

AV Homes, Inc.
Form 10-Q
August 04, 2014

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2014.

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

For the transition period from _____ to _____.

001-07395
Commission File Number

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

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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 Act). Yes No

As of July 24, 2014, there were 22,094,133 shares of common stock, \$1.00 par value, issued and outstanding.

AV HOMES, INC. AND SUBSIDIARIES
FORM 10-Q

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PART I. Financial Information

Item 1. Financial Statements

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AV HOMES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(\$000's omitted)

	June 30, 2014	December 31, 2013
Assets	(unaudited)	
Cash and cash equivalents	\$212,709	\$144,727
Restricted cash	11,348	3,956
Land and other inventories	338,014	240,078
Receivables, net	2,552	3,893
Property and equipment, net	37,070	37,844
Investments in unconsolidated entities	14,610	1,230
Prepaid expenses and other assets	21,420	11,138
Assets held for sale	12,243	23,862
Goodwill	5,976	—
Total Assets	\$655,942	\$466,728
Liabilities and Equity		
Liabilities		
Accounts payable	\$17,495	\$9,757
Accrued and other liabilities	16,165	14,280
Customer deposits and deferred revenues	5,584	2,323
Estimated development liability for sold land	33,201	33,232
Notes payable	299,981	105,402
Total Liabilities	372,426	164,994
Equity		
Common Stock, par value \$1 per share		
Authorized: 50,000,000 shares		
Issued: 22,191,500 shares outstanding at June 30, 2014		
22,097,252 shares outstanding at December 31, 2013	22,191	22,097
Additional paid-in capital	395,698	394,504
Accumulated deficit	(131,354)	(127,481)
	286,535	289,120
Treasury stock: at cost, 110,874 shares at June 30, 2014 and December 31, 2013	(3,019)	(3,019)
Total AV Homes stockholders' equity	283,516	286,101
Non-controlling interests	—	15,633
Total Equity	283,516	301,734
Total Liabilities and Equity	\$655,942	\$466,728

See notes to consolidated financial statements.

AV HOMES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income (Loss)

(\$000's omitted, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Real estate revenues				
Homebuilding and amenity	\$50,855	\$22,705	\$79,001	\$45,253
Land sales	520	6,577	16,226	8,882
Other real estate	72	181	85	438
Total real estate revenues	51,447	29,463	95,312	54,573
Expenses				
Real estate expenses				
Homebuilding and amenity	49,380	23,025	78,009	45,790
Land sales	294	4,392	12,238	5,257
Other real estate	238	692	759	1,399
Total real estate expenses	49,912	28,109	91,006	52,446
Impairment charges	—	45	—	45
General and administrative expenses	3,852	4,292	8,248	7,997
Interest income and other	(70)	(93)	(173)	(102)
Interest expense	—	1,763	111	3,536
Total expenses	53,694	34,116	99,192	63,922
Equity in earnings (loss) from unconsolidated entities	(6)	(15)	(5)	(78)
Loss before income taxes	(2,253)	(4,668)	(3,885)	(9,427)
Income tax (expense) benefit	—	—	—	—
Net loss and comprehensive loss	(2,253)	(4,668)	(3,885)	(9,427)
Net income (loss) attributable to non-controlling interests in consolidated entities	36	—	329	—
Net loss and comprehensive loss attributable to AV Homes stockholders	\$(2,289)	\$(4,668)	\$(4,214)	\$(9,427)
Basic and Diluted Loss Per Share	\$(0.10)	\$(0.36)	\$(0.19)	\$(0.74)

See notes to consolidated financial statements.

