**$ 33.07**	1,848,995	$ 45.78	2,052,379	$ 45.01
Granted	**1,006,145**	**5.69**	671,600	3.94		
Exercised						
Forfeited	**(38,794)**	**18.16**	(34,761)	44.28	(111,670)	46.55
Cancelled/exchanged	**(465,933)**	**33.04**	(292,969)	43.05		
Expired	**(31,978)**	**27.51**	(83,951)	40.41	(91,714)	27.71
Outstanding at end of year	**2,578,354**	**$ 22.69**	2,108,914	$ 33.07	1,848,995	$ 45.78
Exercisable at end of year	**770,658**	**$ 41.59**	773,869	$ 40.40	704,762	$ 29.31

The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions:

Fiscal Year Ended September 30,	**2010**	**2009**

Expected life of options	**4.8 years**	5.06 years
Expected volatility	**50.00%**	99.49%
Expected discrete dividends		
Weighted average risk-free interest rate	**2.33%**	2.75%
Weighted average fair value	**$ 2.55**	$ 2.97

The expected volatility is based on the historic returns of our stock and the implied volatility of our publicly-traded options. We assumed no dividends would be paid since our Board of Directors has suspended payment of dividends indefinitely. The risk-free interest rate is based on the term structure of interest rates at the time of the option grant and we have relied upon a combination of the observed exercise behavior of our prior grants with similar characteristics, the vesting schedule of the current grants, and an index of peer companies with similar grant characteristics to determine the expected life of the options.

At September 30, 2010, 2,302,933 SSARs/stock options were vested or expected to vest in the future with a weighted average exercise price of $20.55 and a weighted average expected life of 3.07 years. At September 30, 2010, the aggregate intrinsic value of SSARs/stock options outstanding was approximately $124,000. The aggregate intrinsic value of SSARs/stock options vested and expected to vest in the future was approximately $110,000 and the aggregate intrinsic value of exercisable SSARs/stock options was approximately $41,000. The intrinsic value of a stock option/SSAR is the amount by which the market value of the underlying stock exceeds the exercise price of the option/SSAR.

During the first quarter of fiscal 2010, certain executive officers and directors elected to relinquish 465,933 vested and outstanding options that had exercise prices above $20 per share in order to provide additional shares for use in the Company s January 2010 public stock offering.

On August 5, 2008, at the Company s annual meeting of stockholders, the stockholders voted to approve amendments to the 1999 Plan to authorize a stock option/SSAR exchange program for eligible employees other than executive officers and directors. On August 4, 2009 we offered to exchange stock options/SSARs with exercise prices ranging from $26.51 to $62.02 per share for newly issued restricted shares of common stock based on the exercise price of the eligible awards exchanged. This exchange was structured to be a value for value exchange and, as of the grant date, there was no incremental expense recorded related to this exchange. Stock options/SSARs to purchase 292,969 shares of our common stock were cancelled and exchanged for 90,405 restricted shares of stock with a grant price of $4.16.

The following table summarizes information about stock options and SSARs outstanding and exercisable at September 30, 2010:

	Stock Options/SSARs Outstanding			Stock Options/SSARs Exercisable		
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Contractual Remaining Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Contractual Remaining Life (Years)**	**Weighted Average Exercise Price**
$3 - $9	1,659,344	6.32	$ 5.00	217,733	5.87	$ 3.94
$18 - $21	51,003	2.27	19.67	51,003	2.27	19.67
$24 - $29	18,000	1.35	28.81	18,000	1.35	28.81
$30 - $39	269,788	3.53	34.05	93,318	3.44	34.13
$40 - $49	11,374	3.36	43.10	11,374	3.36	43.10
$68 - $69	568,845	2.34	68.56	379,230	2.34	68.56
$3 - $69	2,578,354	5.02	$ 22.69	770,658	3.46	$ 41.59

Nonvested Stock Awards. We have made various non-vested stock awards to officers and key employees under the 2010 Plan and the 1999 Plan. All restricted stock is awarded in the name of the participant, who has all the rights of other common stockholders with respect to such stock, subject to restrictions and forfeiture provisions. Accordingly, such nonvested stock awards are considered outstanding shares. Restricted stock awards generally vest from three to seven years after the date of grant. Certain restricted stock awards provide for accelerated vesting if certain performance goals are achieved.

