

AV Homes, Inc.
Form 10-Q
August 08, 2013
Table of Contents

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

FORM 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the quarterly period ended June 30, 2013

OR

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

Commission File Number 001-07395

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

Delaware
(State or other Jurisdiction of Incorporation or
Organization)

23-1739078
(I.R.S. Employer Identification No.)

8601 N. Scottsdale Rd., Suite 225, Scottsdale, Arizona
(Address of Principal Executive Offices)

85253
(Zip Code)

(480) 214-7400
(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Table of Contents

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: Accelerated filer: Non-accelerated filer: Smaller reporting company:

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

15,343,266 shares of AV Homes' common stock (\$1.00 par value) were outstanding as of August 6, 2013.

Table of Contents

AV HOMES, INC. AND SUBSIDIARIES

INDEX

	PAGE
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements:</u>	
<u>Consolidated Balance Sheets as of June 30, 2013 (unaudited) and December 31, 2012</u>	<u>1</u>
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) for the six and three months ended June 30, 2013 and 2012 (unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012 (unaudited)</u>	<u>3</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>4</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
<u>Item 4. Controls and Procedures</u>	<u>28</u>
<u>PART II. Other Information</u>	<u>28</u>
<u>Item 1A. Risk Factors</u>	<u>28</u>
<u>Item 6. Exhibits</u>	<u>41</u>
<u>Signatures</u>	<u>41</u>

Table of Contents

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

Table of Contents

AV HOMES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	\$ 196,399	\$ 79,815
Restricted cash	4,725	4,682
Land and other inventories	188,086	171,044
Receivables, net	6,813	6,730
Income tax receivable	1,293	1,293
Property and equipment, net	36,059	36,661
Investments in and notes receivable from unconsolidated entities	1,237	1,220
Prepaid expenses and other assets	10,405	10,777
Assets held for sale	16,483	25,649
Total Assets	\$ 461,500	\$ 337,871
Liabilities and Equity		
Liabilities		
Accounts payable	\$ 4,908	\$ 4,656
Accrued and other liabilities	14,150	12,978
Customer deposits and deferred revenues	3,653	1,985
Estimated development liability for sold land	32,945	32,974
Notes payable	105,402	105,402
Total Liabilities	\$ 161,058	\$ 157,995
Contingent convertible cumulative redeemable preferred stock	93,206	—
Equity		
Common Stock, par value \$1 per share		
Authorized: 50,000,000 shares		
Issued: 15,454,140 shares at June 30, 2013		
12,938,157 shares at December 31, 2012	15,454	12,938
Additional paid-in capital, Common	296,233	262,363
Retained (deficit) earnings	(115,537)	(106,110)
	196,150	169,191
Treasury stock: at cost, 110,874 shares at June 30, 2013 and December 31, 2012	(3,019)	(3,019)
Total AV Homes stockholders' equity	193,131	166,172
Non-controlling interests	14,105	13,704
Total Equity	207,236	179,876
Total Liabilities and Equity	\$ 461,500	\$ 337,871

See notes to consolidated financial statements.

Table of Contents

AV HOMES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income (Loss)

For the six and three months ended June 30, 2013 and 2012

(unaudited)

(Dollars in thousands except per share amounts)

	Six Months		Three Months	
	2013	2012	2013	2012
Revenues				
Real estate revenues				
Homebuilding	\$45,253	\$32,972	\$22,705	\$15,534
Commercial and industrial and other land sales	8,882	12,057	6,577	2,999
Other real estate	438	210	181	66
Total real estate revenues	54,573	45,239	29,463	18,599
Interest income	34	63	25	32
Other	68	374	68	335
Total revenues	54,675	45,676	29,556	18,966
Expenses				
Real estate expenses				
Homebuilding	45,790	38,706	23,025	18,825
Commercial and industrial and other land sales	5,257	7,344	4,392	1,377
Other real estate	1,399	3,305	692	1,251
Total real estate expenses	52,446	49,355	28,109	21,453
Impairment charges	45	3,580	45	3,428
General and administrative expenses	7,997	6,663	4,292	3,357
Interest expense	3,536	4,353	1,763	2,116
Total expenses	64,024	63,951	34,209	30,354
Loss from unconsolidated entities	(78)	(79)	(15)	(43)
Loss before income taxes	(9,427)	(18,354)	(4,668)	(11,431)
Income tax (expense) benefit	—	—	—	—
Net loss and comprehensive loss	(9,427)	(18,354)	(4,668)	(11,431)
Net income (loss) attributable to non-controlling interests in consolidated entities	—	1,442	—	(86)
Net loss and comprehensive loss attributable to AV Homes stockholders	\$(9,427)	\$(19,796)	\$(4,668)	\$(11,345)
Basic and Diluted Loss Per Share	\$(0.74)	\$(1.58)	\$(0.36)	\$(0.91)

See notes to consolidated financial statements.

Table of Contents

AV HOMES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2013 and 2012

(unaudited)

(Dollars in thousands)

	Six Months	
	2013	2012
OPERATING ACTIVITIES		
Net loss	\$(9,427	) \$(18,354)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,344	2,189
Amortization of stock-based compensation	615	845
Impairment of land and other inventories	45	3,580
Loss from unconsolidated entities	78	79
Loss from disposal of assets	22	—
Changes in operating assets and liabilities:		
Restricted cash	(43	) 2,352
Receivables, net	(83	) (601)
Land and other inventories	(17,087	) 1,898
Assets held for sale	9,166	4,000
Prepaid expenses and other assets	372	(958)
Accounts payable, estimated development liability, and accrued and other liabilities	1,395	684
Customer deposits and deferred revenues	1,668	(131)
NET CASH USED IN OPERATING ACTIVITIES	(11,935	) (4,417)
INVESTING ACTIVITIES		
Investment in property and equipment	(764	) (2,336)
Return of capital from unconsolidated entities	—	13
Investment in unconsolidated entities	(95	) (66)
NET CASH USED IN INVESTING ACTIVITIES	(859	) (2,389)
FINANCING ACTIVITIES		
Issuance of common shares	35,805	—
Issuance of preferred shares	93,206	—
Contributions from consolidated joint venture partner	401	189
Distributions to consolidated joint venture partner	—	(1,785)
Payment of withholding taxes related to restricted stock and units withheld	(34	) (36)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	129,378	(1,632)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	116,584	(8,438)
Cash and cash equivalents at beginning of period	79,815	124,316
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$196,399	\$115,878

See notes to consolidated financial statements.

Table of Contents

AV HOMES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

June 30, 2013

(Dollars in thousands except share and per share data)

Note A - Basis of Financial Statement Presentation and Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of AV Homes, Inc. and all subsidiaries, partnerships and other entities in which AV Homes, Inc. ("AV Homes", "we", "us", "our", or "the Company") has a controlling interest. Our investments in unconsolidated entities in which we have less than a controlling interest are accounted for using the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated balance sheets as of June 30, 2013 and December 31, 2012, and the related consolidated statements of operations and comprehensive income (loss) for the six and three months ended June 30, 2013 and 2012 and the consolidated statements of cash flows for the six months ended June 30, 2013 and 2012 have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet as of December 31, 2012 was derived from consolidated financial statements included in our 2012 Annual Report on Form 10-K but does not include all disclosures required by GAAP. These consolidated financial statements should be read in conjunction with our December 31, 2012 consolidated financial statements included in our 2012 Annual Report on Form 10-K and the notes to the consolidated financial statements included therein.

Use of Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

TPG Investment in Company

On June 19, 2013, we entered into a Securities Purchase Agreement (the "Purchase Agreement") by and among AV Homes and TPG Aviator, L.P. ("TPG") pursuant to which TPG agreed to acquire 2,557,474 shares of AV Homes' common stock, par value \$1.00 per share (the "Common Stock"), at a purchase price of \$14.65 per share, and 665,754.3 shares of a newly authorized series of the AV Homes' preferred stock, designated as Series A Contingent Convertible Cumulative Redeemable Preferred Stock, par value \$0.10 per share (the "Series A Preferred Stock"), at a purchase price and liquidation preference of \$146.50 per share, for an aggregate investment in AV Homes by TPG of \$135,000.

On June 20, 2013, AV Homes and TPG closed the transactions (the "TPG Investment") contemplated by the Purchase Agreement, and AV Homes issued to TPG the Common Stock and the Series A Preferred Stock in the amounts and in exchange for the purchase price described above.

The Series A Preferred Stock will be convertible into shares of Common Stock following the receipt of the requisite approval of AV Homes' stockholders at an initial conversion ratio equal to ten shares of Common Stock per share of

Series A Preferred Stock, subject to adjustment. In the Purchase Agreement, we agreed to use our reasonable best efforts to hold, within 90 days following the closing, a meeting of our stockholders to vote on the approval of the conversion of the Series A Preferred Stock into Common Stock and certain other matters set forth in the related stockholders agreement (such approval, the "Stockholder Approval"). In the event that the Stockholder Approval is not obtained at the first stockholders' meeting, then we have agreed to, upon TPG's request, use our reasonable best efforts to call additional stockholders' meetings on two additional occasions during the first year following the closing and on an annual basis thereafter for the purpose of obtaining such approval. We expect to exercise our right to require the conversion of the Series A Preferred Stock into Common Stock upon receipt of Stockholder Approval.

If we do not receive Stockholder Approval and convert the Series A Preferred Stock, the mandatory dividend rate applicable to the Series A Preferred Stock will increase to (i) 8% per annum beginning December 17, 2013 and continuing until September 17, 2014, (ii) 12% per annum beginning September 18, 2014 and continuing until September 17, 2015, and (iii) 15% per annum thereafter. If any Series A Preferred Stock remains outstanding on December 17, 2013, (a) the aggregate

Table of Contents

liquidation preference for the Series A Preferred Stock will increase from the amount originally paid by TPG for the Series A Preferred Stock to 110% of such amount and (b) the number of shares of Common Stock received upon conversion of the Series A Preferred Stock will increase by 10%. The increase in liquidation preference will cause the effective dividend rates on the Series A Preferred Stock to be 10% higher.

At any time after June 20, 2018, holders of Series A Preferred Stock can require us to purchase all of such holder's Series A Preferred Stock for a per share redemption price equal to the greater of: (a) the per share liquidation preference of such holder's Series A Preferred Stock, and (b) the average closing price per share of our common stock for the 20 trading days preceding the date we receive notice of the exercise multiplied by the conversion ratio (but without giving effect to the potential 10% increase in the conversion ratio described above). We have the right to redeem all (but not less than all) of the Series A Preferred Stock at any time between June 20, 2014 and June 20, 2015 for the same per share redemption price. Upon the public announcement of a change of control each holder of Series A Preferred Stock shall have the right, during a twenty day option period, to require that the Company redeem all (but not less than all) of such holder's Series A Preferred Stock for a per share redemption price equal to the greater of: (a) the sum of the liquidation preference plus a make-whole amount equal to the aggregate amount of all dividends that would have accrued from the date of the change of control through June 20, 2018, and (b) the greater of (x) average closing price per share of Company's common stock for the twenty trading days preceding the fifth day prior to consummation of the change of control transaction multiplied by the conversion ratio (but without giving effect to the potential 10% increase in the conversion ratio described above) and (y) the per share consideration received by Company's common stockholders in such transaction.

In accordance with GAAP, the Series A Preferred Stock has been classified outside of permanent equity because the redemption provisions are not solely within our control. We incurred approximately \$6,000 of transaction fees in connection with the TPG Investment, which have been allocated between the common and preferred stock and offset against the proceeds received. The beneficial conversion features of the Series A Preferred Stock will not be amortized until the contingency is realized. In addition, a contingent beneficial conversion feature will not be recorded or amortized until the contingency is resolved or management no longer deems the resolution of the contingency probable within the 180 day period. We have assessed the provisions of the Series A Preferred Stock and concluded that the impact of any embedded derivative features are not material as of June 30, 2013.

Note B - Cash and Cash Equivalents

We consider all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. As of June 30, 2013, our cash and cash equivalents were invested primarily in money market accounts that invest in U.S. government securities. Due to the short maturity period of the cash equivalents, the carrying amount of these instruments approximates their fair values.

Our cash items that are restricted as to withdrawal or usage include deposits of \$4,725 and \$4,682 as of June 30, 2013 and December 31, 2012, respectively. The balance as of June 30, 2013 is comprised primarily of \$3,618 on deposit with Citibank to collateralize letters of credit outstanding, \$481 in land escrow accounts and \$571 of housing deposits from customers that will become available when the housing contracts close.

Note C - Receivables, net

Receivables, net includes amounts in transit or due from title companies for home closings, membership dues related to our amenity operations, and contracts and mortgage notes receivable from the sale of land.

Note D - Income Tax Receivable

Income tax receivable consists of tax refunds we expect to receive within one year. As of both June 30, 2013 and December 31, 2012, we had \$1,293 of income tax receivable. The amount was received subsequent to June 30, 2013.

Note E - Land and Other Inventories

Land and Other Inventories are stated at cost unless the asset is determined to be impaired, in which case the asset is written down to its fair value. Land and Other Inventories include expenditures for land acquisition, construction, land development and direct and allocated costs. Land and Other Inventories owned and constructed by us also include interest cost capitalized until development and construction are substantially completed. Land and development costs, construction and direct and allocated costs are assigned to components of Land and Other Inventories based on specific identification or other allocation methods based upon GAAP.

In accordance with ASC 360-10, Property, Plant and Equipment ("ASC 360-10"), we review our Land and Other Inventories for indicators of impairment.

For assets held and used, if indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the estimated future undiscounted cash flows to be generated by the asset to its carrying value. If such cash flows are less than the asset's carrying value, the carrying value is written down to its estimated fair value. Generally, fair value is determined by discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. The discount rate used in the determination of fair value would vary, depending on the state of development. Assumptions and estimates used in the determination of the estimated future cash flows are based on expectations of future operations and economic conditions and certain factors described below. Changes to these assumptions could significantly affect the estimates of future cash flows, which could affect the potential for future impairments. Due to the uncertainties of the estimation process, actual results could differ significantly from such estimates.

For assets held for sale (such as homes completed or under construction or vacant land parcels available for sale), we perform an impairment test in which the asset is reviewed for impairment by comparing the fair value (estimated sales price) less cost to sell the asset to its carrying value. If such fair value less cost to sell is less than the asset's carrying value, the carrying value is written down to its estimated fair value less cost to sell.

We evaluate our Land and Other Inventories for impairment on a quarterly basis to reflect market conditions, including a significant oversupply of homes available for sale, higher foreclosure activity and significant competition. During the six and three months ended June 30, 2013 our impairment assessment resulted in impairment charges of \$45 which related to homes completed or under construction. During the six and three months ended June 30, 2012, our impairment assessment resulted in impairment charges of \$733 and \$581, respectively, which related to homes completed or under construction, and \$2,847 in impairment charges related to land developed and/or held for future development or sale. Our evaluation of land developed and/or held for future development or sale did not result in impairment charges during the six and three months ended June 30, 2013.

Land and Other Inventories that are subject to a review for indicators of impairment include our: (i) housing communities (active adult and primary residential, including scattered lots) and (ii) land developed and/or held for future development or sale. A discussion of the factors that impact our impairment assessment for these categories follows.

Housing communities: Activities include the development of active adult and primary residential communities and the operation of amenities. The operating results and losses generated from active adult and primary residential communities during the six and three months ended June 30, 2013 and 2012 include operating expenses relating to the operation of the amenities in our communities as well as divisional overhead allocated among several communities.

Our active adult and primary residential communities are generally large master-planned communities in Florida and in Arizona. Several of these communities are long term projects on land we have owned for many years. In reviewing each of our communities, we determine if potential impairment indicators exist by reviewing various factors such as actual contribution margins on homes closed in recent months, projected contribution margins on homes in backlog, projected contribution margins on speculative homes, average selling prices, sales activities and local market conditions. If indicators are present, the asset is reviewed for impairment. In determining estimated future cash flows for purposes of the impairment test, the estimated future cash flows are significantly impacted by specific community factors such as: (i) sales absorption rates; (ii) estimated sales prices and sales incentives; and (iii) estimated cost of home construction, estimated land development costs, interest costs, indirect construction and overhead costs, and selling and marketing costs. In addition, our estimated future cash flows are also impacted by general economic and local market conditions, competition from other homebuilders, foreclosures and depressed home sales in the areas in which we build and sell homes, product desirability in our local markets and the buyers' ability to obtain mortgage financing. The build-out of our active adult residential communities generally exceeds five years. Our assumptions are based on current activity and recent trends at our active adult and primary residential communities. There are a significant number of assumptions with respect to each analysis. Many of these assumptions extend over a significant number of years. The substantial number of variables to these assumptions could significantly affect the potential for future impairments.

Table of Contents

Declines in contribution margins below those realized from our current sales prices and estimations could result in future impairment losses in one or more of our housing communities.