AV HOMES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(\$000's omitted)

(unaudited)

	Six Months Ended June 30,	
	2014	2013
OPERATING ACTIVITIES		
Net loss (including net gain or loss attributable to non-controlling interests)	\$(3,885	) \$(9,427
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,602	1,344
Amortization of stock-based compensation	1,236	615
Impairment of land and other inventories	—	45
Equity loss from unconsolidated entities	5	78
Loss from disposal of assets	—	22
Changes in operating assets and liabilities:		
Restricted cash	(7,392	) (43
Receivables, net	1,341	(83
Land and other inventories	(66,431	) (17,087
Assets held for sale	11,619	9,166
Prepaid expenses and other assets	(1,468	) 372
Accounts payable, estimated development liability, and accrued and other liabilities	7,781	1,395
Customer deposits and deferred revenues	2,407	1,668
NET CASH USED IN OPERATING ACTIVITIES	(53,185	) (11,935
INVESTING ACTIVITIES		
Investment in property and equipment	(409	) (764
Proceeds from sales of property and equipment	12	—
Acquisition of Royal Oak Homes	(64,794) —
Investment in unconsolidated entities	—	(95
Return of capital from unconsolidated entities	33	—
NET CASH USED IN INVESTING ACTIVITIES	(65,158	) (859
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	—	35,805
Net proceeds from issuance of preferred shares	—	93,206
Gross proceeds from issuance of 8.5% Notes	200,000	—
Debt issuance costs	(8,297) —
Principal payments of 4.50% Notes	(5,421) —
Contributions from consolidated joint venture partner	193	401
Payment of withholding taxes related to restricted stock and units withheld	(150	) (34
NET CASH PROVIDED BY FINANCING ACTIVITIES	186,325	129,378
INCREASE IN CASH AND CASH EQUIVALENTS	67,982	116,584
Cash and cash equivalents at beginning of period	144,727	79,815
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$212,709	\$196,399

See notes to consolidated financial statements.

AV HOMES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

June 30, 2014

(\$000's omitted, except share and per share data)

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

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. The interim consolidated financial statements have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all information and footnotes required by U.S generally accepted accounting principles ("GAAP") for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of AV Homes at June 30, 2014 and for all periods presented. These statements should be read in conjunction with our consolidated financial statements and notes thereto included in AV Homes' Annual Report on Form 10-K for the year ended December 31, 2013. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 Aviator") pursuant to which TPG Aviator 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 shares of a newly authorized series of 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 Aviator of \$135,000.

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

On September 18, 2013, we held a special meeting of stockholders at which our stockholders: (1) approved the right to convert, at the option of the Company or the holders of the Series A Preferred Stock, the Series A Preferred Stock into 6,657,543 shares of our Common Stock and (2) approved TPG Aviator's pre-emptive rights following the approval of such conversion to participate in future issuances of our Common Stock or securities convertible into or exercisable for our Common Stock. Following the meeting of stockholders, we provided notice to TPG Aviator of our intention to convert the Series A Preferred Stock as of September 18, 2013. The Common Stock issuable upon conversion of the Series A Preferred Stock was issued on September 19, 2013 and the Series A Preferred Stock was

cancelled.

In accordance with GAAP, before its conversion, the Series A Preferred Stock was classified outside of permanent equity because the redemption provisions were not solely within our control. We incurred approximately \$7,212 of transaction fees in connection with the TPG Investment, which have been offset against the proceeds received. The contingent beneficial conversion feature of the Series A Preferred Stock was recognized upon stockholder approval of the conversion and amortized at the time of conversion by treating it as a deemed dividend in retained earnings and crediting additional paid-in capital for \$11,894, consequently resulting in no diminution in total shareholders' equity or book value per share. We have assessed the provisions of the Series A Preferred Stock and concluded that the impact of any embedded derivative features was not material.

Cash and Cash Equivalents and Restricted Cash

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We consider all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. As of June 30, 2014, our cash and cash equivalents were invested primarily in money market accounts that invest primarily 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 \$11,348 and \$3,956 as of June 30, 2014 and December 31, 2013, respectively. The balance as of June 30, 2014 is comprised primarily of \$7,682 on deposit as an interest reserve to comply with the terms of our Senior Secured Credit Facility, \$3,136 in land escrow accounts and \$311 of housing deposits from customers that will become available when the housing contracts close.