In fiscal 2009 as discussed above, we exchanged certain stock options/SSARs to purchase shares of our common stock for restricted shares of common stock. These restricted shares will vest 50% on the first anniversary of the exchange and 50% on the second anniversary of the exchange. We valued these restricted shares in accordance with SFAS 123R based on the remaining unamortized cost of the exchanged stock options/SSARs. The weighted average exchange price fair value of these restricted shares was $4.16 per share. Our estimated fair value of these restricted shares will be amortized over the applicable vesting period.

Prior to fiscal 2008, participants in certain of our management incentive compensation programs could defer a portion of their earned annual incentive compensation under the applicable plan pursuant to the terms of the Corporate Management Stock Purchase Program (the CMSPP). The deferred amounts are represented by restricted stock units, each of which represents the right to receive one share of Beazer Homes common stock upon vesting. Such shares are issued after a three-year vesting period, subject to an election for further deferral by the participant. The number of restricted stock units granted is based on a discount to the market value of our common stock at the time the bonus is earned. Should the participant s employment terminate during the vesting period, the deferred incentive compensation is settled in cash or cash and stock, depending on the cause of termination as set forth in the CMSPP or applicable deferred compensation plan. Due to low availability of shares at the beginning of fiscal 2008 under the 1999 Plan, from which shares under CMSPP are issued, the Compensation Committee suspended this program until further notice.

Activity relating to the nonvested restricted stock awards for the fiscal year ended September 30, 2010 is as follows:

	Shares	Weighted Average Fair Value
Beginning of year	1,126,880	$ 27.66
Granted	1,006,145	5.69
Vested	(201,514)	33.21
Forfeited	(91,524)	40.39
End of year	1,839,987	$ 14.41

Compensation expense for the nonvested restricted stock awards totaled $5.6 million, $6.6 million and $6.2 million for the fiscal years ended September 30, 2010, 2009 and 2008, respectively. The weighted average grant-date fair value of nonvested restricted stock awards granted during the fiscal years ended September 30, 2010 and 2009, excluding shares granted in the 2009 exchange offer, was $5.69 and $3.98, respectively.

(13) 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 arising in its business and such contingencies are accounted for in accordance with SFAS 5, *Accounting for Contingencies* (ASC 7). In determining loss contingencies, we consider the likelihood of loss as well as the 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 when 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 performance quality standards. In addition, we provide a limited warranty (generally ranging from a minimum of five years up to the period covered by the applicable statute of repose) covering only certain defined construction defects. We also provide a defined structural warranty with single-family homes and townhomes in certain states.

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 the subcontractors.

Warranty reserves are included in other liabilities and the provision for warranty accruals is included in home construction and land sales expenses in the consolidated financial statements. We record reserves covering anticipated warranty expense for each home closed. Management reviews the adequacy of warranty reserves each reporting period based on historical experience and management s estimate of the costs to remediate the claims and adjusts these provisions accordingly. Our review includes a quarterly analysis of the historical data and trends in warranty expense by operating segment. An analysis by operating segment allows us to consider market specific factors such as our warranty experience, the number of home closings, the prices of homes, product mix and other data in estimating our warranty reserves. In addition, our analysis also contemplates the existence of any non-recurring or community-specific warranty related matters that might not be contemplated in our historical data and trends.

As of September 30, 2010, our warranty reserves include an estimate for the repair of less than 60 homes in Florida where certain of our subcontractors installed defective Chinese drywall in homes that were delivered during our 2006 and 2007 fiscal years. As of September 30, 2010, we have completed repairs on approximately 52% of these homes and have begun repairing a number of the remaining homes. We are inspecting additional homes in order to determine whether they also contain the defective Chinese drywall. The outcome of these inspections and potential future inspections or an unexpected increase in repair costs may require us to increase our warranty reserve in the future. However, the amount of additional liability, if any, is not reasonably estimable. In addition, the Company has been named as a defendant in a number of legal actions related to defective Chinese drywall (see Other Matters below).