Land developed and/or held for future development or sale: Our land developed and/or held for future development or sale represents land holdings for the potential development of future active adult and/or primary residential communities, commercial and industrial uses. For land developed and/or held for future development or sale, indicators of potential impairment include changes in use, changes in local market conditions, declines in the selling prices of similar assets and increases in costs. If indicators are present, the asset is reviewed for impairment. In determining estimated future cash flows for purposes of the impairment test, the estimated future cash flows could be significantly impacted by specific community factors such as: (i) sales absorption rates; (ii) estimated sales prices and sales incentives; and (iii) estimated costs of home construction, estimated land and land development costs, interest costs, indirect construction and overhead costs, and selling and marketing costs. In addition, our estimated future cash flows could also be impacted by general economic and local market conditions, competition from other homebuilders, foreclosures and depressed home sales in the areas where we own land for future development, product desirability in our local markets and the buyers' ability to obtain mortgage financing. Factors that we consider in determining the appropriateness of moving forward with land development or whether to write-off the related amounts capitalized include: our current inventory levels, local market economic conditions, availability of adequate resources and the estimated future net cash flows to be generated from the project.

Land and Other Inventories consist of the following:

	June 30, 2013	December 31, 2012
Active Adult		
Land developed and in process of development	\$59,998	\$51,341
Land held for future development or sale	54,356	53,526
Homes completed or under construction	27,072	21,974
Total Active Adult	141,426	126,841
Primary Residential		
Land developed and in process of development	20,907	22,088
Homes completed or under construction	12,669	8,589
Total Primary Residential	33,576	30,677
Land developed and in process of development--Other	13,061	13,502
Other	23	24
	\$188,086	\$171,044

Note F - Property and Equipment

Property and Equipment are stated at cost and depreciation is computed using the straight-line method over the following estimated useful lives of the assets: land improvements 10 to 25 years; buildings and improvements 8 to 39 years; and machinery, equipment and fixtures 3 to 7 years. Maintenance and operating expenses of equipment utilized in the development of land are capitalized as land inventory cost. Repairs and maintenance are expensed as incurred.

Property and Equipment includes the cost of amenities, such as club facilities on properties, owned by us. The cost of amenities includes expenditures for land acquisition, land development and direct and allocated construction costs. Property and Equipment owned and constructed by us also includes interest cost incurred during development and

construction.

Each reporting period, we review our Property and Equipment for indicators of impairment in accordance with ASC 360-10. For our amenities, which are located within our housing communities, indicators of potential impairment are similar to those of our housing communities (described above) as these factors may impact our ability to generate revenues at our amenities or cause construction costs to increase. In addition, we factor in the collectability and potential delinquency of the

6

Table of Contents

fees due for our amenities. For the six and three months ended June 30, 2013 and June 30, 2012, we did not identify indicators of impairments for Property and Equipment.

Note G - Poinciana Parkway

The population of the Poinciana community is approximately 70,000 and we expect the population to grow in the coming years. We currently own over 5,000 lots and nearly 10,000 acres of additional real estate in the community of Poinciana, Florida. While Poinciana has adequately accommodated the growing population with residential housing, including our Solivita development, the accompanying traffic infrastructure is constrained by Poinciana's location in the midst of Reedy Creek Wetland System and Disney's Wilderness Preserve. Currently, there is only one four-lane arterial roadway connecting Poinciana to the regional road network. All other access roads are two-lane roads with limited capacity. The proposed Poinciana Parkway is approximately ten miles long, beginning in Poinciana and connecting to the US17/US92 in Polk County. Once built, this roadway will provide significant relief to the currently constrained roadway infrastructure that accommodates the daily commuter traffic in Poinciana. This relief will allow for continued growth in residential, commercial, and employment in the Poinciana community, all of which we believe will enhance its sales and land values in Poinciana.

In October of 2012, Osceola County, Polk County, the Osceola County Expressway Authority (the "Expressway Authority") and Avatar Properties Inc. ("API"), one of our wholly owned subsidiaries, entered in to an Agreement for Development (the "Development Agreement") of the Poinciana Parkway.

Pursuant to the Development Agreement, API has assigned to the Expressway Authority all of API's current plans for the Poinciana Parkway. The Expressway Authority is in the process of selecting a general contractor to design the final configuration of the Poinciana Parkway and to construct the roadway once bond financing is obtained. Construction is contingent on bond financing obtained by Osceola County and cash contributions by Polk and Osceola Counties which may be funded by grant monies or other sources to be determined. If all required funds are obtained and the Development Agreement is closed, API will (i) assign at no cost its current permits for the Poinciana Parkway to the Expressway Authority and (ii) donate to Polk County or Osceola County, as applicable, certain rights of way for the Poinciana Parkway and certain additional rights of way that will accommodate both the arterial and southern connector facilities to Osceola and Polk Counties. The Expressway Authority shall be responsible for construction of the Poinciana Parkway at no cost to API. The toll portion of the Poinciana Parkway shall be operated and maintained by the Expressway Authority and all excess toll revenues shall be used to fund transportation facilities in the Poinciana area. Other portions of the Poinciana Parkway will be owned by Polk County or Osceola County, as applicable.

If funding and construction of the Poinciana Parkway cannot be achieved as contemplated by the Development Agreement, the counties have no right to obtain damages or seek specific performance for API's failure to perform under prior agreements with Polk and Osceola Counties regarding its obligation to fund and construct the Poinciana Parkway. If the Development Agreement is terminated because funding of the Poinciana Parkway construction does not occur, API shall be entitled to a one year extension of certain of its prior agreements with Osceola County. If during such extension, API cannot obtain financing and begin construction of the Poinciana Parkway: (i) a portion of API's land in Osceola County will become subject to Osceola traffic concurrency requirements applicable generally to other home builders in the county and (ii) API will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway.

We reviewed the recoverability of the carrying value of the Poinciana Parkway on a quarterly basis in accordance with authoritative accounting guidance. In the fourth quarter of 2012, we determined that the probability of public funding

to occur is high, and as a result, we recorded a non-cash charge of \$7,659 related to our expected transfer of mitigation credits carried on our books and the carrying value of contributed right-of-way parcels. The remaining mitigation credits' book value of \$749 was reclassified to Prepaid Expenses and Other Assets on our balance sheet as of December 31, 2012.

Note H - Notes Payable

4.50% Convertible Senior Notes due 2024

On March 30, 2004, we issued \$120,000 aggregate principal amount of our 4.50% Convertible Senior Notes due 2024 (the "4.50% Notes") in a private offering. The 4.50% Notes mature on April 1, 2024 unless earlier converted, redeemed or repurchased.

Interest: Interest on the 4.50% Notes is 4.50% per year, payable semi-annually in arrears in cash on April 1 and October 1 of each year, commencing October 1, 2004.

Table of Contents

Conversion: The 4.50% Notes are convertible into our common stock upon the occurrence of certain triggers described in the Indenture dated March 30, 2004 between us and the trustee named therein (the “4.50% Indenture”). Shares of our common stock, into which the 4.50% Notes are convertible, have been reserved for issuance.

Repurchase Right/Redemption Right: Holders of the 4.50% Notes had the right to require us to repurchase the 4.50% Notes for cash on April 1, 2011 and have the right to require us to repurchase the 4.50% Notes for cash on April 1, 2014 and April 1, 2019 or upon the occurrence of a “fundamental change” (as defined in the 4.50% Indenture) or a “termination of trading” (as defined in the 4.50% Indenture). We may, at any time, at our option, redeem for cash all or any portion of the outstanding 4.50% Notes. In the case of a repurchase or redemption, we will pay a repurchase or redemption price, as applicable, equal to 100% of the principal amount, plus accrued and unpaid interest, if any.

On February 4, 2011, we repurchased \$17,765 principal amount of the 4.50% Notes for approximately \$18,171 using proceeds from the issuance of our 7.50% Notes discussed below. On April 1, 2011, holders of \$41,637 principal amount of the 4.50% Notes exercised their right to require us to repurchase the 4.50% Notes.

FASB ASC 470-20 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer’s nonconvertible debt borrowing rate. ASC 470-20 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The excess of the principal amount of the liability component over its carrying amount and the debt issuance costs are amortized to interest cost using the interest method over the expected life of a similar liability that does not have an associated equity component. The discount on the liability component of the 4.50% Notes is amortized using the effective interest method based on an effective rate of 7.50%, which was the estimated market interest rate for similar debt without a conversion option on the issuance date. The discount was amortized from the issuance date in 2004 through April 1, 2011, the first date that holders of the 4.50% Notes could require us to repurchase the 4.50% Notes. The discount was fully amortized in 2011.

As of June 30, 2013 and December 31, 2012, \$5,402 aggregate principal amount of the 4.50% Notes remain outstanding.

7.50% Senior Convertible Notes due 2016

On February 4, 2011, we completed an underwritten public offering for \$100,000 aggregate principal amount of our 7.50% Senior Convertible Notes due 2016 (the “7.50% Notes”). The 7.50% Notes mature on February 15, 2016 unless earlier converted, redeemed or repurchased. The 7.50% Notes are governed by the Indenture and the First Supplemental Indenture, each dated February 4, 2011 (collectively, the “First Supplemental Indenture”), between us and the trustee named therein.

Interest: Interest on the 7.50% Notes is 7.50% per year, payable semi-annually in arrears in cash on February 15 and August 15 of each year, commencing August 15, 2011.

Conversion: Holders may convert the 7.50% Notes into shares of our common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date of February 15, 2016. The 7.50% Notes are convertible at an initial conversion rate of 33.3333 shares of common stock per \$1 principal amount of the 7.50% Notes (equivalent to an initial conversion price of approximately \$30.00 per share). The conversion rate, and thus the conversion price, may be adjusted under certain circumstances, including upon the occurrence of a “non-stock change of control” as such term is defined in the First Supplemental Indenture. Upon any conversion, subject to certain

exceptions, holders will not receive any cash payment representing accrued and unpaid interest. Shares of our common stock, into which the 7.50% Notes are convertible, have been reserved for issuance.

Financial covenants: The First Supplemental Indenture includes the following financial covenants:

- until February 15, 2014, we will maintain, at all times, cash and cash equivalents of not less than \$20,000;
- until February 4, 2013, our total consolidated indebtedness (as “indebtedness” is defined in the First Supplemental Indenture) may not exceed \$150,000; and
- until February 4, 2013, our total consolidated indebtedness (as “indebtedness” is defined in the First Supplemental Indenture) shall not exceed \$50,000 at any time, excluding for purposes of this covenant: (a) the 7.50% Notes, and (b) any indebtedness with a maturity date after February 15, 2014, which indebtedness does not provide the holder with a unilateral put right prior to February 15, 2014.

Table of Contents

Repurchase Right: Holders of the 7.50% Notes have the right to require us to repurchase the 7.50% Notes on February 15, 2014 or upon the occurrence of a “fundamental change” (as defined in the First Supplemental Indenture), in each case at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. The holders of the 7.50% Notes also have the right to require us to repurchase 50% of the 7.50% Notes upon the occurrence of a breach of any of the above financial covenants at a repurchase price equal to 110% of the principal amount, plus accrued and unpaid interest.

Redemption Right : We may, at any time on or after February 15, 2014, at our option, redeem for cash all or any portion of the outstanding 7.50% Notes at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest, but only if the last reported sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day before the date that we provide the notice of redemption to holders exceeds 130% of the conversion price in effect on each such trading day and certain other conditions described in the First Supplemental Indenture are met.

As of June 30, 2013 and December 31, 2012, \$55,500 aggregate principal amount of the 7.50% Notes remain outstanding.

7.50% Senior Exchange Convertible Notes due 2016

In July 2012, we entered into exchange agreements under which we retired \$44,500 in aggregate principal amount of our 7.50% Notes, in exchange for the issuance of \$44,500 in aggregate principal of new 7.50% Senior Exchange Convertible Notes due 2016 (“7.50% Exchange Notes”). The 7.50% Exchange Notes mature on February 15, 2016 unless earlier converted, redeemed or repurchased. The 7.50% Exchange Notes are governed by the Indenture dated February 4, 2011 and the Second Supplemental Indenture dated July 25, 2012 between us and the trustee named therein (collectively, the “Second Supplemental Indenture”).

Interest: Interest on the 7.50% Exchange Notes is 7.50% per year, payable semi-annually in arrears in cash on February 15 and August 15 of each year, commencing February 15, 2013.

Conversion: The 7.50% Exchange Notes are convertible and have an initial conversion rate of 55.5555 shares of common stock per \$1 principal amount of notes (equivalent to a conversion price of approximately \$18.00 per share), subject to adjustment in certain events. We have the right, but not an obligation, to require holders to convert the 7.50% Exchange Notes in whole or in part if the closing price of our common stock equals or exceeds 130% of the conversion price then in effect for a specified period and certain other conditions are satisfied. Shares of our common stock, into which the 7.50% Exchange Notes are convertible, have been reserved for issuance.

Financial covenants: The Second Supplemental Indenture includes the same financial covenants as those governing the 7.50% Notes, except that the outstanding 7.50% Exchange Notes, as well as the 7.50% Notes, are excluded from the third covenant. We may suspend the operation of these financial covenants with respect to the 7.50% Exchange Notes if the aggregate principal amount outstanding of the 7.50% Notes and the 7.50% Exchange Notes does not exceed \$33,000.

Repurchase Right: Unlike the 7.50% Notes, the 7.50% Exchange Notes do not provide that the holders may require us to repurchase the 7.50% Exchange Notes on February 15, 2014. However, holders of the 7.50% Exchange Notes have the right to require us to repurchase the 7.50% Exchange Notes upon the occurrence of a “fundamental change” (as defined in the Second Supplemental Indenture). The holders of the 7.50% Exchange Notes also have the right to require us to repurchase 50% of the 7.50% Exchange Notes upon the occurrence of a breach of any of the above financial covenants at a repurchase price equal to 110% of the principal amount, plus accrued and unpaid interest.

Redemption Right: We have the right to redeem the 7.50% Exchange Notes on or after February 15, 2015. Prior to that date, the 7.50% Exchange Notes are redeemable, on one occasion only, upon the occurrence of certain events and the satisfaction of certain conditions (as described in the Second Supplemental Indenture). In each case, the redemption price is equal to 100% of the principal amount, plus accrued and unpaid interest.

We have assessed the 7.50% Exchange Notes and concluded that the impact of any embedded derivative features are not material as of June 30, 2013, subject to further review over the life of the 7.50% Exchange Notes. As of June 30, 2013 and December 31, 2012, \$44,500 aggregate principal amount of the 7.50% Exchange Notes remain outstanding.

The following table represents interest incurred, interest capitalized, and interest expense for the six and three months ended June 30, 2013 and 2012:

9

Table of Contents

	Six Months		Three Months	
	2013	2012	2013	2012
Interest incurred	\$4,650	\$4,683	\$2,326	\$2,334
Interest capitalized	(1,114)	(330)	(563)	(218)
Interest expense	\$3,536	\$4,353	\$1,763	\$2,116

We made interest payments of \$4,057 and \$3,898 during the six months ended June 30, 2013 and 2012, respectively.

Note I - Warranty Costs

Warranty reserves for houses are established to cover estimated costs for materials and labor with regard to warranty-type claims to be incurred subsequent to the closing of a house. Reserves are determined based on historical data and other relevant factors. We may have recourse against subcontractors for claims relating to workmanship and materials. Warranty reserves are included in Accrued and Other Liabilities in the consolidated balance sheets. Warranty payments incurred for individual homes may differ from the related accrual established for the home at the time it was closed.

During the six and three months ended June 30, 2013 and 2012, changes in the warranty reserve consisted of the following:

	Six Months		Three Months	
	2013	2012	2013	2012
Accrued warranty reserve, beginning of period	\$549	\$537	\$453	\$601
Estimated warranty expense	255	319	147	155
Amounts charged against warranty reserve	(307)	(316)	(103)	(216)
Accrued warranty reserve, end of period	\$497	\$540	\$497	\$540

Note J - Loss Per Share

We present loss per share in accordance with ASC 260, Earnings Per Share ("ASC 260"). Basic earnings (loss) per share is computed by dividing earnings (loss) attributable to AV Homes stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of AV Homes. In accordance with ASC 260, the computation of diluted earnings (loss) per share for the six and three months ended June 30, 2013 and 2012 did not assume the effect of restricted stock units, employee stock options, the 7.50% Notes, the 7.50% Exchange Notes, or the 4.50% Notes because the effects were antidilutive.

The weighted average number of shares outstanding in calculating basic loss per share includes the cancellation of 2,364 shares and 0 shares of common stock and the issuance of 2,565,607 shares and 2,559,833 shares of common stock for the six and three months ended June 30, 2013, respectively, and cancellation of 5,072 shares of common stock and issuance of 7,160 shares of common for the six and three months ended June 30, 2012. In accordance with ASC 260, non-vested restricted shares are not included in basic earnings per share until the vesting requirements are met.