Land and Other Inventories

Land and Other Inventories include expenditures for land acquisition, construction, land development, construction costs for homeowners association amenities, and direct and allocated indirect costs, including interest cost capitalized until development and construction are substantially completed. These costs are assigned to components of Land and Other Inventories based on specific identification, relative sales value, or area allocation methods.

Land and Other Inventories are stated at cost unless the asset is determined to be impaired, in which case the asset is written to its fair value. In accordance with Accounting Standards Codification (ASC) 360, Property, Plant and Equipment (“ASC 360”), 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.

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 three and six months ended June 30, 2014 our impairment assessment resulted in no impairment charges. During the three and six months ended June 30, 2013 our impairment assessment resulted in impairment charges of \$45.

Receivables, net

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

Property and Equipment

Property and Equipment are stated at cost and depreciation is computed by 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 to land inventory. Repairs and maintenance are expensed as incurred.

Property and Equipment includes amenities such as club facilities, dining facilities, and golf courses owned by us. These amenities include expenditures for land, construction, and direct and allocated costs, including 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. 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 fees due for our amenities. For the three and six months ended June 30, 2014 and 2013, we did not identify indicators of impairments for Property and Equipment. During 2013, management changed its plans to sell certain assets, resulting in the

reclassification of these assets from assets held for sale to Property and Equipment. There was no change in the carrying value in these assets due to this reclassification.

Assets Held for Sale

We classify assets held for sale in accordance with the criteria set forth in ASC 360. We continue to opportunistically sell non-core commercial and industrial assets, as well as scattered lot positions and land assets that are in excess of our needed supply in a given market. Under this plan, assets that meet the criteria above are classified as held for sale. 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.

During the six months ended June 30, 2014, we sold assets held for sale with a carrying value of \$12,024 for cash proceeds of \$15,126. Included in this was the sale of a multi-family property in Arizona to a related party for \$13,850 for a gain of \$2,315.

Investments in Partnerships and LLCs

When we are either deemed to hold the controlling interest in a voting interest entity or deemed to be the primary beneficiary of a variable interest entity ("VIE") we are required to consolidate the investment. 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 VIEs economic performance and (b) the obligation to absorb the majority of losses of the VIE or the right to receive the majority of benefits from the VIE. Investments where we don't hold the controlling interest and we are not the primary beneficiary are accounted for under the equity method.

Factors considered when determining if we hold the controlling interest in a voting interest entity include who holds the general partnership or managing member interests, which partner or member makes the day-to-day decisions regarding the operations of the entity, and whether or not the other partners or members have substantive participating rights. With respect to VIEs, our variable interests may be in the form of (1) equity ownership, (2) contracts to purchase assets and/or (3) loans provided by us to the investor. We examine specific criteria and use judgment when determining if we are 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), sufficiency of equity to conduct the operations of the entity, voting rights, involvement in decisions significantly impacting the entity's economic performance, level of economic disproportionality between us and the other partner(s) and contracts to purchase assets from VIEs.

Non-Controlling Interest

At December 31, 2013 we consolidated an investment in a LLC where AV Homes was determined to be the primary beneficiary due to a related party affiliation. Therefore, the LLC's financial statements were consolidated in our financial statements and the other partner's equity in the LLC was recorded as non-controlling interest as a component of consolidated equity. At June 30, 2014, we were no longer considered the primary beneficiary of this LLC due to a discontinuation of the related party affiliation and therefore deconsolidated this LLC, in accordance with ASC 810, Consolidation. At June 30, 2014 and December 31, 2013, non-controlling interest was \$0 and \$15,633, respectively.

Purchase Accounting

When acquiring a business, we allocate the purchase price of real estate to the tangible and intangible assets and liabilities acquired based on their estimated fair values. In making estimates of fair values for this purpose, we use a

number of sources, including independent appraisals and information obtained about each property as a result our pre-acquisition due diligence and its marketing and housing activities.

