

CtW Investment Group

November 6, 2007

Laurent Alpert
Chair, Nominating/Corporate Governance Committee
Board of Directors
Beazer Homes USA, Inc.
1000 Abernathy Road Suite 1200
Atlanta, GA 30328

Dear Mr. Alpert:

Yesterday's disclosure that Beazer Homes USA cut its workforce by 25% in October, suspended its quarterly dividend and will incur at least \$230 million in impairment charges in its fiscal fourth quarter has further undermined management's credibility at a precarious moment in the housing cycle. The news follows the Audit Committee's recent disclosure of Beazer's widespread violations of federal law and improper accounting.

With Beazer's stock down nearly 80% this year and cancellations reaching a staggering 68% last quarter, decisive action by Beazer's independent directors is required to restore investor, creditor, customer and regulatory confidence. Specifically, we call on you to immediately:

1. Replace CEO Ian J. McCarthy;
2. Name an independent board chairman; and
3. Establish a Legal and Regulatory Compliance Committee.

Rather than create sustainable, long-term value for shareholders, Mr. McCarthy has garnered egregious compensation while allowing his management team to violate federal law, improperly account for land development costs and sale-leaseback transactions, and provide undisclosed loans to executives.

While the board has recently removed two other executives who violated company policy, its failure to hold Mr. McCarthy accountable reflects, in our view, a troubling lack of independent leadership. In addition, the Audit Committee's findings reflect its failure to effectively oversee audit and compliance matters simultaneously, underscoring the need for a dedicated compliance committee, as we previously urged in a September 5 letter to you (to which we received a perfunctory response from management).

We further detail our concerns below.

Illegal mortgage practices and improper accounting

Beazer disclosed on October 11 that employees in its mortgage lending subsidiary violated federal law relating to down payment assistance programs in certain FHA-insured loans dating back to at least 2000. The board hopes to settle with regulators for between \$8 -\$15 million, and also faces potential civil litigation arising out of the same transactions.

Beazer also announced that the Audit Committee had discovered accounting deficiencies – including excessive reserves for land development costs and inappropriate use of sale-leaseback accounting – that require Beazer to restate its consolidated financial statements for fiscal years 2004 through 2006, with a cumulative effect adjustment from fiscal years 1999 to 2003.

High executive turnover, including two terminated for cause

Three of Beazer's top five executives in its January 2007 proxy statement are no longer with the company, with two of those executives—General Counsel Kenneth Gary and Chief Accounting Officer Michael Rand—having been dismissed for cause in apparently unrelated circumstances.

Mr. Gary was terminated in February 2007 “for a pattern of personal conduct which includes violations of company policies.” Although the company failed to identify the specific conduct involved, it was apparently unrelated to Beazer's improper lending practices and accounting errors. Mr. Rand, who may have been responsible for Beazer's improper accounting, was terminated in June for violating the company's ethics policy by trying to destroy documents.

In addition to these two terminations, Beazer announced on March 21, 2007 that James O'Leary, Executive Vice President and Chief Financial Officer, was resigning to become President and Chief Executive Officer of Kaydon Corporation. Mr. O'Leary's timing proved propitious when, within a week, news broke of the federal investigation of Beazer in connection with mortgage fraud. While Beazer has already hired a new CFO to replace Mr. O'Leary, we believe the other two vacancies should not be filled until a replacement for Mr. McCarthy is hired.

Egregious executive compensation

Mr. McCarthy was paid over \$57 million in total compensation over the past five years, including \$22 million in 2006 alone – an amount the Corporate Library reports was among the very highest for similarly sized firms. On top of that, Mr. McCarthy executed his largest ever sale of company stock—179,535 shares at \$43.07 each, totaling \$7.7 million—last November, less than two months before the stock began its steady collapse to its current \$9.52 per share.

Lack of independent board leadership

As you know, founder and non-executive chairman Brian Beazer is not an independent director. In fact, given the amount and structure of Mr. Beazer's compensation as well as his long and prominent history with the company, we suspect he is “non-executive” in name only, and in practice acts more like an adjunct CEO.

