BEAZER HOMES USA INC
Form 10-Q
May 15, 2008

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

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2007

or

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

Commission File Number 001-12822

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

DELAWARE	58-2086934
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer Identification no.)

1000 Abernathy Road, Suite 1200, Atlanta, Georgia 30328
(Address of principal executive offices) (Zip Code)
(770) 829-3700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

YES x NO o

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

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

Class	Outstanding at May

	9, 2008
Common Stock, $0.001 par value	39,234,305 shares

References to “we,” “us,” “our,” “Beazer”, “Beazer Homes” and the “Company” in this quarterly report on Form 10-Q ref
Beazer Homes USA, Inc.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent our expectations or beliefs concerning future events, and it is possible that the results described in this quarterly report will not be achieved. These forward-looking statements can generally be identified by the use of statements that include words such as “estimate,” “project,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” “goal,” “target” or other si phrases. All forward-looking statements are based upon information available to us on the date of this quarterly report.

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this quarterly report in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A– Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Such factors may include:

- the timing and final outcome of the United States Attorney investigation, the Securities and Exchange Commission’s (“SEC”) investigation and other state and federal agency investigations, the putative class action lawsuits, the derivative claims, multi-party suits and similar proceedings as well as the results of any other litigation or government proceedings;
- material weaknesses in our internal control over financial reporting;
- additional asset impairment charges or writedowns;
- economic changes nationally or in local markets, including changes in consumer confidence, volatility of mortgage interest rates and inflation;
- continued or increased downturn in the homebuilding industry;
- estimates related to homes to be delivered in the future (backlog) are imprecise as they are subject to various cancellation risks which cannot be fully controlled;
- continued or increased disruption in the availability of mortgage financing;
- our cost of and ability to access capital and otherwise meet our ongoing liquidity needs including the impact of any further downgrades of our credit ratings;
- potential inability to comply with covenants in our debt agreements;
- continued negative publicity;
- increased competition or delays in reacting to changing consumer preference in home design;
- shortages of or increased prices for labor, land or raw materials used in housing production;
- factors affecting margins such as decreased land values underlying land option agreements, increased land development costs on projects under development or delays or difficulties in implementing initiatives to reduce production and overhead cost structure;
- the performance of our joint ventures and our joint venture partners;
- the impact of construction defect and home warranty claims and the cost and availability of insurance, including the availability of insurance for the presence of moisture intrusion;
- a material failure on the part of our subsidiary Trinity Homes LLC to satisfy the conditions of the class action settlement agreement, including assessment and remediation with respect to moisture intrusion related issues;
- delays in land development or home construction resulting from adverse weather conditions;
- potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations, or governmental policies and possible penalties for failure to comply with such laws, regulations and governmental policies;

- effects of changes in accounting policies, standards, guidelines or principles; or
- terrorist acts, acts of war and other factors over which the Company has little or no control.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2007	September 30, 2007
ASSETS		
Cash and cash equivalents	$ 236,540	$ 454,337
Restricted cash	95,987	5,171
Accounts receivable	49,489	45,501
Income tax receivable	100,767	63,981
Inventory		
Owned inventory	2,290,086	2,537,791
Consolidated inventory not owned	193,300	237,382
Total inventory	2,483,386	2,775,173
Residential mortgage loans available-for-sale	93	781
Investments in unconsolidated joint ventures	99,426	109,143
Deferred tax assets	341,466	232,949
Property, plant and equipment, net	67,124	71,682
Goodwill	68,613	68,613
Other assets	115,002	102,690
Total assets	$ 3,657,893	$ 3,930,021
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$ 98,716	$ 118,030
Other liabilities	462,615	453,089
Obligations related to consolidated inventory not owned	137,633	177,931
Senior Notes (net of discounts of $2,916 and $3,033, respectively)	1,522,084	1,521,967
Junior subordinated notes	103,093	103,093
Other secured notes payable	44,524	118,073
Model home financing obligations	112,287	114,116
Total liabilities	2,480,952	2,606,299
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, 80,000,000 shares authorized, 42,576,011 and 42,597,229 issued and 39,237,357 and 39,261,721 outstanding, respectively)	43	43
Paid-in capital	545,284	543,705
Retained earnings	815,521	963,869
Treasury stock, at cost (3,338,654 and 3,335,508 shares, respectively)	(183,907)	(183,895)
Total stockholders' equity	1,176,941	1,323,722
Total liabilities and stockholders' equity	$ 3,657,893	$ 3,930,021

See Notes to Unaudited Condensed Consolidated Financial Statements.