As a result of our analyses, we adjust our estimated warranty liabilities. While we believe that our warranty reserves are adequate as of September 30, 2010, historical data and trends may not accurately predict actual warranty costs, or future developments could lead to a significant change in the reserve. Our warranty reserves are as follows (*in thousands*):

	Fiscal Year Ended September 30,		
	2010	**2009**	**2008**
Balance at beginning of period	**$ 30,100**	$ 40,822	$ 57,053
Accruals for warranties issued	**6,827**	7,543	14,909
Changes in liability related to warranties existing in prior periods	**3,308**	(3,294)	(3,279)
Payments made	**(14,414)**	(14,971)	(27,861)
Balance at end of period	**$ 25,821**	$ 30,100	$ 40,822

Litigation

ERISA Class Actions. On April 30, 2007, a putative class action complaint was filed on behalf of a purported class consisting of present and former participants and beneficiaries of the Beazer Homes USA, Inc. 401(k) Plan against the Company and certain employees and directors of the Company. The complaint alleges breach of fiduciary duties, including those set forth in the Employee Retirement Income Security Act (ERISA), as a result of the investment of retirement monies held by the 401(k) Plan in common stock of Beazer Homes at a time when participants were allegedly not provided timely, accurate and complete information concerning Beazer Homes. Four additional lawsuits were filed subsequently making similar allegations and the court consolidated these five lawsuits. The parties have reached a settlement which will be largely funded by insurance proceeds and is subject to court approval. Under the terms of the settlement, the lawsuit will be dismissed with prejudice and there will be a release of all claims. The court has preliminarily approved the settlement and a hearing is scheduled for November 15, 2010 to consider final approval of the settlement. The Company has accrued a liability for such matter which is not material to the Company s financial position or results of operations and is included in the total litigation accrual discussed below.

Homeowners Class Action Lawsuits and Multi-Plaintiff Lawsuit. A putative class action was filed on April 8, 2008 in the United States District Court for the Middle District of North Carolina, Salisbury Division, against Beazer Homes, U.S.A., Inc., Beazer Homes Corp. and Beazer Mortgage Corporation. The Complaint alleges that Beazer violated the Real Estate Settlement Practices Act (RESPA) and North Carolina Gen. Stat. § 75-1.1 by (1) improperly requiring homebuyers to use Beazer-owned mortgage and settlement services as part of a down payment assistance program, and (2) illegally increasing the cost of homes and settlement services sold by Beazer Homes Corp. The purported class consists of all residents of North Carolina who purchased a home from Beazer, using mortgage financing provided by and through Beazer that included seller-funded down payment assistance, between January 1, 2000 and October 11, 2007. The parties have reached an agreement to settle the lawsuit, which will be partially funded by insurance proceeds and is subject to court approval. Under the terms of the settlement, the action will be dismissed with prejudice, and the Company and all other defendants will not admit any liability. The Company has accrued a liability for such matter which is not material to the Company s financial position or results of operations and is included in the total litigation accrual discussed below.