The following table represents the net loss and weighted average shares outstanding for the calculation of basic and diluted loss per share for the six and three months ended June 30, 2013 and 2012:

Six Months	Three Months
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	2013	2012	2013	2012
Numerator:				
Basic and diluted loss per share – net loss	\$(9,427) \$(19,796) \$(4,668) \$(11,345
Denominator:				
Basic and diluted weighted average shares outstanding	12,824,927	12,522,663	12,993,514	12,523,843

Note K - Repurchase of Common Stock

On October 13, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$9,864 previously authorized. On October 17, 2008, we repurchased \$35,920 principal amount of the 4.50% Notes for approximately \$28,112, including accrued interest. On December 12, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$1,888 remaining after the October 2008 activities. In 2009, we repurchased \$14,076 principal amount of the 4.50% Notes for approximately \$11,696, including accrued interest. As of June 30, 2013, the remaining authorization is \$18,304.

Note L - Non-controlling Interest

Table of Contents

AV Homes has consolidated certain limited liability companies (the "LLCs"), which qualify as variable interest entities ("VIEs") because we determined that AV Homes is the primary beneficiary. Therefore, the LLCs' financial statements are consolidated in AV Homes' consolidated financial statements and the other partners' equity in each of the LLCs is recorded as non-controlling interest as a component of consolidated stockholders' equity. At June 30, 2013 and December 31, 2012, non-controlling interest was \$14,105 and \$13,704, respectively.

Note M - Comprehensive Loss

Net loss and comprehensive loss are the same for the six and three months ended June 30, 2013 and 2012.

Note N - Share-Based Payments and Other Executive Compensation

On June 2, 2011, our stockholders approved the Amended and Restated 1997 Incentive and Capital Accumulation Plan (2011 Restatement) (the "Incentive Plan") to, among other things, increase the aggregate number of shares of our common stock, par value \$1.00 per share, authorized for issuance under the Incentive Plan by 700,000 shares from 1,500,000 shares to 2,200,000 shares and extend the term of the Incentive Plan until October 25, 2020. The Incentive Plan provides for the grant of stock options, stock appreciation rights, stock awards, performance awards, and stock units to our officers, employees and directors. The exercise price of stock options may not be less than the stock exchange closing price of our common stock on the date of grant. Stock option awards under the Incentive Plan generally expire 10 years after the date of grant.

As of June 30, 2013, an aggregate of 1,125,716 shares of our common stock, subject to certain adjustments, were reserved for issuance under the Incentive Plan, including an aggregate of 217,288 options, restricted stock units and stock units granted. There were 908,428 shares available for grant at June 30, 2013.

During the six months ended June 30, 2013, we cancelled the issuance of 114,750 restricted shares granted in 2011 to certain executives and issued additional performance-based restricted shares in exchange. We also issued performance-based restricted shares to other members of management. Vesting is contingent upon the achievement of certain performance objectives, some of which are subjective in nature. Compensation cost for these awards is recognized over the service period, and variable accounting is applied whereby the fair value of the award is remeasured each reporting period until vesting occurs. The cancellation and issuance of shares was accounted for as a modification with the future compensation expense computed using the greater of unamortized fair value of the cancelled awards or the incremental fair value as remeasured each reporting period.

Compensation expense related to the stock option, restricted stock, and restricted stock unit awards during the six months ended June 30, 2013 and 2012 was \$615 and \$846, respectively, all of which relates to restricted stock units. Compensation expense related to the stock option, restricted stock, and restricted stock unit awards during the three months ended June 30, 2013 and 2012 was \$331 and \$426. During the six months ended June 30, 2013, we executed amendments to the Amended and Restated Employment Agreements with two of our executives. Under the terms of these amendments, 114,750 restricted shares were cancelled and replaced with new awards. During the three months ended June 30, 2013, we granted 17,268 shares of restricted stock, which have a weighted average grant date fair value of \$13.77 per share. No restricted stock unit awards or stock options were granted during the three months ended June 30, 2012.

As of June 30, 2013, there was \$2,388 of unrecognized compensation expense related to unvested restricted stock units. That expense is expected to be recognized over a weighted-average period of 1.86 years.

Note O - Retirement of Treasury Stock

In March 2012, we retired 1,141,400 shares of treasury stock, which shares also remain as authorized but unissued. This treasury stock retirement resulted in reductions to common stock of \$1,141, treasury stock of \$42,905, retained earnings of \$18,845 and paid in capital of \$22,919. There was no effect on the total stockholders' equity position as a result of the retirement.

Note P - Income Taxes

Table of Contents

Income taxes have been provided using the liability method under ASC 740, Income Taxes (“ASC 740”). The liability method is used in accounting for income taxes where deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse.

In accordance with ASC 740, AV Homes evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a “more likely than not” standard. During 2008, we established a valuation allowance against our deferred tax assets. Our cumulative loss position over the evaluation period and the uncertain and volatile market conditions provided significant evidence supporting the need for a valuation allowance. During the six months ended June 30, 2013 we recognized an increase of \$3,715 in the deferred tax valuation allowance against net deferred tax assets generated from the pretax loss for the quarter. As of June 30, 2013, our deferred tax asset valuation allowance was \$130,248. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

On October 25, 2010, we received notification from the Internal Revenue Service (the “IRS”) that our federal income tax returns for tax years 2004, 2005, 2006 and 2009 were being examined. On February 10, 2012, AV Homes agreed with the IRS’s Notice of Proposed Adjustment to the 2009 net operating loss carryback. This adjustment generated an income tax expense of \$473 for 2011 with a reduction in the anticipated income tax receivables in the same amount. Income tax receivable as of June 30, 2013 and December 31, 2012 consists of \$1,293 in anticipated income tax refunds.

In 2006, we sold property we owned in Marion County, Florida to the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida under threat of condemnation. The bulk of the land was transferred in 2006 and the final closing took place in 2007. These transactions and subsequent correspondence with the IRS entitled us to defer payment of income taxes of \$24,355 from the gain on these sales until replacement property is sold provided we obtained qualifying replacement property for the Marion property by December 31, 2010. We believe that we acquired appropriate replacement properties by December 31, 2010. If the IRS determines in the future that some or all of the properties acquired by us as replacement properties do not qualify as replacement properties, we may be required to make an income tax payment plus interest on the value of the portion of the properties determined not to qualify as replacement property.

Note Q - Fair Value Disclosures

ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), provides guidance for using fair value to measure assets and liabilities, defines fair value, establishes a framework for measuring fair value under GAAP, expands disclosures about fair value measurements, and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The accounting standards require that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Fair value determined based on quoted market prices in active markets for identical assets and liabilities.

Level 2: Fair value determined using significant observable inputs, such as quoted prices for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated

by observable market data, by correlation or other means.

Level 3: Fair value determined using significant unobservable inputs, such as discounted cash flows, or similar techniques.

The carrying value of cash and cash equivalents, restricted cash, receivables, income tax receivable and accounts payable approximates the fair value due to their short-term maturities.

The majority of our non-financial instruments, which include Land and Other Inventories and Property and Equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur such that a non-financial instrument is required to be evaluated for impairment, a resulting asset impairment would require that the non-financial instrument be recorded at the lower of historical cost or its fair value.

Table of Contents

As of June 30, 2013, AV Homes' assets measured at fair value were homes completed or under construction whose carrying value was adjusted to a fair value of \$1,894, representing a loss of \$45 for the quarter ended June 30, 2013. These assets are classified in Level 3 of the fair value hierarchy.

For assets held for sale (such as homes completed or under construction or vacant land parcels available for sale), we perform an impairment test in which the asset is reviewed for impairment by comparing the fair value (estimated sales price) less cost to sell the asset to its carrying value. If such fair value less cost to sell is less than the asset's carrying value, the carrying value is written down to its estimated fair value less cost to sell.

For assets held and used, if indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the estimated future undiscounted cash flows to be generated by the asset to its carrying value. If such cash flows are less than the asset's carrying value, the carrying value is written down to its estimated fair value. Generally, fair value is determined by discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. The discount rate used in the determination of fair value would vary depending on the stage of development. Assumptions and estimates used in the determination of the estimated future cash flows are based on expectations of future operations and economic conditions and certain factors described below. Changes to these assumptions could significantly affect the estimates of future cash flows which could affect the potential for future impairments. Due to the uncertainties of the estimation process, actual results could differ significantly from such estimates.

The carrying amounts and fair values of our financial instruments at June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes Payable:				
4.50% Notes	\$5,402	\$5,481	\$5,402	\$5,343
7.50% Notes and 7.50% Exchange Notes	\$100,000	\$111,160	\$100,000	\$101,500

In estimating the fair value of financial instruments, we used the following methods and assumptions:

7.50% Notes, 7.50% Exchange Notes, and 4.50% Notes: At June 30, 2013 and December 31, 2012, the fair value of the 7.50% Notes, 7.50% Exchange Notes, and the 4.50% Notes is estimated, based on quoted or estimated market prices. These fall within Level 2 of the fair value hierarchy.

Note R - Investments in Partnerships and LLCs

GAAP requires a variable interest entity ("VIE") to be consolidated with a company that is the primary beneficiary. The primary beneficiary of a VIE is the entity that has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities determined to be VIEs, for which we are not the primary beneficiary, are accounted for under the equity method.

AV Homes' variable interest in VIEs may be in the form of (1) equity ownership, (2) contracts to purchase assets and/or (3) loans provided by AV Homes to a VIE. We examine specific criteria and use judgment when determining if AV Homes is the primary beneficiary of a VIE. Factors considered in determining whether we are the primary beneficiary include risk and reward sharing, experience and financial condition of other partner(s), voting rights,

involvement in day-to-day capital and operating decisions, level of economic disproportionality between AV Homes and the other partner(s) and contracts to purchase assets from VIEs.

We participate in entities with equity interests ranging from 20% to 58.2% for the purpose of acquiring and/or developing land in which we may or may not have a controlling interest. These entities are VIEs and our investments in these entities, along with other arrangements, represent variable interests, depending on the contractual terms of the arrangement. We analyze these entities when they are entered into or upon a reconsideration event.

Table of Contents

Consolidation of Variable Interest Entities

During 2009, we entered into two separate agreements with unrelated third parties providing for the formation of two LLCs. We subsequently sold developed, partially developed and undeveloped land to each of the newly formed companies for a combination of cash and purchase money notes. We acquired a minority ownership interest in each of the LLCs and participate in the management of each of the LLCs. We also entered into land option contracts with these newly formed LLCs. Under such land option contracts, we paid a specified option deposit in consideration for the right, but not the obligation, to purchase developed lots in the future at predetermined prices.

In May 2012, we entered into an agreement with JEN Arizona 4, LLC to form a limited liability company, EM 646, LLC ("EM 646"). We hold a 58.2% interest in the venture, which was organized for the purpose of acquiring, entitling, developing, and distributing specific sections of real property located in Mesa, Arizona. The property was acquired in November 2012, and will be distributed to the partners at cost, once certain entitlements and development activities are completed.

We determined that these entities qualify as VIEs, which require consolidation by the entity determined to be the primary beneficiary. As a result of our analyses, we hold a variable interest in the VIEs through the purchase money notes, the land option contracts and an economic interest in these LLCs. As of June 30, 2013, our consolidated balance sheets include \$33,267 in Land and Other Inventories from these LLCs. As of December 31, 2012, our consolidated balance sheets include \$32,659 in Land and Other Inventories from these LLCs.

In January 2012, all of the real property owned by one of our consolidated joint ventures was sold to an unrelated third party. The net gain on this sale of approximately \$2,731 is fully recognized and included as a component of net loss on our consolidated statement of operations and comprehensive income (loss). We present the joint venture partner's 60% share of this income, \$1,639, on our consolidated statement of operations and comprehensive income (loss) as a component of net income (loss) attributable to non-controlling interests in consolidated entities.

AV Homes and its equity partners make initial or ongoing capital contributions to these consolidated entities on a pro rata basis. The obligation to make capital contributions is governed by each consolidated entity's respective operating agreement.

As of June 30, 2013, these consolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners. The assets of our VIEs can only be used to settle obligations of the VIEs.

Unconsolidated Variable Interest Entities

We participate in entities with equity interests ranging from 20% to 50% for the purpose of acquiring and/or developing land in which we do not have a controlling interest. We analyze these entities when they are entered into or upon a reconsideration event. All of such entities in which we had an equity interest at June 30, 2013 and December 31, 2012 are accounted for under the equity method.

AV Homes shares in the profits and losses of these unconsolidated entities generally in accordance with its ownership interests. AV Homes and its equity partners make initial or ongoing capital contributions to these unconsolidated entities on a pro rata basis. The obligation to make capital contributions is governed by each unconsolidated entity's respective operating agreement.

Prior to 2010, we entered into various transactions with unaffiliated third parties providing for the formation of LLCs, and we subsequently sold developed and partially developed land to each of these LLCs. We acquired a minority

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ownership interest in each of the LLCs and share in the management of each. AV Homes made contributions totaling \$94 and \$66 to its unconsolidated entities during the six months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, these unconsolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners.

The following are the combined condensed balance sheets of our unconsolidated entities as of June 30, 2013 and December 31, 2012:

14

Table of Contents

	June 30, 2013	December 31, 2012
Assets:		
Cash	\$ 129	\$ 53
Land and other inventory	6,126	6,126
Other assets	6	6
Total assets	\$6,261	\$6,185
Liabilities and Partners' Capital:		
Accounts payable and accrued liabilities	\$83	\$83
Partners' capital of:		
AV Homes	1,237	1,220
Equity partners	4,941	4,882
Total liabilities and partners' capital	\$6,261	\$6,185

The following are the combined condensed statements of operations of our unconsolidated entities for the six and three months ended June 30, 2013 and 2012:

	Six Months		Three Months	
	2013	2012	2013	2012
Revenues	\$—	\$—	\$—	\$—
Costs and expenses	181	194	43	103
Net loss from unconsolidated entities	\$(181)	\$(194)	\$(43)	\$(103)
AV Homes' share of loss from unconsolidated entities	\$(78)	\$(79)	\$(15)	\$(43)

Note S - Estimated Development Liability for Sold Land

The estimated development liability consists primarily of utilities improvements in Poinciana and Rio Rico for more than 8,000 homesites previously sold and is summarized as follows:

	June 30, 2013	December 31, 2012
Gross estimated unexpended costs	\$35,850	\$35,879
Less costs relating to unsold homesites	(2,905)	(2,905)
Estimated development liability for sold land	\$32,945	\$32,974

The estimated development liability for sold land is reduced by actual expenditures and is evaluated and adjusted, as appropriate, to reflect management's estimate of anticipated costs. In addition, we obtain third-party engineer evaluations and adjust this liability to reflect changes in the estimated costs. We recorded charges associated with these obligations of \$29 and \$121 during the six months ended June 30, 2013 and 2012, respectively, and \$10 and \$21 during the three months ended June 30, 2013 and 2012, respectively. Future increases or decreases of costs for construction, material and labor as well as other land development and utilities infrastructure costs may have a significant effect on the estimated development liability.

Note T - Commitments and Contingencies

We are involved in various pending litigation matters primarily arising in the normal course of our business. These cases are in various procedural stages. Although the outcome of these matters cannot be determined, AV Homes believes it is probable, in accordance with ASC 450-20, Loss Contingencies, that certain claims may result in costs and expenses estimated at approximately \$452 and \$258, which have been accrued in the accompanying consolidated balance sheets as of June 30, 2013 and December 31, 2012, respectively. Liabilities or costs arising out of these and

other currently pending litigation is not expected to have a material adverse effect on our business, consolidated financial position or results of operations.

Table of Contents

Performance bonds, issued by third-party entities, are used primarily to guarantee our performance to construct improvements in our various communities. As of June 30, 2013, we had outstanding performance bonds of approximately \$2,953. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

Note U - Business Segments

The following table summarizes AV Homes' information for reportable segments for the six and three months ended June 30, 2013 and 2012:

	Six Months		Three Months	
	2013	2012	2013	2012
Revenues:				
Segment revenues				
Active adult communities	\$22,162	\$19,896	\$10,156	\$10,091
Primary residential	23,091	13,076	12,549	5,443
Commercial and industrial and other land sales	8,882	12,057	6,577	2,999
Other operations	438	210	181	66
	54,573	45,239	29,463	18,599
Unallocated revenues				
Interest income	34	63	25	32
Other	68	374	68	335
Total revenues	\$54,675	\$45,676	\$29,556	\$18,966
Operating income (loss):				
Segment operating income (loss)				
Active adult communities	\$(2,433)	\$(5,258)	\$(1,554)	\$(2,611)
Primary residential	1,851	(1,209)	1,189	(1,413)
Commercial and industrial and other land sales	3,625	4,713	2,185	1,622
Other operations	254	67	66	18
	3,297	(1,687)	1,886	(2,384)
Unallocated income (expenses)				
Interest income	34	63	25	32
Equity loss from unconsolidated entities	(78)	(79)	(15)	(43)
Net (gain)/loss attributable to non-controlling interests	—	(1,442)	—	86
General and administrative expenses	(7,996)	(6,663)	(4,292)	(3,357)
Interest expense	(3,536)	(4,353)	(1,763)	(2,116)
Other real estate expenses	(1,148)	(2,788)	(509)	(716)
Impairment of land developed or held for future development	—	(2,847)	—	(2,847)
Loss attributable to AV Homes	\$(9,427)	\$(19,796)	\$(4,668)	\$(11,345)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data)

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

In the preparation of our financial statements, we apply GAAP. The application of GAAP may require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying

results. For a description of our accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2012.