In fiscal 2006, for example, Mr. Beazer received \$225,000 in base pay, nearly 2,500 stock options and nearly 2,000 restricted shares under the company's Stock Incentive Plans, plus incentive compensation of \$316,605 under the Executive Value Created Incentive Plan. No other non-management director participates in these plans. As ISS noted in its January 2007 proxy report, Mr. Beazer's annual salary is “in line with the most highly compensated officers of the company.” By contrast, the other non-employee directors received fiscal 2006 pay of \$35,000 plus \$1,500 per board meeting, with an additional \$5,000 for committee chairs.

Underscoring Mr. Beazer's conflicted role is his longstanding relationship with CEO Ian McCarthy, whose career he has helped to shape over the past 28 years. Mr. McCarthy first started working for Mr. Beazer as a professional engineer for Beazer PLC in the U.K in 1980. He then spent over 10 years with Beazer Asia in Hong Kong and Thailand. After a short stint back in the U.K, he was sent to run the U.S. homebuilding company in 1991 and has survived a series of ownership changes culminating in Beazer USA's 1994 initial public offering.

Despite Mr. Beazer's role and compensation, and despite the fact that the Beazer board itself does not classify him as an independent director, the proxy states that he chairs the quarterly executive sessions of the non-management directors required under NYSE standards. While the independent directors (i.e. the non-management directors other than Mr. Beazer) also meet separately, it is only once per year in a session chaired by a lead independent director, a position that rotates on an annual basis and is largely ceremonial.

Undisclosed loans to executives

Our research indicates that three of Beazer's top five executives as of January 2007 received mortgage loans from Beazer Mortgage that were not disclosed to shareholders (and may not have been disclosed to the board):

- In November 1997, Beazer Mortgage granted Michael Furlow, Executive Vice President and Chief Operating Officer, a \$450,000 mortgage to finance the purchase of an Atlanta home he was buying from its previous owners.
- In September 2001, Beazer Mortgage granted Ian McCarthy, President and CEO, a \$538,500 mortgage to refinance his mortgage on an Atlanta home he purchased in October 1995 from its previous owners.
- In October 2001, Beazer Mortgage granted Michael Rand, then Senior Vice President and Chief Accounting Officer, a \$403,500 mortgage to refinance his mortgage on an Atlanta home he purchased in 2000 from its previous owners.

It is our understanding, based on our review of Beazer's 10-K and web site and a phone inquiry to the company, that Beazer Mortgage only provides mortgages to finance the purchase of Beazer homes. Since none of these three executives purchased a Beazer home, and two of the mortgages were merely to refinance existing mortgages, we can only assume that the executives were granted mortgages not available to third parties. To the extent that these mortgages included below-market rates or other favorable terms also not available to third parties, they appear even more troubling.

We note that the Sarbanes Oxley Act of 2002 prohibits companies from directly or indirectly arranging personal loans to executives. While the Act includes a grandfather provision for loans as of July 30, 2002, such as those granted to Beazer executives, at a minimum Beazer should have disclosed these loans to shareholders, particularly since they do not appear to be consistent with the ordinary conduct of Beazer Mortgage's business.

Mr. Laurent Alpert

November 6, 2007

Page 4 of 4

Summary

Taken together, the combination of improper practices, compliance failures and poor corporate governance detailed above constitute a stinging indictment of Beazer's leadership in general and of Mr. McCarthy in particular. By swiftly replacing Mr. McCarthy with a qualified CEO and naming an independent director to assume Mr. Beazer's role as chairman, the board can begin to restore the credibility Beazer desperately needs.

Finally, while we were disappointed by your failure to respond to our September 5 letter, we continue to believe you are uniquely positioned to lead this effort given that you are both chair of Beazer's Nominating/Corporate Governance Committee and a partner at Cleary Gottlieb with extensive experience in corporate governance matters.

If you would like to discuss these issues further, please contact me at (202) 721-6028.

Sincerely,

A handwritten signature in black ink, appearing to read "William Patterson". The signature is written in a cursive, somewhat stylized font.

William Patterson
Executive Director

CC: Board of Directors