Beazer Homes and several subsidiaries were named as defendants in a putative class action lawsuit originally filed on March 12, 2008, in the Superior Court of the State of California, County of Placer. The purported class is defined as all persons who purchased a home from the defendants or their affiliates, with the assistance of a federally related mortgage loan, from March 25, 1999, to the present where Security Title Insurance Company received any money as a reinsurer of the transaction. The complaint alleges that the defendants violated RESPA and asserts claims under a number of state statutes alleging that defendants engaged in a uniform and systematic practice of giving and/or accepting fees and kickbacks to affiliated businesses including affiliated and/or recommended title insurance companies. The complaint also alleges a number of common law claims. Plaintiffs seek an unspecified amount of damages under RESPA, unspecified statutory, compensatory and punitive damages and injunctive and declaratory relief, as well as attorneys fees and costs. Defendants removed the action to federal court and plaintiffs filed a Second Amended Complaint which substituted new named-plaintiffs. The Company filed a motion to dismiss the Second Amended Complaint, which the federal court granted in part. The federal court dismissed the sole federal claim, declined to rule on the state law claims, and remanded the case to the Superior Court of Placer County. The Company filed a supplemental motion to dismiss/demurrer regarding the remaining state law claims in the Second Amended Complaint and the state court sustained defendants demurrer but granted the plaintiffs leave to amend their claims. Plaintiffs thereafter filed a Third Amended Complaint which defendants removed to federal court based on the presence of a federal question and pursuant to the Class Action Fairness Act and thereafter moved to dismiss. Plaintiffs filed a motion to remand the case. The federal court granted the plaintiffs motion and remanded the case to the Superior Court of Placer County. The defendants filed a petition with the U.S. Court of Appeals for the Ninth Circuit for permission to appeal the remand order and a demurrer in state court as to all counts of the Third Amended Complaint. The state court granted the defendants demurrer as to the plaintiffs breach of contract claim, but the unfair competition claim remains. The Company filed its answer to the Third Amended Complaint on June 11, 2010. The Company is in the process of conducting discovery and is vigorously defending against the action. Given the inherent uncertainties in this litigation, as of September 30, 2010, no accrual has been recorded, as losses, if any, related to this matter are not both probable and reasonably estimable.

On June 3, 2009, a purported class action complaint was filed by the owners of one of our homes in our Magnolia Lakes community in Ft. Myers, Florida. The complaint names the Company and certain distributors and suppliers of drywall and was filed in the Circuit Court for Lee County, Florida on behalf of the named plaintiffs and other similarly situated owners of homes in Magnolia Lakes or alternatively in the State of Florida. The plaintiffs allege that the Company built their homes with defective drywall, manufactured in China, that contains sulfur compounds that allegedly corrode certain metals and that are allegedly capable of harming the health of individuals. Plaintiffs allege physical and economic damages and seek legal and equitable relief, medical monitoring and attorney s fees. This case has been transferred to the Eastern District of Louisiana pursuant to an order from the United States Judicial Panel on Multidistrict Litigation. In addition, the Company has been named in other complaints filed in the multidistrict litigation and continues to pursue recovery against responsible subcontractors and drywall suppliers. The Company believes that the claims asserted in these actions are governed by its home warranty or are without merit. Accordingly, the Company intends to vigorously defend against this litigation.

The lender of one of our unconsolidated joint ventures filed individual lawsuits against some of the joint venture members and certain of those members parent companies (including the Company), seeking to recover damages under completion guarantees, among other claims. We intend to vigorously defend against this legal action. We are a 2.58% member in this joint venture (see Note 3 for additional information). An estimate of probable loss or range of loss, if any cannot presently be made. In addition, one member of the joint venture filed an arbitration proceeding against the remaining members related to the plaintiff-member s allegations that the other members failed to perform under the applicable membership agreements. The arbitration panel issued its decision on July 6, 2010 and denied the plaintiff s claims for specific performance claims and awarded damages in an amount well below the amount claimed. The Company does not believe that its proportional share of the award is material to our consolidated financial position or results of operations. The plaintiff has moved to have the panel s award confirmed. Defendants have opposed the motion and have moved to vacate the panel s decision in part.

We cannot predict or determine the timing or final outcome of the lawsuits or the effect that any adverse findings or adverse determinations in the 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 the above 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 the Board of Directors on these matters, even if we are ultimately successful, could have a material adverse effect on our business, financial condition and results of operations.