Goodwill

Goodwill, if any, arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts that were assigned to the identifiable assets acquired and the liabilities assumed. Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value.

Revenues

In accordance with ASC 360, revenues from the sales of housing units are recognized when the sales are closed and title passes to the purchasers. In addition, revenues from land sales are recognized in full at closing, provided the buyer's initial and continuing investment is adequate, any financing is considered collectible and there is no significant continuing involvement. Sales incentives are included in Real estate revenue-Homebuilding in the accompanying consolidated statements of operations and comprehensive income (loss).

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 have, and require our subcontractors to have, general liability, property, errors and omissions, workers compensation, and other business insurance. These insurance policies protect us against a portion of our risk of loss from claims, subject to certain self-insured per occurrence and aggregate retentions, deductibles, and available policy limits. We may have recourse against subcontractors for certain claims relating to workmanship and materials. Warranty reserves are included in Accrued and Other Liabilities in the accompanying consolidated balance sheets.

During the three and six months ended June 30, 2014 and 2013, changes in the warranty reserve consist of the following:

	Three Months		Six Months	
	2014	2013	2014	2013
Accrued warranty reserve, beginning of period	\$833	\$453	\$638	\$549
Estimated warranty expense	84	147	467	255
Amounts charged against warranty reserve	(111	) (103	) (299	) (307
Accrued warranty reserve, end of period	\$806	\$497	\$806	\$497

Income Taxes

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.

We evaluate our 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. 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, 2014, we recognized an increase of \$1,641 in the valuation allowance. As of June 30, 2014, our deferred tax asset valuation allowance was \$131,873. 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.

Any interest or penalties that have been assessed in the past have been minimal and immaterial to our financial results. In the event we are assessed any interest or penalties in the future, we plan to include them in our statement of operations and comprehensive income (loss) as income tax expense.

Share-Based Compensation

The Amended and Restated 1997 Incentive and Capital Accumulation Plan (2005 Restatement), as amended, (the "Incentive Plan") provides for the grant of stock options, stock appreciation rights, stock awards, performance awards, and stock units to officers, employees and directors of AV Homes. The exercise prices 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. 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

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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.

As of June 30, 2014, an aggregate of 1,050,722 shares of our common stock, subject to certain adjustments, were reserved for issuance under the Incentive Plan, including an aggregate of 810,020 options, restricted stock units and stock units granted. There were 240,702 shares available for grant at June 30, 2014.

As of June 30, 2014, there was \$2,263 of unrecognized compensation expense related to unvested restricted stock units. That expense is expected to be recognized over a weighted-average period of 1.67 years.

As of June 30, 2014, there was \$4,154 of unrecognized compensation expense related to unvested stock options. That expense is expected to be recognized over a weighted-average period of 2.1 years.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to AV Homes stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings 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. The computation of diluted loss per share for the three and six months ended June 30, 2014 and 2013 did not assume the effect of restricted stock units, employee stock options, the 4.50% Notes, the 7.50% Notes, or the 7.50% Exchange Notes because the effects were antidilutive.

The weighted average number of shares outstanding in calculating basic earnings per share includes the cancellation of 0 shares and 7,870 shares of common stock and the issuance of 16,540 and 35,603 shares of common stock for the three and six months ended June 30, 2014, respectively, and the cancellation of 0 shares and 2,364 shares of common stock and the issuance of 2,559,833 and 2,565,607 shares of common stock for the three and six months ended June 30, 2013, respectively. In accordance with ASC 260, Earnings Per Share, non-vested restricted shares are not included in basic earnings per share until the vesting requirements are met.