Certain statements discussed in Item 2 (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”) and elsewhere in this Form 10-Q constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties

Table of Contents

and other important factors that could cause the actual results, performance or achievements of results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others: the stability of certain financial markets; disruption of the credit markets and reduced availability and more stringent financing requirements for commercial and residential mortgages of all types; the number of investor and speculator resale homes for sale and homes in foreclosure in our communities and in the geographic areas in which we develop and sell homes; the increased level of unemployment; the decline in net worth and/or of income of potential buyers; the decline in consumer confidence; the failure to successfully implement our business strategy (including our intentions to focus primarily on the development of active adult communities in the future); shifts in demographic trends affecting demand for active adult and primary housing; the level of immigration and migration into the areas in which we conduct real estate activities; our access to financing; construction defect and home warranty claims; changes in, or the failure or inability to comply with, government regulations; the failure to successfully integrate acquisitions into our business and other factors as are described in Item 1A (“Risk Factors”) of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2013. Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which reflect management’s opinions only as of the date hereof.

Executive Overview and Outlook

We are engaged in the business of homebuilding, community development, and land sales in Florida and Arizona. Our home sales in the first six months of 2013 demonstrate moderate and steady improvement as the homebuilding industry continues to recover from the previous downturn. We also engage in other activities such as the operation of amenities and the sale of commercial and industrial land for third-party development. These activities are also benefiting from improved market conditions.

Our business strategy includes the development of residential communities for people age 55 and older, including the construction and sales of residences within those communities, and the construction and sale of primary residences for people of all ages.

We believe the demographic trends and lifestyle aspirations of aging Baby Boomers provide us with a favorable environment for our active adult business segment. Solivita and Vitalia at Tradition, our active adult communities in Central Florida, and CantaMia in Goodyear, Arizona, serve as our flagship active adult communities. In the first six months of 2013 we saw marked improvement in customer traffic at all three communities, resulting in year-over-year improvement in sales. We anticipate developing two more communities that will broaden our geographic footprint and product offering, which will provide us with future participation in the longer term growth of demand from the wave of Baby Boomers entering their retirement years.

Our current primary homebuilding sales activities include three primary locations, two in Florida and one in Arizona, with additional communities in the pipeline for both states. Based on our internal projections, we expect to sell out of lots at all three communities within the next 12 to 15 months and are actively looking for additional replacement lot positions. These replacement positions may require new acquisitions of developed or undeveloped lots, or we may decide to develop current land holdings, depending on market conditions within the vicinity of these assets.

During the quarter ended June 30, 2013, an affiliate of a leading global private investment firm, TPG, invested \$135,000 in our company. We plan to use the proceeds, net of transaction costs, to accelerate the implementation of our strategic plan, which includes growth in both of our business segments in our existing and new high-potential housing markets.

Our business remains capital intensive and requires or may require increased expenditures for land and infrastructure development and housing construction, funding of operating deficits, real estate taxes, homeowner association (“HOA”)

deficits, interest expense and working capital, as well as potential new acquisitions of real estate and real estate-related assets. We plan to carefully manage our inventory levels through monitoring land development and home starts. In that regard, our planned asset sales will help reduce and diversify land holdings and associated carry costs.

Our cash flow from operations in the first six months of 2013 was insufficient to cover our primary recurring costs for interest payments, real estate taxes, HOA subsidies, and unallocated general & administrative expenses. We anticipate that we will continue to generate operating losses during 2013. In addition, our 7.50% Notes may be put to us in February 2014. We believe the TPG investment provides us with sufficient liquidity for the potential debt put, and to fund new investments or engage in new initiatives that are consistent with our strategy. We may seek additional financing from capital markets or other sources to further fund our growth initiatives or repay debt upon maturity.

Table of Contents

During the six months ended June 30, 2013, our homebuilding results reflected some improvement over 2012. We have experienced a strengthening market in the homebuilding industry and in the geographical areas in which we operate. Sales and customer traffic both increased during the second quarter of 2013 compared to the same period last year. During the quarter we signed 119 sales contracts, net of cancellations, and closed 82 sales generating \$20,122 of revenue as compared to signing 101 sales contracts, net of cancellations, and closing 59 sales generating \$13,431 of revenue in the second quarter of 2012. Our average price per unit of homes closed in the quarter was \$245 per unit, a 7% increase from the same period last year. We are encouraged by improved market conditions; however, our sales are seasonal, in particular at the active adult communities, where traffic typically declines during the summer months.

We continue our ongoing efforts to improve our operating efficiencies by identifying areas of our business where we can reduce our expenses. We have introduced strategies and procedures that are designed to streamline our homebuilding operations by simplifying processes and employing value-engineering practices to help us deliver quality, well-built homes. In addition, we will continue to examine our assets to determine which assets fit within our primary business strategy.

The following is a breakdown of our land holdings as of June 30, 2013:

	Total Lots (1)(2)	Closed Lots	Developed	Partially Developed	Raw	Total Remaining Lots	Total Acres (3)
Principal Communities							
Active Adult Communities							
Florida							
Solivita (4)	10,387	3,630	784	564	5,409	6,757	
Tradition	1,244	194	264	364	422	1,050	
	11,631	3,824	1,048	928	5,831	7,807	
Arizona							
CantaMia (5)	1,286	138	86	398	664	1,148	
Eastmark	900	—	—	—	900	900	
	2,186	138	86	398	1,564	2,048	
Total Active Adult Communities	13,817	3,962	1,134	1,326	7,395	9,855	
Primary Residential Communities							
Florida	2,737	1,402	698	637	—	1,335	
Arizona	142	117	25	—	—	25	
Total Primary Residential Communities	2,879	1,519	723	637	—	1,360	
Multi-Family Communities	218	—	—	—	218	218	
Total Principal Communities	16,914	5,481	1,857	1,963	7,613	11,433	

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Not Actively Building or Developing							
Platted Scattered Lots (6)	4,726	3,171	850	674	31	1,555	
Unplatted Scattered Lots	—	—	—	—	—	—	53
Joint Venture Lots	234	—	234	—	—	234	

18

Table of Contents

Platted Scattered Mixed-Use Raw Land	102	2	33	67	—	100	
Unplatted Scattered Mixed-Use Raw Land	—	—	—	—	—	—	14,976
Total Not Actively Building or Developing	5,062	3,173	1,117	741	31	1,889	15,029
Platted Residential	4,557	4	53		4,500	4,553	
Unplatted Residential, Commercial or Industrial							448
Total Land Held for Sale	4,557	4	53	—	4,500	4,553	448
Commercial & Industrial (7)		—	—	—	—	—	1,619
Total Commercial & Industrial:		—	—	—	—	—	1,619
Grand Total:	26,533	8,658	3,027	2,704	12,144	17,875	17,096

(1) Estimated planned lots/units are based on historical densities for our land. New projects may ultimately be developed into more or less than the number of lots/units stated.

(2) Closed homes are only shown for communities where we are actively building.

(3) Acres are reflected as gross acres and are not intended to represent net developable acres.

(4) Included in the lot count for Solivita are 1,500 lots we intend to develop in the future as an expansion to the existing Solivita community.

(5) Total estimated planned lots at CantaMia exclude an option to purchase an additional 475 raw lots.

(6) Included in scattered lots are 653 Poinciana lots (16 developed and 637 partially developed) and 1,005 Rio Rico lots (870 developed, 105 partially developed, and 30 raw).

(7) Commercial and industrial land within this category is reflected as gross acres.

Results of Operations

The following table provides a comparison of certain financial data related to our operations for the six and three months ended June 30, 2013 and 2012:

Table of Contents

	Six Months		Three Months	
	2013	2012	2013	2012
Operating income (loss):				
Active adult communities				
Revenues				
Homebuilding	\$18,606	\$16,340	\$8,385	\$8,307
Amenity	3,556	3,556	1,771	1,784
Expenses				
Homebuilding	15,946	14,726	7,243	7,658
Homebuilding Selling, General and Administrative	4,542	6,601	2,413	3,070
Amenity	4,107	3,827	2,054	1,974
Segment operating loss	(2,433)	(5,258)	(1,554)	(2,611)
Primary residential				
Revenues				
Homebuilding	21,672	11,861	11,739	4,828
Amenity	1,419	1,215	810	615
Expenses				
Homebuilding	17,718	10,837	9,545	4,670
Homebuilding Selling, General and Administrative	2,135	2,280	1,066	1,533
Amenity	1,387	1,168	749	653
Segment operating income (loss)	1,851	(1,209)	1,189	(1,413)
Commercial and industrial and other land sales				
Revenues	8,882	12,057	6,577	2,999
Expenses	5,257	7,344	4,392	1,377
Segment operating income	3,625	4,713	2,185	1,622
Other operations				
Revenues	438	210	181	66
Expenses	184	143	115	48
Segment operating income	254	67	66	18
Operating income (loss)	3,297	(1,687)	1,886	(2,384)
Unallocated income (expenses):				
Interest income	34	63	25	32
Equity loss from unconsolidated entities	—	(79)	(15)	(43)
Net (gain)/loss attributable to non-controlling interests	(78)	(1,442)	—	86
Corporate general and administrative expenses	(7,997)	(6,663)	(4,292)	(3,357)
Interest expense	(3,536)	(4,353)	(1,763)	(2,116)
Other real estate expenses, net	(1,147)	(2,788)	(509)	(716)
Impairment of land developed or held for future development	—	(2,847)	—	(2,847)
Loss before income taxes	(9,427)	(19,796)	(4,668)	(11,345)
Income tax benefit	—	—	—	—
Net loss attributable to AV Homes	\$(9,427)	\$(19,796)	\$(4,668)	\$(11,345)

Data from closings for the active adult and primary residential homebuilding segments for the six and three months ended June 30, 2013 and 2012 is summarized as follows:

20

Table of Contents

For the six months ended June 30,	Number of Units	Revenues	Average Price Per Unit
2013			
Active adult communities	73	\$18,606	\$255
Primary residential	90	21,672	\$241
Total	163	\$40,278	\$247
2012			
Active adult communities	66	\$16,290	\$247
Primary residential	56	11,823	\$211
Total	122	\$28,113	\$230

For the three months ended June 30,	Number of Units	Revenues	Average Price Per Unit
2013			
Active adult communities	34	\$8,385	\$247
Primary residential	48	11,739	\$245
Total	82	\$20,124	\$245
2012			
Active adult communities	34	\$8,307	\$244
Primary residential	25	5,126	\$205
Total	59	\$13,433	\$228

Data from contracts signed for the active adult and primary residential homebuilding segments for the six and three months ended June 30, 2013 and 2012 is summarized as follows:

For the six months ended June 30,	Gross Number of Contracts Signed	Cancellations	Contracts Signed, Net of Cancellations	Dollar Value	Average Price Per Unit
2013					
Active adult communities	199	(25	) 174	\$39,531	\$227
Primary residential	124	(44	) 80	19,001	\$238
Total	323	(69	) 254	\$58,532	\$230
2012					
Active adult communities	121	(37	) 84	\$20,907	\$249
Primary residential	147	(24	) 123	26,892	\$219
Total	268	(61	) 207	\$47,799	\$231
For the three months ended June 30,					
2013					
Active adult communities	102	(12	) 90	\$20,493	\$228
Primary residential	52	(23	) 29	8,648	\$298
Total	154	(35	) 119	\$29,141	\$245
2012					
Active adult communities	55	(13) 42	\$10,371	\$247
Primary residential	72	(13) 59	14,224	\$241

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Total	127	(26) 101	\$24,595	\$244
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21

Table of Contents

Backlog for the active adult and primary residential homebuilding segments as of June 30, 2013 and 2012 is summarized as follows:

	Number of Units	Dollar Volume	Average Price Per Unit
As of June 30, 2013			
Active adult communities	164	\$38,404	\$234
Primary residential	112	24,765	\$221
Total	276	\$63,169	\$229
2012			
Active adult communities	63	\$16,336	\$259
Primary residential	120	24,918	\$208
Total	183	\$41,254	\$225

The number of net housing contracts signed during the six and three months ended June 30, 2013 compared to the same periods in 2012 increased 23% and 18%, respectively. The dollar value of housing contracts signed increased 22% and 18%, respectively. The year-over-year increase in volume of housing contracts signed for the six months ended June 30 indicates improved market conditions for both of our homebuilding segments. During the six and three months ended June 30, 2013, cancellations of previously signed contracts totaled 69 and 35 compared to 61 and 26 during the six and three months ended June 30, 2012. As a percentage of the gross number of contracts signed, this represents 22% and 23% for the six and three months ended June 30, 2013, respectively. As a percentage of the gross number of contracts signed, this represents 23% and 20% for the six and three months ended June 30, 2012, respectively.

As of June 30, 2013 our inventory of unsold (speculative) homes, both completed and under construction, was 64 units, as compared to 62 units as of December 31, 2012. As of both June 30, 2013 and December 31, 2012, approximately 34% of unsold homes were completed.

During the six months ended June 30, 2013 compared to the six months ended June 30, 2012, the number of homes closed increased by 34% and the related revenues increased by 43%. Our average sales price for homes closed during the six months ended June 30, 2013 increased to \$247 compared to \$230 for the six months ended June 30, 2012. We anticipate that we will close in excess of 75% of the homes in backlog as of June 30, 2013 during the subsequent 12-month period, subject to cancellations by purchasers prior to scheduled delivery dates.

Net loss for the six and three months ended June 30, 2013 was \$9,427 or \$0.74 per basic and diluted share and \$4,668 or \$0.36 per basic and diluted share, respectively, compared to \$19,796 or \$1.58 per basic and diluted share and \$11,345 or \$0.91 per basic and diluted share, respectively, for the six and three months ended June 30, 2012. The decrease in net loss for the six and three months ended June 30, 2013 compared to the same periods in 2012 was primarily due to an increase in operating income, a decrease in other real estate expenses, and a decrease in gains attributable to non-controlling interests, offset in part by an increase in corporate general and administrative expenses.

Combined operating loss from active adult communities and primary residential homebuilding was \$582 and \$365 for the six and three months ended June 30, 2013, respectively, as compared to \$6,467 and \$4,024 for the same periods in 2012. The decrease in net loss was primarily attributable to additional home closings, a favorable mix of homes closed, and reduced divisional overhead in the six and three months ended June 30, 2013 versus the six and three months ended June 30, 2012.

Revenues from active adult operations increased \$2,266 or 11% and \$65 or 1% for the six and three months ended June 30, 2013, respectively, compared to the same periods in 2012. Expenses from active adult operations decreased

\$559 or 2% and \$992 or 8% for the six and three months ended June 30, 2013, respectively, compared to the same periods in 2012. The increase in revenues is primarily attributable to seven additional closings in the six months ended June 30, 2013 as compared to prior year, and a favorable change in mix of homes closed for the six and three months ended June 30, 2013 than for the six and three months ended June 30, 2012. The decrease in expenses is attributable to decreased selling, general and administrative expenses, offset by increased closings for the six months ended June 30, 2012, a change in the mix of homes closed, and increased amenity expenses in 2013 as compared to 2012. During the six and three months ended June 30, 2013, we recorded impairment charges in our active adult operations from homes completed or under construction of \$45, compared to impairments of approximately \$718 and \$566 for the six and three months ended June 30, 2012. The average sales price on

Table of Contents

closings from active adult homebuilding operations during the six and three months ended June 30, 2013 was \$255 and \$247 compared to \$247 and \$244 during the same periods in 2012.

The average gross margin (excluding impairment charges, and inclusive of commissions expense) on closings from active adult homebuilding operations during both the six and three months ended June 30, 2013 was approximately 14% compared to approximately 14% and 15% during the six and three months ended June 30, 2012, respectively. Although year-over-year gross margins are flat, we have experienced a change in mix of homes closed between and within our active adult communities. Included in the results from active adult operations are divisional overhead allocated among several communities and our amenity operations.