BEAZER HOMES USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006
Total revenue	$ 503,148	$ 802,535
Home construction and land sales expenses	434,676	665,153
Inventory impairments and option contract abandonments	168,512	140,367
Gross loss	(100,040)	(2,985)
Selling, general and administrative expenses	93,169	116,916
Depreciation and amortization	6,058	7,558
Operating loss	(199,267)	(127,459)
Equity in loss of unconsolidated joint ventures	(16,140)	(2,360)
Other (expense) income, net	(2,818)	2,161
Loss before income taxes	(218,225)	(127,658)
Benefit from income taxes	(79,989)	(47,755)
Net loss	$ (138,236)	$ (79,903)
Weighted average number of shares:		
Basic	38,539	38,280
Diluted	38,539	38,280
Earnings per share:		
Basic	$ (3.59)	$ (2.09)
Diluted	$ (3.59)	$ (2.09)
Cash dividends per share	$ -	$ 0.10

See Notes to Unaudited Condensed Consolidated Financial Statements.

BEAZER HOMES USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006
Cash flows from operating activities:		
Net loss	$ (138,236)	$ (79,903)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,058	7,558
Stock-based compensation expense	1,873	3,728
Inventory impairments and option contract abandonments	168,512	140,367
Deferred income tax (benefit) provision	(43,929)	(44,839)
Excess tax benefit from equity-based compensation	388	(1,390)
Equity in loss of unconsolidated joint ventures	16,140	2,360
Cash distributions of income from unconsolidated joint ventures	882	1,282
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(3,988)	254,723
Increase in income tax receivable	(36,786)	(8,435)
Decrease (increase) in inventory	95,073	(79,610)
Decrease in residential mortgage loans available-for-sale	688	73,153
Decrease (increase) in other assets	8,823	(5,936)
Decrease in trade accounts payable	(19,314)	(53,117)
Decrease in other liabilities	(67,581)	(131,350)
Other changes	8	1,391
Net cash provided by (used in) operating activities	(11,389)	79,982
Cash flows from investing activities:		
Capital expenditures	(4,194)	(10,986)
Investments in unconsolidated joint ventures	(4,979)	(8,723)
Changes in restricted cash	(90,816)	174
Distributions from unconsolidated joint ventures	-	886
Net cash used in investing activities	(99,989)	(18,649)
Cash flows from financing activities:		
Borrowings under credit facilities and warehouse line	-	61,130
Repayment of credit facilities and warehouse line	-	(137,679)
Repayment of other secured notes payable	(83,055)	(2,455)
Borrowings under model home financing obligations	-	1,444
Repayment of model home financing obligations	(1,829)	(1,824)
Deferred financing costs	(21,135)	(70)
Proceeds from stock option exercises	-	3,435
Common stock redeemed	(12)	(85)
Excess tax benefit from equity-based compensation	(388)	1,390
Dividends paid	-	(3,904)
Net cash used in financing activities	(106,419)	(78,618)
Decrease in cash and cash equivalents	(217,797)	(17,285)
Cash and cash equivalents at beginning of period	454,337	167,570
Cash and cash equivalents at end of period	$ 236,540	$ 150,285

See Notes to Unaudited Condensed Consolidated Financial Statements.

BEAZER HOMES USA, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Beazer Homes USA, Inc. (“Beazer Homes” or “the Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all adjustments (consisting solely of normal recurring accruals) necessary for a fair presentation have been included in the accompanying financial statements. For further information and a discussion of our significant accounting policies other than as discussed below, refer to our audited consolidated financial statements appearing in the Beazer Homes’ Annual Report on Form 10-K for the fiscal year ended September 30, 2007 (the “2007 Annual Report”).

