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Extreme Makeover: Beazer Edition

By Teresa Burney

Less than a year ago, Beazer Homes USA's net worth was steadily diminishing, moving closer and closer to a level that would trigger all kinds of consequences, including requiring large cash outlays and endangering its ability to borrow money.

In less than nine months, the company has successfully reversed the slide and performed a financial makeover that has added close to half a billion dollars to its tangible net worth, increased its cash on hand, and pushed back the due date on some of its debt, giving it the headroom it needs to concentrate on selling and building houses.

For two years Beazer's ability to restructure its considerable debt was hampered by federal investigations into mortgage fraud and accounting irregularities. When the lion's share of its legal problems was resolved last summer, the company immediately dove into its three-part goal: "protect liquidity, increase net worth, and reduce total indebtedness."

Toward those ends, Beazer has made four major moves that have erased worries about diminishing net worth.

-In late summer and early fall, the company bought back $384 million of its bond debt for $220 million, boosting its net worth by $130 million after expenses.

-Thanks to the government's extension of the net operating loss provisions in the tax code, the company is expecting to receive a $101 million cash refund in the first quarter of 2010.

-Over the holidays, the company sold 18 million shares of new stock and $50 million shares of notes that will convert to stock in 2013, bringing in roughly another $153 million.

-And, most recently, in a rather unusual debt restructuring move, the company was able to take advantage of accounting rules to add between $54 million and $61 million to its net worth by simply swapping $75 million of junior subordinated trust preferred securities due in 2036 for $75 million in junior subordinated notes due in 2036.

While the new securities have almost the same terms as the old and they add no real new cash to the company's coffers, the move did trigger a mark-to-market accounting rule that requires the company to lower the value of the notes to their new value, effectively decreasing the company's book debt and increasing its net worth.

The exchange comes with a couple of other advantages. The new debt has a floor and a cap on interest rates, while the old debt floated after 2016 without caps, so now the company and the note holders have more certainty about the interest rates. Plus, should the company choose, it could buy back the debt at a discount.

"This is good for Beazer because it helps give them more runway so they don't blow covenants," said Tony Avila, of Avila Advisors, which helped Beazer negotiate the swap with the holders of the $75 million in debt. The task was difficult because it was syndicated among many investors after it was issued in 2006, and they had to agree to the switch.