Revenues from primary residential operations increased \$10,015 or 77% and \$7,106 or 131% for the six and three months ended June 30, 2013 compared to the same periods in 2012. Expenses from primary residential operations increased \$6,955 or 49% and \$4,504 or 66% for the six and three months ended June 30, 2013 compared to the same periods in 2012. The increase in revenues is primarily attributable to 34 and 23 additional closings in the six and three months ended June 30, 2013, respectively, as compared to the prior year period, along with a favorable change in mix of homes closed in 2013 as compared to 2012. In addition, we have been able to increase sales prices year over year in this segment as market conditions improved. The increase in expenses is attributable to increased closings, a change in mix of homes closed, and increased operating expenses in the six and three months ended June 30, 2013 as compared to the six and three months ended June 30, 2012. During the six and three months ended June 30, 2013 we did not record any impairment charges in our primary residential operations from homes completed or under construction. During both the six and three months ended June 30, 2012 we recorded impairment charges in our primary residential operations from homes completed or under construction of \$15. The average sales price on closings from primary residential homebuilding operations for the six and three months ended June 30, 2013 was \$241 and \$245 compared to \$211 and \$205 for the same periods in 2012.

The average gross margin (excluding impairment charges, and inclusive of commissions expense) on closings from primary residential homebuilding operations for the six and three months ended June 30, 2013 was approximately 18% and 19%, respectively, compared to approximately 11% and 10%, respectively, for the same periods in 2012. The increase in average gross margins in the first six months of 2013 as compared to the first six months of 2012 is attributable to a favorable change in mix of homes closed coupled with sales price increases in our Phoenix primary homebuilding operations, and the first closings from our newest Central Florida community, Bellalago, which generally produces higher margins than our other offerings in this segment. Included in the results from primary residential operations are divisional overhead allocated among several communities and our amenity operations.

Net income from commercial and industrial and other land sales was \$3,625 and \$2,185 for the six and three months ended June 30, 2013, respectively, compared to net income of \$4,713 and \$1,622 for the six and three months ended June 30, 2012, respectively. The decrease in net income in the six months ended June 30, 2013 as compared to the same period in 2012 was primarily attributable to decreased land sale revenues. Although our portfolio of assets includes land we hold for sale, these asset sales are not core to our business and are unpredictable in terms of timing and amounts.

Revenues from other operations increased \$229 or 109% and \$117 or 177% for the six and three months ended June 30, 2013 compared to the same periods in 2012. Expenses from other operations increased \$42 or 29% and \$69 or 144% for the six and three months ended June 30, 2013 compared to the same periods in 2012. The increase in revenues and expenses is primarily attributable to increased leasing activities in the first six months of 2013 as compared to the first six months of 2012.

General and administrative expenses increased \$1,334 or 20% and increased \$935 or 28% for the six and three months ended June 30, 2013, respectively, compared to the same periods in 2012. The increase was primarily due to expenses

related to financing activities, increased IT and marketing consulting fees, increased compensation expenses, professional accounting services related to the year-end audit, and increased testing required as a result of our new accounting and operational software system in the six and three months ended June 30, 2013 as compared to the six and three months ended June 30, 2012. These increases were offset in part by a decrease in legal fees in the first quarter of 2013 as compared to the same period in 2012.

Interest expense decreased \$817 or 19% and \$353 or 17% for the six and three months ended June 30, 2013 compared to the same periods in 2012. The decrease in interest expense is primarily attributable to an increase in the amount of interest expense we capitalized to homes under construction in the first six months of 2013 as compared to the same period in 2012.

Other real estate expenses, net, represented by real estate taxes, property maintenance and miscellaneous income not allocable to specific operations, decreased by \$1,641 or 59% and \$207 or 29% for the six and three months ended June 30, 2013 compared to the same periods in 2012. The decrease in other real estate expenses for the six and three months ended

Table of Contents

June 30, 2013 is primarily attributable to a loss recognized in 2012 from land notes receivables write-offs and restructuring of \$541, and the 2012 write-off of an abandoned maintenance facility in Poinciana of \$541.

In accordance with ASC 740, AV Homes evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a “more likely than not” standard. During 2008, we established a valuation allowance against our deferred tax assets. Our cumulative loss position over the evaluation period and the uncertain and volatile market conditions provided significant evidence supporting the need for a valuation allowance. During the six months ended June 30, 2013, we recognized an increase of \$3,715 in the valuation allowance. As of June 30, 2013, our deferred tax asset valuation allowance was \$130,248. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

Liquidity and Capital Resources

Our primary business activities are capital intensive in nature. Significant capital resources are required to finance planned active adult and primary residential communities, homebuilding construction in process, community infrastructure, selling expenses, new projects and working capital needs, including funding of debt service requirements, operating deficits and the carrying costs of land.

Cash Flows

As of June 30, 2013, our cash and cash equivalents totaled \$196,399, compared to cash and cash equivalents of \$79,815 as of December 31, 2012. As of June 30, 2013 and December 31, 2012, total consolidated indebtedness was \$105,402, including \$100,000 carrying amount of our 7.50% Notes and 7.50% Exchange Notes and \$5,402 carrying amount of our 4.50% Notes. Additionally, as of June 30, 2013, we had \$4,725 in restricted cash, of which \$3,618 is posted to collateralize outstanding letters of credit, compared to \$4,682 in restricted cash as of December 31, 2012.

Our operating cash flows fluctuate relative to the status of development within existing communities, expenditures for land, new developments and other real estate activities, and sales of various homebuilding product lines within those communities and other developments and to fund operating deficits.

For the six months ended June 30, 2013, net cash used in operating activities amounted to \$11,935, primarily to fund our operating losses, development, and home construction. Net cash used in investing activities amounted to \$859, primarily due to investments in property and equipment. Net cash provided by financing activities of \$129,378 was primarily attributable to the TPG Investment in common and preferred stock.

For the six months ended June 30, 2012, net cash used in operating activities amounted to \$4,417, primarily to fund our operating losses. Net cash used in investing activities amounted to \$2,389 due to the purchase of property and equipment, which was primarily computer equipment and software. Net cash used in financing activities of \$1,632 was attributable to payment of withholding taxes related to restricted stock and a distribution to a joint venture partner from the sale of the assets of the joint venture.

Financing

4.50% Convertible Senior Notes due 2024

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On March 30, 2004, we issued \$120,000 aggregate principal amount of our 4.50% Convertible Senior Notes due 2024 (the "4.50% Notes") in a private offering. The 4.50% Notes mature on April 1, 2024 unless earlier converted, redeemed or repurchased.

Interest: Interest on the 4.50% Notes is 4.50% per year, payable semi-annually in arrears in cash on April 1 and October 1 of each year, commencing October 1, 2004.

Conversion: The 4.50% Notes are convertible into our common stock upon the occurrence of certain triggers described in the Indenture dated March 30, 2004 between us and the trustee named therein (the "4.50% Indenture"). Shares of our common stock, into which the 4.50% Notes are convertible, have been reserved for issuance.

Table of Contents

Repurchase Right/Redemption Right: Holders of the 4.50% Notes had the right to require us to repurchase the 4.50% Notes for cash on April 1, 2011 and have the right to require us to repurchase the 4.50% Notes for cash on April 1, 2014 and April 1, 2019 or upon the occurrence of a “fundamental change” (as defined in the 4.50% Indenture) or a “termination of trading” (as defined in the 4.50% Indenture). We may, at any time, at our option, redeem for cash all or any portion of the outstanding 4.50% Notes. In the case of a repurchase or redemption, we will pay a repurchase or redemption price, as applicable, equal to 100% of the principal amount, plus accrued and unpaid interest, if any.

On February 4, 2011, we repurchased \$17,765 principal amount of the 4.50% Notes for approximately \$18,171 using proceeds from the issuance of our 7.50% Notes discussed below. On April 1, 2011, holders of \$41,637 principal amount of the 4.50% Notes exercised their right to require us to repurchase the 4.50% Notes.

FASB ASC 470-20 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer’s nonconvertible debt borrowing rate. ASC 470-20 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The excess of the principal amount of the liability component over its carrying amount and the debt issuance costs are amortized to interest cost using the interest method over the expected life of a similar liability that does not have an associated equity component. The discount on the liability component of the 4.50% Notes is amortized using the effective interest method based on an effective rate of 7.50%, which was the estimated market interest rate for similar debt without a conversion option on the issuance date. The discount was amortized from the issuance date in 2004 through April 1, 2011, the first date that holders of the 4.50% Notes could require us to repurchase the 4.50% Notes. The discount was fully amortized in 2011.

As of June 30, 2013 and December 31, 2012, \$5,402 aggregate principal amount of the 4.50% Notes remain outstanding.

7.50% Senior Convertible Notes due 2016

On February 4, 2011, we completed an underwritten public offering for \$100,000 aggregate principal amount of our 7.50% Senior Convertible Notes due 2016 (the “7.50% Notes”). The 7.50% Notes mature on February 15, 2016 unless earlier converted, redeemed or repurchased. The 7.50% Notes are governed by the Indenture and the First Supplemental Indenture, each dated February 4, 2011 (collectively, the “First Supplemental Indenture”), between us and the trustee named therein.

Interest: Interest on the 7.50% Notes is 7.50% per year, payable semi-annually in arrears in cash on February 15 and August 15 of each year, commencing August 15, 2011.

Conversion: Holders may convert the 7.50% Notes into shares of our common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date of February 15, 2016. The 7.50% Notes are convertible at an initial conversion rate of 33.3333 shares of common stock per \$1 principal amount of the 7.50% Notes (equivalent to an initial conversion price of approximately \$30.00 per share). The conversion rate, and thus the conversion price, may be adjusted under certain circumstances, including upon the occurrence of a “non-stock change of control” as such term is defined in the First Supplemental Indenture. Upon any conversion, subject to certain exceptions, holders will not receive any cash payment representing accrued and unpaid interest. Shares of our common stock, into which the 7.50% Notes are convertible, have been reserved for issuance.

Financial covenants: The First Supplemental Indenture includes the following financial covenants:

• until February 15, 2014, we will maintain, at all times, cash and cash equivalents of not less than \$20,000;
• until February 4, 2013, our total consolidated indebtedness (as “indebtedness” is defined in the First Supplemental Indenture) may not exceed \$150,000; and
• until February 4, 2013, our total consolidated indebtedness (as “indebtedness” is defined in the First Supplemental Indenture) shall not exceed \$50,000 at any time, excluding for purposes of this covenant: (a) the 7.50% Notes, and (b) any indebtedness with a maturity date after February 15, 2014, which indebtedness does not provide the holder with a unilateral put right prior to February 15, 2014.

Repurchase Right: Holders of the 7.50% Notes have the right to require us to repurchase the 7.50% Notes on February 15, 2014 or upon the occurrence of a “fundamental change” (as defined in the First Supplemental Indenture), in each case at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. The holders of the 7.50% Notes also

Table of Contents

have the right to require us to repurchase 50% of the 7.50% Notes upon the occurrence of a breach of any of the above financial covenants at a repurchase price equal to 110% of the principal amount, plus accrued and unpaid interest.

Redemption Right : We may, at any time on or after February 15, 2014, at our option, redeem for cash all or any portion of the outstanding 7.50% Notes at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest, but only if the last reported sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day before the date that we provide the notice of redemption to holders exceeds 130% of the conversion price in effect on each such trading day and certain other conditions described in the First Supplemental Indenture are met.

As of June 30, 2013 and December 31, 2012, \$55,500 aggregate principal amount of the 7.50% Notes remain outstanding.

7.50% Senior Exchange Convertible Notes due 2016

In July 2012, we entered into exchange agreements under which we retired \$44,500 in aggregate principal amount of our 7.50% Notes, in exchange for the issuance of \$44,500 in aggregate principal of new 7.50% Senior Exchange Convertible Notes due 2016 (“7.50% Exchange Notes”). The 7.50% Exchange Notes mature on February 15, 2016 unless earlier converted, redeemed or repurchased. The 7.50% Exchange Notes are governed by the Indenture dated February 4, 2011 and the Second Supplemental Indenture dated July 25, 2012 between us and the trustee named therein (collectively, the “Second Supplemental Indenture”).

Interest: Interest on the 7.50% Exchange Notes is 7.50% per year, payable semi-annually in arrears in cash on February 15 and August 15 of each year, commencing February 15, 2013.

Conversion: The 7.50% Exchange Notes are convertible and have an initial conversion rate of 55.5555 shares of common stock per \$1 principal amount of notes (equivalent to a conversion price of approximately \$18.00 per share), subject to adjustment in certain events. We have the right, but not an obligation, to require holders to convert the 7.50% Exchange Notes in whole or in part if the closing price of our common stock equals or exceeds 130% of the conversion price then in effect for a specified period and certain other conditions are satisfied. Shares of our common stock, into which the 7.50% Exchange Notes are convertible, have been reserved for issuance.

Financial covenants: The Second Supplemental Indenture includes the same financial covenants as those governing the 7.50% Notes, except that the outstanding 7.50% Exchange Notes, as well as the 7.50% Notes, are excluded from the third covenant. We may suspend the operation of these financial covenants with respect to the 7.50% Exchange Notes if the aggregate principal amount outstanding of the 7.50% Notes and the 7.50% Exchange Notes does not exceed \$33,000.

Repurchase Right: Unlike the 7.50% Notes, the 7.50% Exchange Notes do not provide that the holders may require us to repurchase the 7.50% Exchange Notes on February 15, 2014. However, holders of the 7.50% Exchange Notes have the right to require us to repurchase the 7.50% Exchange Notes upon the occurrence of a “fundamental change” (as defined in the Second Supplemental Indenture). The holders of the 7.50% Exchange Notes also have the right to require us to repurchase 50% of the 7.50% Exchange Notes upon the occurrence of a breach of any of the above financial covenants at a repurchase price equal to 110% of the principal amount, plus accrued and unpaid interest.

Redemption Right: We have the right to redeem the 7.50% Exchange Notes on or after February 15, 2015. Prior to that date, the 7.50% Exchange Notes are redeemable, on one occasion only, upon the occurrence of certain events and the satisfaction of certain conditions (as described in the Second Supplemental Indenture). In each case, the redemption price is equal to 100% of the principal amount, plus accrued and unpaid interest.

We have assessed the 7.50% Exchange Notes and concluded that the impact of any embedded derivative features are not material as of June 30, 2013, subject to further review over the life of the 7.50% Exchange Notes. As of June 30, 2013 and December 31, 2012, \$44,500 aggregate principal amount of the 7.50% Exchange Notes remain outstanding.

Performance Bonds

Performance bonds, issued by third party entities, are used primarily to guarantee our performance to construct improvements in our various communities. As of June 30, 2013, we had outstanding performance bonds of approximately \$2,953. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

Table of Contents

Poinciana Parkway

The population of the Poinciana, Florida community is approximately 70,000 and we expect the population to grow in the coming years. We currently own over 5,000 lots and nearly 10,000 acres of additional real estate in this community. While Poinciana has adequately accommodated the growing population with residential housing, including our Solivita development, the accompanying traffic infrastructure is constrained by Poinciana's location in the midst of Reedy Creek Wetland System and Disney's Wilderness Preserve. Currently, there is only one four-lane arterial roadway connecting Poinciana to the regional road network. All other access roads are two-lane roads with limited capacity. The proposed Poinciana Parkway is approximately ten miles long, beginning in Poinciana and connecting to the US17/US92 in Polk County. Once built, this roadway will provide significant relief to the currently constrained roadway infrastructure that accommodates the daily commuter traffic in Poinciana. This relief will allow for continued growth in residential, commercial, and employment in the Poinciana community, all of which we believe will enhance our sales and land values in Poinciana.

In October of 2012, Osceola County, Polk County, the Osceola County Expressway Authority and Avatar Properties Inc., one of our wholly owned subsidiaries, entered in to an Agreement for Development of the Poinciana Parkway.

Pursuant to the Development Agreement, API has assigned to the Expressway Authority all of API's current plans for the Poinciana Parkway. The Expressway Authority is in the process of selecting a general contractor to design the final configuration of the Poinciana Parkway and to construct the roadway once bond financing is obtained. Construction is contingent on bond financing obtained by Osceola County and cash contributions by Polk and Osceola Counties which may be funded by grant monies or other sources to be determined. If all required funds are obtained and the Development Agreement is closed, API will (i) assign at no cost its current permits for the Poinciana Parkway to the Expressway Authority and (ii) donate to Polk County or Osceola County, as applicable, certain rights of way for the Poinciana Parkway and certain additional rights of way that will accommodate both the arterial and southern connector facilities to Osceola and Polk Counties. The Expressway Authority shall be responsible for construction of the Poinciana Parkway at no cost to API. The toll portion of the Poinciana Parkway shall be operated and maintained by the Expressway Authority and all excess toll revenues shall be used to fund transportation facilities in the Poinciana area. Other portions of the Poinciana Parkway will be owned by Polk County or Osceola County, as applicable.