The following table represents a reconciliation of the net loss and weighted average shares outstanding for the calculation of basic and diluted loss per share for the three and six months ended June 30, 2014 and 2013:

	Three Months		Six Months	
	2014	2013	2014	2013
Numerator:				
Basic and diluted loss per share – net loss	\$(2,289	) \$(4,668	) \$(4,214	) \$(9,427
Denominator:				
Basic and diluted weighted average shares outstanding	21,940,284	12,993,514	21,935,097	12,824,927
Basic and diluted loss per share	\$(0.10	) \$(0.36	) \$(0.19	) \$(0.74

Comprehensive Income (Loss)

Net loss and comprehensive loss are the same for the three and six months ended June 30, 2014 and 2013.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. ASU 2014-09 is effective for the Company for fiscal and interim periods beginning January 1, 2017 and early application is not permitted. We are currently evaluating the impact that the standard will have on our financial condition, results of operations, cash flows, and disclosures.

In July 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

("ASU 2013-11"). This update will require companies to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, unless certain conditions exist. ASU 2013-11 was effective for our interim and annual periods beginning January 1, 2014. The adoption of ASU 2013-11 did not have a material impact on our consolidated financial position or results of operations.

Note 2 - Royal Oak Homes Acquisition

On March 13, 2014, we acquired substantially all of the assets and certain of the liabilities of Royal Oak Homes, LLC ("Royal Oak") and certain land positions from an affiliate of Royal Oak. Royal Oak and its affiliate acquire and develop raw land and construct single family homes in the Central Florida area. The transaction will expand our presence in Central Florida and our existing presence in the Poinciana market. With over 2,500 primary residential lots owned or controlled, Royal Oak enhances our position in a key growth market. The total purchase price paid under the acquisition agreements was approximately \$65,000 in cash, which includes a potential \$3,000 payment related to an earn-out covering the financial results for 2014 and 2015. The earn-out has a preliminary fair value of \$2,500. The actual amount of the earn-out may be more or less than the \$3,000 target amount based on the performance of the Royal Oak business through the end of 2015. We will not pay any earn-out amounts unless the Royal Oak business achieves at least 50% of the target amount of financial performance. The results of Royal Oak are included in the Company's consolidated financial statements from the acquisition date of March 13, 2014.

The Royal Oak acquisition was accounted for in accordance with ASC 805, Business Combinations ("ASC 805"). We recorded the acquired assets and liabilities at their estimated fair value. We determined the estimated fair values with the assistance of appraisals or valuations performed by independent third-party specialists, discounted cash flow analyses, quoted market prices where available, and estimates by management. To the extent the consideration transferred exceeded the fair value of the net assets acquired in this transaction, such excess was assigned to goodwill.

We acquired substantially all of the assets of Royal Oak, including all of its real estate, land acquisition agreements and permits, and certain of its leases, contracts, commitments and purchase orders. We also assumed certain liabilities of Royal Oak, including the liabilities and obligations relating to the acquired contracts but excluding certain home warranty obligations relating to homes sold by Royal Oak prior to the acquisition. We will, however, provide warranty administrative services of up to \$150 per home with respect to these home warranty obligations for the two years following the closing of the acquisition.

The following table summarizes the preliminary calculation of the fair value of the total consideration transferred to Royal Oak and its affiliate and the provisional amounts of assets acquired and liabilities assumed as of the acquisition date:

Preliminary calculation of purchase price consideration

Cash paid for Royal Oak net assets	\$26,066
Cash paid for bulk land purchase	28,009
Contingent consideration (earn-out)	2,500
Debt repaid at closing	8,827
 Total consideration	 65,402
 Assets acquired and liabilities assumed	
Assets	
Prepays and other current assets	582
Land and other inventories	60,530
Property, plant and equipment	366
Trade name	614
Goodwill	5,976
 Total assets acquired	 68,068
 Liabilities	
Accounts payable	1,343
Accrued and other liabilities	469
Customer deposits	854
 Total liabilities assumed	 2,666
 Total net assets acquired	 65,402

Fair value

Cash and equivalents, other assets, accounts payable, and accrued and other liabilities were generally stated at historical carrying values given the short-term nature of these assets and liabilities. Liabilities were recorded at historical carrying values in accordance with ASC 805.