Restricted Cash. During the quarter ended December 31, 2007, the Company pledged cash to collateralize outstanding letters of credit under our secured revolving credit facilities, which increased restricted cash by $92.4 million offset by a $1.6 million decrease in other restricted cash from September 30, 2007 to December 31, 2007.

Stock-Based Compensation. In the first quarter of fiscal 2006, we adopted Statement of Financial Accounting Standards (“SFAS”) 123R, Share-Based Payment. SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after October 1, 2005, as well as to the unvested portion of awards outstanding as of October 1, 2005. We use the Black-Scholes model to value stock-settled appreciation rights (“SSARs”) and stock option grants under SFAS 123R, and applied the “modified prospective method” for existing grants which requires us to value grants made prior to our adoption of SFAS 123R under the fair value method and expense the unvested portion over the remaining vesting period. SFAS 123R also requires us to estimate forfeitures in calculating the expense related to stock-based compensation. In addition, SFAS 123R requires us to 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. No performance-based nonvested stock was granted during the three months ended December 31, 2007 or 2006.

Compensation cost arising from nonvested stock granted to employees and from non-employee stock awards is recognized as an expense using the straight-line method over the vesting period. Unearned compensation is now included in paid-in capital in accordance with SFAS 123R. As of December 31, 2007, there was $18.6 million of total unrecognized compensation cost related to nonvested stock. That cost is expected to be recognized over a weighted average period of 3.6 years. For the three months ended December 31, 2007 and 2006, our total stock-based compensation expense, included in selling, general and administrative expenses (“SG&A”), was $1.9 million ($1.4 million net of tax) and $3.7 million ($2.6 million net of tax), respectively.

Activity relating to nonvested stock awards for the three months ended December 31, 2007 is as follows.

	Shares	Weighted Average Grant Date Fair Value

Beginning of period	905,898	$	48.42
Granted	26,411		8.49
Vested	(28,531)		47.75
Forfeited	(49,565)		45.16
End of period	854,213	$	47.39

In addition, during the three months ended December 31, 2007, employees surrendered 3,146 shares to us in payment of minimum tax obligations upon the vesting of nonvested stock under our stock incentive plans. We valued the stock at the market price on the date of surrender, for an aggregate value of approximately $27,000, or approximately $8.58 per share.

The fair value of each option/SSAR grant is estimated on the date of grant using the Black-Scholes option-pricing model. Expected life of options and SSARs granted is generally computed using the mid-point between the vesting period and contractual life of the options/SSARs granted. Expected volatilities are based on the historical volatility of the Beazer Homes' stock and other factors. Expected discrete dividends of $0.00 per quarter (previously $0.10 per quarter as of September 30, 2007) are assumed in lieu of a continuously compounding dividend yield. There were no option or SSAR grants in the quarter ended December 31, 2007.

The following table summarizes stock options and SSARs outstanding as of December 31, 2007, as well as activity during the three months then ended:

	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	2,052,379	$ 45.01
Granted	-	-
Exercised	-	-
Forfeited	(102,146)	43.09
Outstanding at end of period	1,950,233	$ 45.11
Exercisable at end of period	769,129	$ 28.88
Vested or expected to vest in the future	1,594,044	$ 41.93

At December 31, 2007, the weighted-average remaining contractual life for all options/SSARs outstanding, currently exercisable, and vested or expected to vest in the future was 4.90 years, 3.96 years and 4.8 years, respectively.

At December 31, 2007, 1,594,044 options/SSARs were vested or expected to vest in the future with a weighted average exercise price of $41.93 and a weighted average expected life of 2.94 years. At December 31, 2007, the aggregate intrinsic value of options/SSARs outstanding, vested and expected to vest in the future and options/SSARs exercisable was approximately $19,000. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. There were no stock option exercises during the three months ended December 31, 2007.