If funding and construction of the Poinciana Parkway cannot be achieved as contemplated by the Development Agreement, the counties have no right to obtain damages or seek specific performance for API's failure to perform under prior agreements with Polk and Osceola Counties regarding its obligation to fund and construct the Poinciana Parkway. If the Development Agreement is terminated because funding of the Poinciana Parkway construction does not occur, API shall be entitled to a one year extension of certain of its prior agreements with Osceola County. If during such extension, API cannot obtain financing and begin construction of the Poinciana Parkway: (i) a portion of API's land in Osceola County will become subject to Osceola traffic concurrency requirements applicable generally to other home builders in the county and (ii) API will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway.

We review the recoverability of the carrying value of the Poinciana Parkway on a quarterly basis in accordance with authoritative accounting guidance. In the fourth quarter of 2012, we determined that the probability of public funding to occur is high, and as a result, we recorded a non-cash charge of \$7,659 related to our expected transfer of mitigation credits carried on our books and the carrying value of contributed right-of-way parcels. The remaining mitigation credits' book value of \$749 was reclassified to Prepaid Expenses and Other Assets on our balance sheet as of December 31, 2012.

Other

On October 13, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$9,864 previously authorized. On October 17, 2008, we repurchased \$35,920 principal amount of the 4.50% Notes for approximately \$28,112 including accrued interest. On December 12, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$1,888 remaining after the October 2008 activities. During 2009, we repurchased \$14,076 principal amount of the 4.50% Notes for approximately \$11,696, including accrued interest. As of June 30, 2013, the remaining authorization is \$18,304.

Assuming that no additional significant adverse changes in our business occur, we anticipate the aggregate cash on hand, cash flow generated through homebuilding and related operations, and sales of commercial and industrial and other land will provide sufficient liquidity to fund our business for 2013.

Table of Contents

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates during the six months ended June 30, 2013 as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in AV Homes' market risk during the six months ended June 30, 2013. For additional information regarding AV Homes' market risk, refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we have determined that, during the fiscal quarter ended June 30, 2013, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 1A. Risk Factors (Dollars in thousands)

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition, or future results.

The homebuilding industry, which is cyclical and affected by a variety of factors, has undergone a significant downturn. Although certain markets have begun to recover, including our primary markets of Florida and Arizona, homebuilding remains below historic levels and the duration and ultimate speed of recovery remain uncertain. Deterioration in industry conditions or in broader economic conditions could have additional material adverse effects on our business and financial results.

The homebuilding industry is highly cyclical and is significantly affected by changes in industry conditions, as well as in global and local economic conditions, such as changes in:

- employment and income levels;
- availability of financing for homebuyers;
- interest rates;
- consumer confidence;
- levels of new and existing homes for sale;
- demographic trends; and
- housing demand.

Table of Contents

Changes in these conditions may occur on a national scale, as is the case in the current downturn and nascent recovery, or may acutely affect some of the regions or markets in which we operate more than others. When adverse conditions affect markets, they could have a proportionately greater impact on us than on other homebuilding companies with smaller presences in these locally affected markets. Our operations are concentrated entirely in the markets of Florida and Arizona, which have been more adversely affected by the recent downturn and as a result the downturn has, and could continue to have, a more substantial impact on our business and financial results.

An oversupply of alternatives to new homes and reduction in homebuyer demand can adversely impact our ability to sell new homes.

An oversupply of alternatives to new homes, including foreclosed homes, homes held for sale by investors and speculators, and other existing homes and rental properties, can also adversely impact our ability to sell new homes and can depress new home prices and reduce our margins on the sales of new homes. High levels of foreclosures not only contribute to additional inventory available for sale, but also reduce appraisal valuations for new homes, potentially resulting in lower sales prices. It is difficult to calculate the total number of units at foreclosure risk due to potential "shadow inventory." Shadow inventory can occur when lenders put properties that have been foreclosed or forfeited to lenders on the market gradually, rather than all at once, or delay the foreclosure process.

The recent downturn in the homebuilding industry was one of the most severe housing downturns in U.S. history. The significant decline in the demand for new homes, the significant oversupply of homes in some markets and the significant reductions in the availability of financing for homebuyers that marked the downturn are continuing and may continue for some time. We experienced material reductions in our home sales and homebuilding revenues, and we have incurred and may incur in the future material inventory impairments and losses from our joint venture interests and other write-offs. Although market conditions have improved, it is not clear when we may return to profitability. The reversal of the nascent recovery or slower than anticipated improvements in the market would have a further material adverse effect on our business, liquidity and results of operations.

TPG Aviator, L.P. is a significant stockholder and may have conflicts of interest with us in the future.

As of June 30, 2013, TPG Aviator, L.P. ("TPG Aviator") owned all of our Series A Contingent Convertible Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock") and approximately 41.9% of our common stock, assuming conversion of our Series A Preferred Stock. As a result, TPG Aviator is our largest single stockholder. In addition, so long as TPG Aviator owns at least 10% of our issued and outstanding common stock, TPG Aviator has a pre-emptive right to participate in our future equity issuances, subject to certain conditions. This concentration of ownership in one stockholder could potentially be disadvantageous to other stockholders' interests. In addition, if TPG Aviator were to sell or otherwise transfer all or a large percentage of its holdings, our stock price could decline and we could find it difficult to raise capital, if needed, through the sale of additional equity securities.

The interests of TPG Aviator and its affiliates may differ from the interests of our other stockholders in material respects. For example, TPG Aviator and its affiliates may have an interest in directly or indirectly pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their other equity investments, even though such transactions might involve risks to us. TPG Aviator and its affiliates are in the business of making or advising on investments in companies, including businesses that directly or indirectly compete with certain portions of our business. They may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

Our stockholders agreement with TPG Aviator grants TPG Aviator certain rights that may restrain our ability to take various actions in the future.

In connection with TPG Aviator's June 2013 investment in us, we entered into a stockholders agreement with TPG Aviator, pursuant to which we granted TPG Aviator certain rights that may restrain our ability to take various actions in the future. Under the stockholders agreement, we have agreed to maintain an eight member board of directors until receipt of stockholder approval of the conversion of the Series A Preferred Stock into common stock (the "Stockholder Approval") and TPG Aviator has the right to nominate two directors to our board of directors and to appoint two observers to attend meetings of the board of directors. We agreed to increase the size of our board of directors to ten members upon receipt of Stockholder Approval and, assuming TPG Aviator and its affiliates hold at least 80% of our common stock they held at closing of TPG Aviator's investment (assuming full conversion of the Series A Preferred Stock), then TPG Aviator will be entitled to nominate two additional directors.

Table of Contents

TPG Aviator will have the right to nominate a specified number of directors to the board and to have a specified number of such directors appointed to each committee of the board of directors for so long as TPG Aviator's ownership percentage of our common stock is equal to or greater than 5% (assuming full conversion of the Series A Preferred Stock). Following receipt of Stockholder Approval, TPG Aviator will be entitled to nominate to the board: (i) four directors if TPG Aviator's ownership percentage of our common stock is at least 30%, (ii) three directors if TPG Aviator's ownership percentage is at least 20% but less than 30%, (iii) two directors if TPG Aviator's ownership percentage is at least 15% but less than 20%, and (iv) one director if TPG Aviator's ownership percentage is at least 5% but less than 15%.

In addition, we agreed to constitute each of our compensation committee and a newly established finance committee as a five member committee and (i) for so long as the ownership of TPG Aviator and its affiliates of our common stock is at least 15%, TPG Aviator has the right to have two board members appointed to each such committee, and (ii) for so long as the ownership of TPG and its affiliates of our common stock is at least 5% but less than 15%, TPG Aviator has the right to have one board member appointed to each such committee. For so long as the ownership of TPG Aviator and its affiliates of our common stock is at least 5%, each other committee of our board (other than the executive committee, which shall be the whole board) will be constituted as three member committees, and TPG Aviator has the right to have one board member appointed to each such committee.

In addition, for so long as TPG Aviator's ownership percentage of our common stock is equal to or greater than 5% (assuming full conversion of the Series A Preferred Stock), the rights and responsibilities of the finance committee of the board will include (1) except for certain permitted issuances relating to outstanding rights to purchase or acquire our capital stock, compensation arrangements and acquisition transactions, any sale or issuance of any capital stock or other security, (2) any redemption, purchase, repurchase or other acquisition of securities by AV Homes or any subsidiary, other than in connection with equity compensation arrangements, (3) any incurrence of indebtedness or certain debt-like obligations, with limited exceptions, (4) any hiring or firing of members of senior management, (5) any land or builder acquisitions or dispositions, any acquisitions or dispositions of subsidiaries or any other acquisitions or dispositions, in each case, that are greater than \$5 million (including total expected capital requirements and development costs), (6) any capital expenditures or land commitments over an agreed upon budget, as approved by our board of directors, or otherwise greater than \$10 million, and (7) any entry into new markets or lines of business. During such period, the rights and responsibilities of the compensation committee will include (1) any adoption of any new, or expansion of any existing, equity incentive plan and (2) any changes to, or the adoption of, any compensation arrangements for any members of our board of directors or our senior management. During such period, our board may not approve such matters without the requisite committee approval, which in most cases will require the approval of at least one of the committee members appointed by TPG Aviator.

Pursuant to the terms of the stockholders agreement, TPG Aviator also will have the right to consent to certain actions related to our corporate existence and governance, including any change in the rights and responsibilities of either the finance committee or the compensation committee, for so long as TPG Aviator's ownership percentage of our common stock is equal to or greater than 10% and equal to or greater than 25% of the number of shares owned by them at closing of the TPG Aviator investment.

If our stockholders do not approve the conversion of the Series A Preferred Stock into common stock, we may be required to pay dividends and repurchase our Series A Preferred Stock, which may have a material adverse affect on our financial condition and results of operations.

In connection with TPG Aviator's June 2013 investment in us, we agreed to seek the Stockholder Approval. If we receive Stockholder Approval, we intend to convert our Series A Preferred Stock into common stock. If we do not receive Stockholder Approval, the Series A Preferred Stock will not be convertible into our common stock, and,

unless and until Stockholder Approval is subsequently obtained and the Series A Preferred Stock converts into shares of our common stock, the dividend rate applicable to the Series A Preferred Stock will increase to (i) 8% per annum beginning December 17, 2013 and continuing until September 17, 2014, (ii) 12% per annum beginning September 18, 2014 and continuing until September 17, 2015, and (iii) 15% per annum thereafter. In addition, if any Series A Preferred Stock remains outstanding on December 17, 2013, (a) the aggregate liquidation preference for the Series A Preferred Stock will increase from the amount original paid by TPG Aviator for the Series A Preferred Stock to 110% of such amount and (b) the number of shares of common stock received upon conversion of the Series A Preferred Stock will increase by 10%. The increase in liquidation preference will cause the effective dividend rates on the Series A Preferred Stock to be 10% higher. Payments of dividends on our Series A Preferred Stock may adversely affect our financial condition and results of operations.

At any time after June 20, 2018, or earlier if we fail to pay dividends, holders of Series A Preferred Stock can require us to purchase all of such holder's Series A Preferred Stock for a per share redemption price equal to the greater of: (a) the per

Table of Contents

share liquidation preference of such holder's Series A Preferred Stock, and (b) the average closing price per share of our common stock for the 20 trading days preceding the date we receive notice of the exercise multiplied by the conversion ratio (but without giving effect to the potential 10% increase in the conversion ratio described above). We have the right to redeem all (but not less than all) of the Series A Preferred Stock at any time between June 20, 2014 and June 20, 2015 for a per share purchase price equal to the greater of: (a) the per share liquidation preference of such Series A Preferred Stock, plus a make-whole feature designed to enable the holders of such Series A Preferred Stock to have received the benefit of dividends on such Series A Preferred Stock through June 20 2018; and (b) the average closing price per share of our common stock for the twenty trading days preceding the date we give notice of our intent to purchase such Series A Preferred Stock multiplied by the conversion ratio (but without giving effect to the potential 10% increase in the conversion ratio described above). In the event that we are required to, or choose to, repurchase the Series A Preferred Stock, our financial condition and results of operation could be materially adversely affected.

We could be adversely affected by negative changes in our creditworthiness.

Our ability to access capital in the future is a key factor in our ability to service our indebtedness, to cover our operating expenses and to fund our other liquidity needs. Deterioration in our creditworthiness will require significant management time and effort in addition to management's primary task of running our homebuilding business and make it difficult and costly for us to access debt capital or engage in other ordinary course financing transactions, including the provision of credit support to community infrastructure financing transactions relating to our new developments.

In addition, we use letters of credit and surety bonds to secure our performance under various construction and land development agreements, escrow agreements, financial guarantees and other arrangements. Should our future performance or economic conditions continue to make such letters of credit and surety bonds costly or difficult to obtain or lead to us being required to collateralize such instruments to a greater extent than previously, our business and financial results could be adversely affected.

Each indenture governing our 7.50% Notes, the 7.50% Exchange Notes, the 4.50% Notes, and any future indebtedness, contain or may contain financial and operating restrictions that may affect our ability to operate our business.

Each indenture governing the 7.50% Notes, the 7.50% Exchange Notes, and the 4.50% Notes contain various covenants that, among other things, require the maintenance of a certain amount of cash and cash equivalents and limit our ability to merge or sell assets. In addition, the indentures governing any future indebtedness may contain restrictions on our ability to incur indebtedness, grant certain liens to support indebtedness, enter into certain affiliate transactions and make certain distributions. These covenants could adversely affect our ability to finance our future operations or capital needs, engage in, expand or pursue our business activities and prevent us from engaging in certain transactions that might otherwise be considered beneficial to us. In particular, any future restrictions on our ability to incur additional indebtedness may limit our ability to undertake new large scale master-planned development opportunities, and may thereby adversely affect our future growth and results of operations.

We may be unable to purchase the notes on certain specified dates or upon a fundamental change or designated event.

The holders of the 7.50% Notes have the right to require us to repurchase the 7.50% Notes on February 15, 2014 and the holders of the 4.50% Notes have the right to require us to repurchase the 4.50% Notes on April 1, 2014 and April 1, 2019, in each case at 100% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. We may not have the funds necessary on any such date to make the required repurchase of notes. In addition, we may not have the funds necessary to fulfill our obligations under the 7.50% Notes, the 7.50% Exchange

Notes, or the 4.50% Notes following a “fundamental change” as defined in each indenture governing the 7.50% Notes and the 7.50% Exchange Notes or a “designated event” as defined in the indenture governing the 4.50% Notes. Upon the occurrence of a defined fundamental change, which definition includes a change of control (whether it be voluntary or involuntary), or a defined designated event, we will be required to offer to repurchase all of the applicable outstanding notes at 100% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. However, we may not have sufficient funds at the time of any such event to make the required repurchase of the notes. Our failure to make or complete an offer to repurchase notes in connection with any such event would place us in default under each indenture governing the applicable notes.

We have contingent liabilities, and if any of such liabilities are called upon, it could have an adverse effect on our liquidity and results of operations.

The population of the Poinciana community is approximately 70,000 and we expect the population to grow in the coming years. The Company currently owns over 5,000 lots and nearly 10,000 acres of additional real estate in the community

Table of Contents

of Poinciana, Florida. While Poinciana has adequately accommodated the growing population with residential housing, including our Solivita development, the accompanying traffic infrastructure is constrained by Poinciana's location in the midst of Reedy Creek Wetland System and Disney's Wilderness Preserve. Currently, there is only one four-lane arterial roadway connecting Poinciana to the regional road network. All other access roads are two-lane roads with limited capacity. The proposed Poinciana Parkway is approximately ten miles long, beginning in Poinciana and connecting to the US17/US92 in Polk County. Once built, this roadway will provide significant relief to the currently constrained roadway infrastructure that accommodates the daily commuter traffic in Poinciana. This relief will allow for continued growth in residential, commercial, and employment in the Poinciana community, all of which the Company believes will enhance its sales and land values in Poinciana.

In October of 2012, Osceola County, Polk County, the Osceola County Expressway Authority and Avatar Properties Inc., one of our wholly owned subsidiaries, entered in to an Agreement for Development of the Poinciana Parkway.

Pursuant to the Development Agreement, API has assigned to the Expressway Authority all of API's current plans for the Poinciana Parkway. The Expressway Authority is in the process of selecting a general contractor to design the final configuration of the Poinciana Parkway and to construct the roadway once bond financing is obtained. Construction is contingent on bond financing obtained by Osceola County and cash contributions by Polk and Osceola Counties which may be funded by grant monies or other sources to be determined. If all required funds are obtained and the Development Agreement is closed, API will (i) assign at no cost its current permits for the Poinciana Parkway to the Expressway Authority and (ii) donate to Polk County or Osceola County, as applicable, certain rights of way for the Poinciana Parkway and certain additional rights of way that will accommodate both the arterial and southern connector facilities to Osceola and Polk Counties. The Expressway Authority shall be responsible for construction of the Poinciana Parkway at no cost to API. The toll portion of the Poinciana Parkway shall be operated and maintained by the Expressway Authority and all excess toll revenues shall be used to fund transportation facilities in the Poinciana area. Other portions of the Poinciana Parkway will be owned by Polk County or Osceola County, as applicable.