The Company determined the fair value of inventory on a lot-by-lot basis primarily using a combination of market comparable land transactions, where available, and discounted cash flow models, and independent appraisals were also utilized in certain instances. These estimated cash flows are significantly impacted by estimates related to expected average home selling prices and sales incentives, expected sales paces and cancellation rates, expected land development and construction timelines, and anticipated land development, construction, and overhead costs. Such estimates must be made for each individual community and may vary significantly between communities.

The fair values for acquired intangible assets were determined based on valuations performed by independent valuation specialists. The \$614 of acquired intangible assets relates to trade names that will generally be amortized over three years. Amortization expense for these assets totaled \$56 and \$69 for the three and six months ended June 30, 2014, respectively, which is included in the consolidated statements of operations within homebuilding expense. The Company has completed its preliminary analysis of its business combination accounting as of June 30, 2014. As of August 4, 2014, the Company had not received final valuations from certain independent valuation specialists, including the valuation of acquired property and equipment. Additionally, the Company had not completed its final review of the valuation of acquired inventory, and certain other assets and liabilities. Final determinations of the values of assets acquired and liabilities assumed may result in adjustments to the values presented above and a

corresponding adjustment to goodwill. As such, the Company has not completed the assignment of goodwill to reporting units or its determination of the amount of goodwill that is expected to be deductible for tax purposes at this time.

Transaction and integration costs

Transaction and integration costs directly related to the Royal Oak acquisition, including legal, accounting and broker fees, totaled \$129 and \$1,020 for the three and six months ended June 30, 2014, respectively, the majority of which are included in the consolidated statements of operations within corporate general and administrative expenses. Such costs were expensed as incurred in accordance with ASC 805.

Goodwill

As of the acquisition date, goodwill includes the expected economic value attributable to Royal Oak's assembled workforce. The acquisition provides increased scale and presence in an existing market with immediate revenue opportunities through an established backlog.

Supplemental pro forma information

The following represents pro forma operating results as if Royal Oak had been included in the Company's consolidated statements of operations as of the beginning of the fiscal years presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$51,447	\$44,589	\$108,448	\$78,813
Net income (loss)	(2,289)	(2,491)	(2,095)	(5,973)
Loss per common share - basic and diluted	\$(0.10)	\$(0.19)	\$(0.10)	\$(0.47)

The supplemental pro forma operating results have been determined after adjusting the operating results of Royal Oak to reflect additional amortization that would have been recorded assuming the fair value adjustments to intangible assets had been applied as of January 1, 2014 and 2013. Certain other adjustments, including those related to conforming accounting policies and adjusting acquired inventory to fair value, have not been reflected in the supplemental pro forma operating results due to the impracticability of estimating such impacts. These results may not be indicative of future operating results.

Note 3 - Land and Other Inventories

Land and Other Inventories consist of the following:

	June 30, 2014	December 31, 2013
Active Adult		
Land developed and in process of development	\$65,372	\$57,138
Land held for future development or sale	33,120	58,423
Homes completed or under construction	47,953	25,478
Total Active Adult	146,445	141,039
Primary Residential		
Land developed and in process of development	135,668	77,983
Homes completed or under construction	46,676	11,013
Total Primary Residential	182,344	88,996
Land developed and in process of development-Other	9,225	10,043
	\$338,014	\$240,078

We capitalize interest to inventories during the period of development in accordance with ASC 835, Interest ("ASC 835"). Homebuilding interest capitalized as cost of inventories is included in cost of sales as related units or lots are sold. To the extent our homebuilding debt exceeds our qualified assets, as defined in ASC 835, we expense a portion

of interest incurred. Qualified homebuilding assets consist of all land, lots and homes, excluding finished unsold homes or finished models, within projects that are actively selling or under development.