Other Matters

As disclosed in our 2009 Form 10-K, on July 1, 2009, the Company announced that it has resolved the criminal and civil investigations by the United States Attorney s Office in the Western District of North Carolina (the U.S. Attorney) and other state and federal agencies concerning matters that were the subject of the independent investigation, initiated in April 2007 by the Audit Committee of the Board of Directors (the Investigation) and concluded in May 2008. Under the terms of the deferred prosecution agreement (DPA), the Company s liability for fiscal 2010 is $1 million and in each of the fiscal years after 2010 through a portion of fiscal 2014 (unless extended as described in the DPA) will also be equal to 4% of the Company s adjusted EBITDA (as defined in the DPA). The total amount of such obligations will be dependent on several factors; however, the maximum liability under the DPA and other settlement agreements discussed above will not exceed $55.0 million of which $15 million has paid as of September 30, 2010. As of September 30, 2010 and 2009, we accrued $1.0 million and $2.0 million, respectively for future obligations under the DPA and HUD agreements. The $1.0 million accrued as of September 30, 2010 will be paid shortly after the filing of this form 10-K. While we believe that our accrual for this liability is adequate as of September 30, 2010, positive adjusted EBITDA results in future years will require us to incur additional expense in the future.

In November 2003, Beazer Homes received a request for information from the EPA pursuant to Section 308 of the Clean Water Act seeking information concerning the nature and extent of storm water discharge practices relating to certain of our communities completed or under construction. The EPA or the equivalent state agency has issued Administrative Orders identifying alleged instances of noncompliance and requiring corrective action to address the alleged deficiencies in storm water management practices. The parties have agreed to settle this matter and the terms are being finalized. The amount to be paid by the Company pursuant to the settlement agreement will not have a material adverse effect on our financial condition, results of operations or cash flows. Beazer Homes has taken action to comply with the requirements of each of the Administrative Orders and is working to otherwise maintain compliance with the requirements of the Clean Water Act.

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

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 accrued $18.0 million and $21.7 million in other liabilities related to all of the above matters as of September 30, 2010 and 2009, respectively.

We had outstanding letters of credit and performance bonds of approximately $37.9 million and $184.7 million, respectively, at September 30, 2010 related principally to our obligations to local governments to construct roads and other improvements in various developments. Our outstanding letters of credit include $3.7 million relating to our land option contracts discussed in Note 4.

We operated Beazer Mortgage Corporation (BMC) from 1998 through February 2008 to offer mortgage financing to the buyers of our homes. BMC entered into various agreements with mortgage investors for the origination of mortgage loans. Underwriting decisions were not made by BMC but by the investors or third-party service providers. To date, we have received requests to repurchase fewer than 100 mortgage loans from various investors. While we have not been required to repurchase any mortgage loans, we have established an immaterial amount as a reserve for the repurchase of mortgage loans originated by BMC. We cannot rule out the potential for additional mortgage loan repurchase claims in the future, although, at this time, we do not believe that the exposure related to any such additional claims would be material to our consolidated financial position or results of operation. As of September 30, 2010, no liability has been recorded for any such additional claims as such exposure is not both probable and reasonably estimable.

(14) Segment Information

As defined in SFAS 131, *Disclosures About Segments of an Enterprise and Related Information* (ASC 280), we now have three homebuilding segments operating in 15 states. Revenues in our homebuilding segments are derived from the sale of homes which we construct and from land and lot sales. Our reportable segments, described below, have been determined on a basis that is used internally by management for evaluating segment performance and resource allocations. In alignment therewith, during fiscal 2010 we moved our Raleigh, North Carolina market from our East to our Southeast segment. The reportable homebuilding segments, and all other homebuilding operations not required to be reported separately, include operations conducting business in the following states:

West: Arizona, California, Nevada and Texas

East: Delaware, Indiana, Maryland, New Jersey, New York, Pennsylvania, Tennessee (Nashville) and Virginia

Southeast: Florida, Georgia, North Carolina (Raleigh) and South Carolina

Management s evaluation of segment performance is based on segment operating income, which for our homebuilding segments is defined as homebuilding, land sale and other revenues less home construction, land development and land sales expense, depreciation and amortization and certain selling, general and administrative expenses which are incurred by or allocated to our homebuilding segments. The accounting policies of our segments are those described in Note 1. The following information is in thousands:

	Fiscal Year Ended September 30,	
	2010	**2009**