If funding and construction of the Poinciana Parkway cannot be achieved as contemplated by the Development Agreement, the counties have no right to obtain damages or seek specific performance for API's failure to perform under prior agreements with Polk and Osceola Counties regarding its obligation to fund and construct the Poinciana Parkway. If the Development Agreement is terminated because funding of the Poinciana Parkway construction does not occur, API shall be entitled to a one year extension of certain of its prior agreements with Osceola County. If during such extension, API cannot obtain financing and begin construction of the Poinciana Parkway: (i) a portion of API's land in Osceola County will become subject to Osceola traffic concurrency requirements applicable generally to other home builders in the county and (ii) API will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway.

In addition, certain of our communities have HOAs and we plan to have HOAs at most of our future communities. In most of our existing communities, HOA dues paid by residents are insufficient to pay for all operating expenses and, therefore, we subsidize those HOAs. We expect that to be the case in new communities as well in the early stages of selling out those communities. Pursuant to these arrangements, we may become obligated to make greater payments, if assessments levied on and paid by homeowners are insufficient to cover such operating expenses when due.

In the event that we are called upon to satisfy any of these contingent liabilities, or any other contingent liabilities that may arise in the ordinary course of business but that have not come to our attention to date, it could have an adverse effect on our results of operations and financial condition.

We have a significant number of development liabilities related to our predecessor and its affiliates, over which we have little or no control as to the dates that payment may be required, and which could have an adverse effect on our results of operations.

Most of these liabilities relate to class action settlement agreements entered into by us in 1974 and the bankruptcy of our predecessor and its affiliates in the mid-1970s (collectively, the “Orders”). Among other things, under the Orders, we are obligated to install certain utility infrastructure to lots sold by us in Rio Rico and Poinciana prior to such Orders (“Affected Lots”). Historically, we have identified such contingent obligations respecting the Orders in our Securities and Exchange Commission (“SEC”) filings supported by the report of an independent engineer. In 2011, our management determined that such engineer estimates should be further evaluated by another independent engineer. The second engineer's report reflected a much greater cost to complete the utility infrastructure at Rio Rico as a result of more accurate measurements of linear feet of utility lines required, cost updates and advanced techniques in identifying the location and number of Affected Lots. Our management also determined that an error was made in 2005 when the total mileage of water pipe mains required was reduced

Table of Contents

based on assumptions that are not supported by our current research. Our estimate of the liability has been accrued and is included in the Estimated Development Liability for Sold Land line item in our consolidated balance sheet as of June 30, 2013. If a significant number of the owners of the Affected Lots require AV Homes to install infrastructure in Rio Rico or Poinciana, it is possible that it would have a material impact on our liquidity.

The reduction in availability of mortgage financing has adversely affected our business, and the duration and ultimate severity of the effects are uncertain.

Lenders, regulators and others have questioned the adequacy of lending standards and other credit requirements for several loan products and programs offered in recent years. Credit requirements have tightened, and investor demand for mortgage loans and mortgage-backed securities has declined. The deterioration in credit quality has caused almost all lenders to stop offering subprime mortgages and most other loan products that are not eligible for sale to Fannie Mae or Freddie Mac or loans that do not meet Federal Housing Administration (“FHA”) and Veterans Administration (“VA”) requirements. Fewer loan products, tighter loan qualifications and a reduced willingness of lenders to make loans, in turn, have made it more difficult for many buyers to sell their homes or to finance the purchase of our homes. These factors have served to reduce the pool of qualified home buyers. These reductions in demand have adversely affected our business and financial results, and the duration and severity of their effects are uncertain. The liquidity provided by Fannie Mae and Freddie Mac to the mortgage industry historically has been very important to the housing market. Any changes in the ongoing role of these entities could have a material impact on the financing market, and our ability to sell homes.

While the use of down payment assistance programs by our home buyers has decreased significantly, some of our customers still utilize 100% financing through programs offered by the VA and United States Department of Agriculture. There can be no assurance that these programs or other programs will continue to be available or will be as attractive to our customers as the programs currently offered, which could negatively affect our sales.

Because many of our customers require mortgage financing, increases in interest rates and changes in federal lending programs or other regulations could lower demand for our products, limit our marketing effectiveness and limit our ability to fully realize our backlog.

A significant percentage of our customers finance their home purchases through lenders that provide mortgage financing. Increases in interest rates could lower demand for new homes because monthly mortgage costs to potential homebuyers would increase. Even if potential new homebuyers do not need financing, changes in interest rates could make it harder for them to sell their existing homes to potential buyers who need financing. This could prevent or limit our ability to attract new customers as well as our ability to fully realize our backlog because our sales contracts often include a financing or sale contingency. Financing contingencies permit buyers to cancel sales contracts in the event that mortgage financing at prevailing interest rates is unobtainable within the period specified in the contract. This contingency period is typically four to eight weeks following the date of execution of the sales contract. Our exposure to such financing contingencies renders us vulnerable to changes in prevailing interest rates.

In addition, as a result of the turbulence in the credit markets and mortgage finance industry, the federal government has taken on a significant role in supporting mortgage lending through its conservatorship of Fannie Mae and Freddie Mac, both of which purchase home mortgages and mortgage-backed securities originated by mortgage lenders, and its insurance of mortgages originated by lenders through the FHA and the VA. The availability and affordability of mortgage loans, including consumer interest rates for such loans, could be adversely affected by a curtailment or cessation of the federal government's mortgage-related programs or policies. The FHA may continue to impose stricter loan qualification standards, raise minimum down payment requirements, impose higher mortgage insurance premiums and other costs, and/or limit the number of mortgages it insures. Due to growing federal budget deficits, the U.S. Treasury may not be able to continue supporting the mortgage-related activities of Fannie Mae, Freddie Mac, the

FHA and the VA at present levels, or it may revise significantly the federal government's participation in and support of the residential mortgage market. Because the availability of Fannie Mae, Freddie Mac, FHA- and VA-backed mortgage financing is an important factor in marketing and selling many of our homes, any limitations, restrictions or changes in the availability of such government-backed financing could reduce our home sales, which could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

Furthermore, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. This legislation provides for a number of new requirements relating to residential mortgages and mortgage lending practices, many of which are to be developed further by implementing rules. These include, among others, minimum standards for mortgages and lender practices in making mortgages, limitations on certain fees and incentive arrangements, retention of credit risk and remedies for borrowers in foreclosure proceedings. The effect of such provisions on lending institutions will depend on the rules that are ultimately enacted. However, these requirements, as and when implemented, are expected to reduce the

Table of Contents

availability of loans to borrowers and/or increase the costs to borrowers to obtain such loans. Any such reduction could result in a decline of our home sales, which could materially and adversely affect us.

Cancellations of home sales orders in backlog may increase as homebuyers choose to not honor their contracts.

We believe that the elevated cancellation rate experienced in each of the last four years was largely a result of reduced homebuyer confidence as a result of price declines and the number of foreclosures, and the difficulties surrounding obtaining mortgage financing. A more restrictive mortgage lending environment and the inability of some buyers to sell their existing homes have also impacted cancellations. Many of these factors are beyond our control, and it is uncertain whether they will cause cancellation rates to rise again in the future. Any increase in cancellations of home sales orders in backlog may have a material adverse impact on our results of operations.

Declines in home prices and sales order activities in Florida and Arizona would materially and adversely impact our results of operations because we conduct our homebuilding business in these states.

Our operations are concentrated in regions that were among the most severely affected by the economic downturn. Home prices and sales activities in these states declined significantly since the end of 2006 and at a greater rate than the country as a whole. If these states continue to experience economic difficulties, including elevated levels of unemployment and precarious budget situations at the state and local government level, such conditions may materially adversely affect the market for our homes in those affected areas. Because we do not have operations in other states, declines in home prices and sales activity in Florida and Arizona adversely affect our results of operations.

Inflation could adversely affect our business and financial results, particularly in a period of oversupply of homes.

Inflation can adversely affect us by increasing costs of land, materials and labor. However, we may not be able to offset any such cost increases with higher sales prices because a continuation of the oversupply of homes relative to demand. In addition, inflation is often accompanied by higher interest rates, which have a negative impact on housing demand. In such an environment, we may not be able to raise home prices sufficiently to keep up with the rate of inflation and our margins could decrease. Moreover, with inflation, our costs of capital increase, and the purchasing power of our cash resources can decline.

Supply shortages and other risks related to demand for building materials and skilled labor could increase our costs and delay deliveries.

The purchase price of building materials is increasing; most notably the price of wood, drywall, steel and insulation. The related shipping costs are also increasing. Should these trends continue, our results of operations may be adversely impacted. The homebuilding industry has from time to time experienced significant difficulties that can affect the cost or timing of construction including:

- shortages of qualified trades people;
- reliance on local subcontractors, manufacturers and distributors who may be inadequately capitalized;
- shortages of materials; and
- volatile increases in the cost of materials, particularly increases in the price of lumber, drywall and cement, which are significant components of home construction costs.

These difficulties may cause us to take longer or incur more costs to build our homes and materially adversely affect our revenues and margins. To the extent the housing market recovers and demand for labor and materials increase, our average per home cost of labor and building materials will likely increase, and our operating margins and results of

operations may be adversely affected. In Arizona, we will need to replenish our inventory of improved or finished lots for construction in 2013 and beyond.

Our business and results of operations are dependent on the availability and skill of subcontractors.

Substantially all of our construction work is done by third-party subcontractors with us acting as the general contractor. Accordingly, the timing and quality of our construction depend on the availability and skill of our subcontractors. While we generally anticipate being able to obtain sufficient materials and reliable subcontractors and believe that our relationships with subcontractors are good, the availability of qualified subcontractors in our markets has at times been constrained. We do not have long-term contractual commitments with any subcontractors, and there can be no assurance that skilled subcontractors will continue to be available at reasonable rates and in the areas in which we conduct our operations. The

Table of Contents

inability to contract with skilled subcontractors at reasonable costs on a timely basis could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

In addition, despite our quality control efforts, we may discover that our subcontractors were engaging in improper construction practices or installing defective materials in our homes. Any such issues may increase our warranty and customer service costs, subject us to fines or other penalties or injure our reputation.

Elimination or reduction of the tax benefits associated with owning a home could prevent potential customers from buying our homes and adversely affect our business or financial results.

Significant expenses of owning a home, including mortgage interest and real estate taxes, generally are deductible expenses for an individual's federal, and in some cases, state income taxes, subject to various limitations under current tax law and policy. If the federal government or a state government changes its income tax laws, as has been discussed from time to time, to eliminate or substantially modify these income tax deductions, the after-tax cost of owning a new home would increase for many of our potential customers. The resulting loss or reduction of homeowner tax deductions, if such tax law changes were enacted without offsetting provisions, would adversely impact demand for and sales prices of new homes. In addition, increases in property tax rates by local governmental authorities can adversely affect the ability of potential customers to obtain financing or the desire of potential customers to purchase new homes.

Homebuilding is subject to home warranty and construction defect claims and other litigation risks in the ordinary course of business that can be significant. Our operating expenses could increase if we are required to pay higher insurance premiums or incur substantial litigation costs with respect to such claims and risks.

As a homebuilder, we are subject to home warranty and construction defect claims arising in the ordinary course of business. We record customer service and warranty reserves for the homes that we sell based on historical experience in our markets and our judgment of the qualitative risks associated with the types of homes built. Because of the uncertainties inherent in these matters, we cannot provide assurance that our reserves will be adequate to address all of our warranty and construction defect claims in the future. Increasingly in recent years, individual and class action lawsuits have been filed against homebuilders asserting claims of personal injury and property damage caused by a variety of issues, including faulty materials and the presence of mold in residential dwellings.

Furthermore, decreases in home values as a result of general economic conditions may result in an increase in construction defect claims, as well as claims based on marketing and sales practices. Our reserves may not cover all of the claims arising from such issues or we may experience litigation costs and losses that could impact our profitability. Even if we are successful in defending such claims, we may incur significant costs.

Since 2009, we determined that six of our homes constructed in Central Florida contained reactive drywall manufactured in China ("Chinese drywall"). All of such homes have been fully remediated at minimal cost to AV Homes due to reimbursement by the supplier or manufacturer of the Chinese drywall.

In Vitalia at Tradition, we completed construction of the substantially and partially completed homes we acquired, including replacement of Chinese drywall that was placed in such homes during the time they were owned by the original builder. If and to the extent the scope of the Chinese drywall issues prove to be significantly greater than we currently believe, and our existing warranty reserves together with our insurance and any recovery from the supplier and/or manufacturer is not sufficient to cover claims, losses or other issues related to the Chinese drywall, we could incur costs or liabilities related to this issue that could have a material adverse effect on our results of operations, financial position and cash flows.

Homebuilding is very competitive, and competitive conditions could adversely affect our business or financial results.

The homebuilding industry is highly competitive. Homebuilders compete not only for home buyers, but also for desirable properties, financing, raw materials and skilled labor. We compete with other local, regional and national homebuilders, often within larger subdivisions designed, planned and developed by such homebuilders. We also compete with home sales by others, foreclosures and rental properties. In addition, the consolidation of some homebuilding companies may create additional competitors that have greater financial, marketing and sales resources than we do and thus are able to compete more effectively against us, and there may be new entrants in the markets in which we currently conduct business. These competitive conditions in the homebuilding industry can affect our business and financial results through:

- lower sales;
- lower selling prices;

Table of Contents

• increased selling incentives;
• lower profit margins;
• impairments in the value of inventory and other assets;
• difficulty in acquiring suitable land, raw materials, and skilled labor at acceptable prices or terms; and
• delays in construction of our homes.

Our success depends on the availability of suitable undeveloped land and improved lots at acceptable prices and our having sufficient liquidity to acquire such properties.

Our success in developing land and in building and selling homes depends in part upon the continued availability of suitable undeveloped land and improved lots at acceptable prices. The availability of undeveloped land and improved lots for purchase at favorable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding on land and lots and restrictive governmental regulation. Should suitable land opportunities become less available, the number of homes we may be able to build and sell would be reduced, which would have an adverse effect on our revenue and profits. In addition, our ability to make land purchases will depend upon us having sufficient liquidity to fund such purchases. We may be at a disadvantage in competing for land due to our debt obligations and restrictive covenants, and as a result of our reduced access to capital compared to some of our competitors.

If we are unable to develop our communities successfully or within expected timeframes, our results of operations could be adversely affected.

Before a community generates any revenues, time and material expenditures are required to acquire land, obtain development approvals and construct significant portions of project infrastructure, amenities, model homes and sales facilities. A decline in our ability to develop and market our communities successfully and to generate positive cash flow from these operations in a timely manner would have a material adverse effect on our business and results of operations and on our ability to service our debt and to meet our working capital requirements.

Our business is seasonal in nature, and our quarterly operating results can fluctuate.

Our quarterly operating results generally fluctuate by season. We typically experience the highest new home order activity in the winter and spring months, although new order activity is also highly dependent on the number of actively selling communities and the timing of new community openings as well as other market factors. Our revenues from homebuilding operations are fairly consistent throughout the calendar year, but we may experience higher liquidity demands during the first half of the calendar year as we incur the costs associated with new construction resulting from the increased sales volume. If, due to construction delays or other reasons, we are unable to deliver our expected number of homes in the second half of the calendar year, our full year results of operations may be adversely affected.

We may be adversely affected by weather conditions and natural disasters.

Weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, wildfires, droughts and floods, can harm our homebuilding business. These can delay home closings, adversely affect the cost or availability of materials or labor, or damage homes under construction. The climates of the states in which we operate present increased risks of adverse weather or natural disasters. In particular, a large portion of our homebuilding operations is concentrated in Florida, which is subject to increased risk of hurricanes. Furthermore, if our insurance does not fully cover losses resulting from these events or any related business interruption, our assets, financial condition and capital resources could be adversely affected.

Resource shortages or rate fluctuations could have an adverse effect on our operations.

The areas in which we operate are subject to resource shortages, including significant changes to the availability of water. Shortages of natural resources, particularly water, may make it more difficult for us to obtain regulatory approval of new developments. We may incur additional costs and may not be able to complete construction on a timely basis if such shortages continue. Furthermore, these shortages may adversely affect the regional economies in which we operate, which may reduce demand for our homes. In addition, the cost of petroleum products, which are used both to deliver our materials and to transport our employees to our job sites, fluctuates and may increase as a result of geopolitical events or accidents. This could also result in higher prices for any product utilizing petrochemicals. These cost increases may have an adverse effect on our operating margin and results of operations.

Values of, and costs associated with, our land and lot inventory could adversely affect our business or financial results.