Recently Adopted Accounting Pronouncements. On October 1, 2007, the Company adopted the provisions of 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 Condominiums. EITF 06-8 states that the adequacy of the buyer's continuing investment under SFAS 66 should be assessed in determining whether to recognize profit under the percentage-of-completion method on the sale of individual units in a condominium project. This consensus requires that additional deposits be collected by developers of condominium projects that wish to recognize profit during the construction period under the percentage-of-completion method. EITF 06-8 is effective for fiscal years beginning after March 15, 2007. The adoption of EITF 06-8 did not have a material impact on our consolidated financial position, results of operations or cash flows.

As described in Note 8, on October 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109.

Recent Accounting Pronouncements Not Yet Adopted. In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations. SFAS 141R 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 is effective for our fiscal year ended September 30, 2009. We do not expect the adoption of SFAS 141R to have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, SFAS 157 provides guidance for using fair value to measure assets and liabilities. SFAS 157 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 includes provisions that require expanded disclosure of the effect on earnings for items measured using unobservable data. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position ("FSP") 157-2, Effective Date of FASB Statement No. 157, delaying the effective date of certain non-financial assets and liabilities to fiscal periods beginning after November 15, 2008. We are currently evaluating the impact of adopting SFAS 157 on our consolidated financial condition and results of operations; however, it is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

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. SFAS 159 permits companies to measure certain financial instruments and other items at fair value. SFAS 159 is effective for our fiscal year beginning October 1, 2008. We are currently evaluating the impact of adopting SFAS 159 on our consolidated financial condition and results of operations; however, it is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB 51. SFAS 160 requires that a noncontrolling interest (formerly 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. SFAS 160 is effective for our fiscal year beginning October 1, 2009 and its provisions will be applied retrospectively upon adoption. We are currently evaluating the impact of adopting SFAS 160 on our consolidated financial condition and results of operations.

In December 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 110 which expresses the views of the Staff regarding the use of the "simplified" method (the mid-point between the vesting period and contractual life of the option) for "plain vanilla" options in accordance with SFAS 123R. SAB 110 will allow the use of the "simplified" method beyond December 31, 2007 under certain conditions including a company's inability to rely on historical exercise data. We are currently evaluating the impact of adopting SAB 110 on our consolidated financial condition and results of operations.

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 periodically for recoverability in accordance with the provisions of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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 inventory held for development at the community level as factors indicate that an impairment may exist. 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 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;
- 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 for 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.

The fair value of the assets 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. As of December 31, 2007, we used discount rates of 18% to 22% in our estimated discounted cash flow impairment calculations. We recorded impairments on inventory held for development and homes under construction of $108.1 million and $115.2 million during the quarters ended December 31, 2007 and December 31, 2006, respectively.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rate, 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 the 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 Sale. We record assets held for sale at the lower of the carrying value or fair value less costs to sell in accordance with SFAS 144. 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 land has been initiated;
- the sale of the land is probable within one year;
- the land 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, we will re-evaluate the best use of an asset that is currently being accounted for as held for development. In such instances, we 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. During the quarter ended December 31, 2007, we recorded inventory impairments on land held for sale of approximately $33.4 million. No held for sale inventory impairments were recorded for the three months ended December 31, 2006.

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.

(2) Supplemental Cash Flow Information

During the quarters ended December 31, we paid interest of $57.3 million in fiscal 2008 and $53.6 million in fiscal 2007. In addition, we paid income taxes of approximately $140,000 in fiscal 2008 and $13.2 million in fiscal 2007. The Company's adoption of FIN 48 on October 1, 2007 was treated as a non-cash item in the consolidated statement of cash flows. The adoption of FIN 48 resulted in a $64.6 million increase to deferred income taxes, a $74.7 million increase in other liabilities and a $10.1 million reduction in stockholders' equity in the first quarter of fiscal year 2008 (See Note 8). We also had the following non-cash activity (in thousands):

	Quarter ended December 31,	
	2007	2006
Supplemental disclosure of non-cash activity:		
(Decrease) increase in consolidated inventory not owned	$ (40,298)	$ 59,390
Land acquired through issuance of notes payable	9,506	24,510
Issuance of stock under deferred bonus stock plans	94	-

(3) Inventory

December 31,