Table of Contents

The risks inherent in controlling or purchasing, holding and developing land for new home construction are substantial and increase as consumer demand for housing decreases. The value of undeveloped land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions. If the fair market value of the land, lots and inventories we hold decreases, we may be required to reduce the carrying value of these assets and take significant impairment charges as we did in 2012. We may have acquired options on or bought and developed land at a cost we will not be able to recover fully or on which we cannot build and sell homes profitably. In addition, our deposits for building lots controlled under option or similar contracts may be put at risk. In certain circumstances, a grant of entitlements or development agreement with respect to a particular piece of land may include restrictions on the transfer of such entitlements to a buyer of such land, which may increase our exposure to decreases in the price of such entitled land by restricting our ability to sell it for its full entitled value. In addition, inventory carrying costs can be significant and can result in reduced margins or losses in a poorly performing community or market. In the present weak market conditions, we have sold homes and land for lower margins or at a loss and we have recorded significant inventory impairment charges and such conditions may persist. Because future market conditions are uncertain, we cannot provide assurance that we will be successful in managing our future inventory risks or avoiding future impairment charges. Any material write-downs of assets could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

In addition, some real estate investments are relatively difficult to sell quickly. As a result, our ability to promptly sell one or more properties in response to changing economic, financial and investment conditions may be limited and we may be forced to hold non-income producing assets for an extended period of time. We cannot predict whether we will be able to sell any property for the price or on the terms that we set or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

Reduced home sales may impair our ability to recoup development costs or force us to absorb additional costs.

We incur many costs before we begin to build homes in a community. Depending on the stage of development a land parcel is in when acquired, such costs may include costs of preparing land; finishing and entitling lots; installing roads, sewers, water systems and other utilities; building amenities in our age-restricted and age targeted communities; taxes and other costs related to ownership of the land on which we plan to build homes; and promotional marketing and overhead expenses to prepare for the opening of a new home community for sales. In addition, local municipalities may impose requirements resulting in additional costs. If the rate at which we sell and deliver homes slows or falls, or if we delay the opening of new home communities for sales due to adjustments in our marketing strategy or other reasons, each of which has occurred throughout the housing downturn, we may incur additional costs and it will take a longer period of time for us to recover our costs.

Although we operate in two primary markets, we have a high concentration of land assets in the Poinciana area market and are particularly susceptible to market fluctuations in that region.

Historically, our goals for the ownership and control of land and building lots were based on management's expectations for future volume growth in Florida, and in particular, the Poinciana/Kissimmee area. In light of weak market conditions encountered since 2006, prior projections were not realized and we have a very high concentration of assets in this market. Because future market conditions are uncertain, and our assets are so highly concentrated, we are limited in the amount of land we can dispose of to supplement cash flow from home sales. Our flexibility in responding to changes in market conditions, including our ability to respond to further declines in the housing market or to benefit from a return to growth, has also been reduced as a result of our land and lot positions in such a concentrated area.

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

We believe that our management's experience in the homebuilding industry is a competitive strength, and that our future success depends upon our ability to retain these executives. In addition, we believe that our ability to attract, train, assimilate and retain new skilled personnel is important to the success of our business. If we are unable to retain our senior management team and certain of our key employees, or attract, train, assimilate or retain other skilled personnel in the future, it could hinder the execution of our business strategy.

We continue to consider growth or expansion of our operations, which could have a material adverse effect on our cash flows or profitability.

We continue to consider opportunities for growth, in both our existing markets and in new markets. Additional growth of our business, either through increased land purchases, the development of larger projects, or into new business lines may

Table of Contents

have a material adverse effect on our cash flows or profitability. Any expansion of our business into new markets or new businesses could divert the attention of senior management from our existing business and could fail due to our relative lack of experience in those markets or businesses. In addition, opportunities may arise in the future to acquire other companies from third parties, and any acquisition could be difficult to integrate with our operations and could require us to assume unanticipated liabilities or expenses.

Government regulations could increase the cost and limit the availability of our development and homebuilding projects and adversely affect our business or financial results.

We are subject to extensive and complex regulations that affect land development and home construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to being approved, if approved at all. Land parcels we acquire are generally undeveloped and typically do not have all (or sometimes any) of the governmental approvals necessary to develop and construct homes. If we are unable to obtain these approvals or obtain approvals that restrict our ability to use the land in ways we do not anticipate, the value of the parcel will be negatively impacted. We are subject to determinations by these authorities as to the adequacy of water and sewage facilities, roads and other local services. New housing developments may also be subject to various assessments for schools, parks, streets and other public improvements. Furthermore, restrictions on immigration can create a shortage of skilled labor. Any of these regulatory issues can limit or delay home construction and increase our operating costs. We are also subject to a variety of local, state and federal laws and regulations concerning protection of health, safety and the environment. These matters may result in delays, may cause us to incur substantial compliance, remediation, mitigation and other costs or subject us to costs from fines, penalties and related litigation. These laws and regulations can also prohibit or severely restrict development and homebuilding activity in environmentally sensitive areas.

We may not realize our deferred income tax assets. In addition, our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code and our Section 382 share rights agreement, which is intended to preserve our NOLs, may not be effective.

Since the end of our 2007 fiscal year, we have generated significant net operating losses (“NOL”), and we may generate additional NOL in 2013. Under federal tax laws, we can use our NOL (and certain related tax credits) to reduce our future taxable income for up to 20 years, after which they expire for such purposes. Until they expire, we can carry forward our NOL (and certain related tax credits) that we do not use in any particular year to reduce our taxable income in future years, and we have recorded a valuation allowance against our net deferred tax assets that include the NOL (and certain related tax credits) that we have generated but have not yet realized. At June 30, 2013, we had deferred tax assets, net of deferred tax liabilities, totaling \$130,248 against which we have provided a full valuation allowance. Our ability to realize our net deferred tax assets is based on the extent to which we generate sustained profits and we cannot provide any assurances as to when and to what extent we will generate sufficient future taxable income to realize our net deferred tax assets, whether in whole or in part.

The majority of our net deferred tax asset is federal related and is valued at a 35% corporate income tax rate. If, as some lawmakers have proposed, the U.S. corporate income tax rate is lowered, we would be required to write down a roughly proportionate amount of the value of our federal net deferred tax asset to account for this lower rate. We would also need to record a corresponding write down of our valuation allowance. The lower tax rate would reduce our future federal taxes, which may put a portion of our tax credits at risk of expiring before we could use them.

In addition, the benefits of our NOL, built-in losses and tax credits would be reduced or eliminated if we experience an “ownership change,” as determined under Internal Revenue Code Section 382 (“Section 382”). A Section 382 ownership change occurs if a stockholder or a group of stockholders who are deemed to own at least 5% of our common stock increase their ownership by more than 50 percentage points over their lowest ownership percentage

within a rolling three-year period. If an ownership change were to occur, Section 382 would impose an annual limit on the amount of NOL we could use to reduce our taxable income equal to the product of the total value of our outstanding equity immediately prior to the ownership change (reduced by certain items specified in Section 382) and the federal long-term tax-exempt interest rate in effect for the month of the ownership change. A number of complex rules apply in calculating this annual limit. Any limitation that could significantly impair the value of our NOL would have a material negative impact on our consolidated financial statements.

On June 19, 2013, we adopted a rights agreement (the "Rights Agreement") intended to protect our NOLs from the potential negative consequence of an ownership change as defined in Section 382. The Rights Agreement is designed to deter acquisitions of our common stock that would (i) result in a stockholder owning 4.9% or more of our outstanding shares, or (ii) increase an existing 4.9% or greater stockholder's percentage ownership of our stock as of June 19, 2013, by diluting the

Table of Contents

ownership interest of a stockholder whose ownership after the adoption of the Rights Agreement exceeds those thresholds, unless the stockholder obtains an exemption from our Board of Directors acting through its Finance Committee.

Although the Rights Agreement is intended to reduce the likelihood of an ownership change that could adversely affect us, we cannot assure that it would prevent all transfers that could result in such an ownership change. In addition, in connection with the investment by TPG Aviator, we agreed that TPG Aviator and its affiliates and associates are exempt persons under the Rights Agreement and that any person who acquires common stock or Series A Preferred Stock from TPG Aviator, and such person's affiliates and associates, will be exempt persons under the Rights Agreement, in each case subject to certain conditions and exceptions. Accordingly, TPG Aviator could effect transfers of its shares that would cause an ownership change. Because the Rights Agreement may restrict a stockholder's ability to acquire our stock, the liquidity and market value of our stock might be affected.

The Rights Agreement will terminate upon the earliest of (i) June 19, 2016, (ii) our Board of Directors' determination that the Rights Agreement is no longer needed for the preservation of NOLs due to the implementation of legislative changes, or any other reason, or (iii) certain other events described in the Rights Agreement, including our Board of Directors' determination that termination is in our best interest. Our Board of Directors could determine to extend the term of the Rights Agreement upon the expiration of its current term or adopt another Rights Agreement if it determines that it is in the best interest of our stockholders.

We may be required to pay taxes and interest to the IRS as a result of the sale of certain land to the Internal Improvement Trust Fund of Florida if the IRS determines that we did not acquire adequate replacement properties.

In 2006, we sold property we owned in Marion County, Florida to the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida under threat of condemnation. The bulk of the land was transferred in 2006 and the final closing took place in 2007. These transactions and subsequent correspondence with the Internal Revenue Service entitled us to defer payment of income taxes of approximately \$24,400 from the gain on these sales until we sell replacement property provided we obtained qualifying replacement property for the Marion property by December 31, 2010. We believe that we acquired appropriate replacement properties by December 31, 2010. If the Internal Revenue Service determines in the future that some or all of the properties acquired by us as replacement properties do not qualify as replacement properties, we may be required to make an income tax payment plus interest on the value of the portion of the properties determined not to qualify as replacement property.

We may incur additional operating expenses or delays due to compliance requirements or fines, penalties and remediation costs pertaining to environmental regulations within our markets.

We are subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning land use and the protection of health and the environment including those governing the discharge of pollutants to water and air, the handling of hazardous materials and the cleanup of contaminated sites. The particular impact and requirements of environmental laws that apply to any given community vary greatly according to the community site, the site's environmental conditions and the present and former use of the site. We expect that increasingly stringent requirements will be imposed on homebuilders in the future. Environmental laws may result in delays, cause us to implement time consuming and expensive compliance programs and prohibit or severely restrict development in certain environmentally sensitive regions or areas. Environmental regulations can also have an adverse impact on the availability and price of certain raw materials, such as lumber. Furthermore, we could incur substantial costs, including cleanup costs, fines, penalties and other sanctions and damages from third-party claims for property damage or personal injury, as a result of our failure to comply with, or liabilities under, applicable environmental laws and regulations. This is particularly true in the event that we commence construction of the Poinciana Parkway as it runs through the Reedy Creek Mitigation Bank. In addition, we are subject to third-party challenges under environmental

laws and regulations to the permits and other approvals required for our projects and operations.

Changes in global or regional environmental conditions and governmental actions in response to such changes may adversely affect us by increasing the costs of or restricting our planned or future growth activities.

There is growing concern from members of the scientific community and the general public that an increase in global average temperatures due to emissions of greenhouse gases and other human activities have or will cause significant changes in weather patterns and increase the frequency and severity of natural disasters. An increased frequency or duration of extreme weather conditions and environmental events could limit, delay and/or increase the costs to develop land and build new homes and reduce the value of our land and housing inventory in locations that become less desirable to consumers or blocked to development. Projected climate change, if it occurs, may exacerbate the scarcity of water and other natural resources in affected regions, which could limit, prevent or increase the costs of residential development in certain areas. In addition,

Table of Contents

government mandates, standards or regulations intended to mitigate or reduce greenhouse gas emissions or projected climate change impacts could result in prohibitions or severe restrictions on land development in certain areas, increased energy, transportation and raw material costs that make building materials less available or more expensive, or cause us to incur compliance expenses and other financial obligations to meet permitting or land development- or home construction-related requirements that we may be unable to fully recover (due to market conditions or other factors), and may reduce our housing gross profit margins and may adversely impact our consolidated financial statements, potentially to a material degree. As a result, climate change impacts, and laws and land development and home construction standards, and/or the manner in which they are interpreted or implemented, to address potential climate change impacts, could increase our costs and have a long-term adverse impact on our business and our consolidated financial statements.

As we continue to increase our dependence on digital technologies to conduct operations, our risks associated with cyber security have also increased, leaving us subject to possible frequent and severe cyber incidents.

For a number of years, we have been increasing our reliance on computers and digital technology. Many of our files have been digitized and more of our employees are working in almost paperless environments. We have also made changes, some significant, to our hardware and software environments and some of these transitions have not been successful, taken longer than anticipated and/or are still in progress. All of these activities may give rise to material cyber security risks and potential costs and consequences that cannot be estimated or predicted with any certainty. We have outsourced a number of our IT functions including IT support of our infrastructure and software. We are continuing to take steps to secure our confidential information from our vendors as well as third parties who may be seeking to infiltrate our systems. At this time we do not have any specific insurance for cyber security events. Management will continue to monitor our IT environment and determine whether our business operations merit further insurance coverage. Although we have not experienced any cyber attacks to date, we consider a future cyber attack a material concern that could have severe financial and other business implications.

Increased regulation of the mortgage industry could harm our future sales and earnings.

The mortgage industry is under intense scrutiny and is facing increasing regulation at the federal, state and local level. Changes in regulation have the potential to negatively impact the full spectrum of mortgage related activity. Potential changes to federal laws and regulations could have the effect of limiting the activities of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, the entities that provide liquidity to the secondary mortgage market, which could lead to increases in mortgage interest rates. At the same time, changes to the Federal Housing Administration's rules to require increased Borrower FICO scores, increased down payment amounts, and potentially limiting the amount of permitted seller concessions, lessen the number of buyers able to finance a new home. All of these regulatory activities reduce the number of potential buyers who qualify for the financing necessary to purchase our homes, which could harm our future sales and earnings.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

Issuances of shares of common stock upon conversion of our 7.50% Notes, 7.50% Exchange Notes and 4.50% Notes, as well as the issuance of a substantial number of shares of our common stock or other equity-related securities either for new consideration or in connection with restructuring existing indebtedness, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. Any such future issuances could dilute the ownership interests of stockholders, and we cannot predict the effect that future issuances of our common stock or other equity-related securities would have on the market price of our common stock nor can we predict our future needs to fund our operations or balance sheet with future equity issuances.

Table of Contents

Item 6.	Exhibits
3.1	Certificate of Incorporation, as amended and restated May 28, 1998 (filed as Exhibit 3(a) to Form 10-Q for the quarter ended June 30, 1998 (File No. 1-7395), and incorporated herein by reference).
3.2	Certificate of Amendment of Restated Certificate of Incorporation, dated May 26, 2000 (filed as Exhibit 3(a) to Form 10-Q for the quarter ended June 30, 2000 (File No. 1-7395), and incorporated herein by reference).
3.3	Amended and Restated By-laws (filed as Exhibit 3.2 to the Form 8-K filed on February 15, 2012 (File No. 1-7395), and incorporated herein by reference).
3.4	Certificate of Designation of Series A Contingent Convertible Cumulative Redeemable Preferred Stock of AV Homes, Inc. (filed as Exhibit 3.1 to the Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
3.5	Certificate of Designation of Series B Junior Participating Preferred Stock of AV Homes, Inc. (filed as Exhibit 3.2 to the Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
4.1	Rights Agreement, dated as of June 19, 2013, by and between AV Homes, Inc. and Computershare Shareowner Services LLC, as Rights Agent (filed as Exhibit 4.1 to the Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
10.1	Securities Purchase Agreement, dated June 19, 2013, by and between AV Homes, Inc. and TPG Aviator, L.P. (filed as Exhibit 10.1 to the Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
10.2	Stockholders Agreement, dated June 20, 2013, by and between AV Homes, Inc. and TPG Aviator, L.P. (filed as Exhibit 10.2 to the Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
10.3	Management Services Agreement, dated June 20, 2013, by and between AV Homes, Inc., Avatar Properties Inc. and TPG VI Management, LLC (filed as Exhibit 10.3 to the Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
10.4	Form of Indemnification Agreement for Directors and Officers (filed as Exhibit 10.4 to the Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
10.5	Letter Agreement, dated June 19, 2013, by and between AV Homes, Inc. and TPG Aviator, L.P. (filed as Exhibit 10.5 to the Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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- 32.1 Certification of Chief Executive Officer required by 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002) (furnished herewith).
- 32.2 Certification of Chief Financial Officer required by 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002) (furnished herewith).
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB XBRL Taxonomy Extension Label Linkbase.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AV HOMES, INC.

Date: August 8 , 2013

By:

/s/ Roger A. Cregg
Roger A. Cregg
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 8 , 2013

By:

/s/ Tina M. Johnston
Tina M. Johnston
Senior Vice President, Principal Financial Officer and
Principal Accounting Officer