The following table represents interest incurred, interest capitalized, and interest expense for the three and six months ended June 30, 2014 and 2013:

	Three Months		Six Months	
	2014	2013	2014	2013
Interest incurred	\$2,356	\$2,326	\$4,687	\$4,650
Interest capitalized	(2,356	) (563	) (4,576	) (1,114
Interest expense	\$—	\$1,763	\$111	\$3,536

Note 4 - Investments in Partnerships and LLCs

We participate in entities with equity interests ranging from 20% to 58% for the purpose of acquiring and/or developing land in which we may or may not have a controlling interest or be the primary beneficiary. We determine the method for accounting for our investment at inception or upon a reconsideration event.

Consolidated Investments

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 is distributed to the partners at cost, once certain entitlements and development activities are completed. On May 14, 2014 EM 646 distributed \$7,085 of developed land to AV Homes.

As of June 30, 2014 and December 31, 2013, our consolidated balance sheets include \$13,418 and \$33,997, respectively, in land inventory owned by EM 646, included in Investments in unconsolidated entities and Land and other inventories, respectively. As of June 30, 2014, we were no longer considered the primary beneficiary of EM 646 and therefore deconsolidated this entity. The decrease from December 31, 2013 to June 30, 2014 is due to the distribution of a portion of the land out of the joint venture to the partners and to the aforementioned deconsolidation of the entity from our financial statements. The investment in EM 646 is accounted for as an equity method investment as of June 30, 2014.

We and our equity partners make capital contributions to the entity on a pro rata basis. The obligation to make such capital contributions is governed by the entity’s operating agreement.

As of June 30, 2014, this entity was financed by partner equity and does not have third-party debt. In addition, we have not provided any guarantees to the entity or our equity partner. The assets of our investee can only be used to settle obligations of the investee.

Equity Method Investments

We share in the profits and losses of unconsolidated entities generally in accordance with our ownership interests. We and our equity partners make initial and 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. We made contributions totaling \$0 and \$95 to our unconsolidated entities during the six months ended June 30, 2014 and 2013, respectively. The balance of our investments in unconsolidated entities was \$14,610 and \$1,230 at June 30, 2014 and December 31, 2013, respectively. The increase is due to the Company no longer being considered the primary beneficiary, resulting in the EM 646 entity being unconsolidated at June 30, 2014.

Note 5 - Debt

Our notes payable are summarized as follows:

	June 30, 2014	December 31, 2013
4.50% Convertible Notes due 2024 (a)	—	\$5,402
7.50% Senior Convertible Notes due 2016	\$55,481	55,500
7.50% Senior Exchange Convertible Notes due 2016	44,500	44,500
8.50% Senior Notes due 2019	200,000	—

(a) These Notes were tendered and repaid on April 1, 2014.

We made interest payments of \$3,871 and \$4,057 for the six months ended June 30, 2014 and 2013, respectively.

8.50% Senior Notes due 2019

On June 30, 2014, we completed an underwritten offering for \$200,000 aggregate principal amount of our 8.50% Senior Notes due 2019 (the “8.50% Notes”). The 8.50% Notes mature on July 1, 2019 unless earlier converted, redeemed or repurchased.

Interest : Interest on the 8.50% Notes is 8.50% per year, payable semi-annually in arrears in cash on January 1 and July 1 of each year, commencing January 1, 2015.

Optional redemption : The 8.50% Notes will be redeemable at our option, in whole or in part, at any time on or after July 1, 2016, at certain redemption prices, together with accrued and unpaid interest, if any, to, but excluding, the date of redemption.

At any time prior to July 1, 2016, we may redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 108.500% of the principal amount of the notes, together with accrued and unpaid interest, if any, to, but excluding, the date of redemption.

At any time prior to July 1, 2016, we may also redeem some or all of the notes at a price equal to 100% of the principal amount of the notes, plus a “make-whole premium,” together with accrued and unpaid interest, if any, to, but excluding, the date of redemption.

On or after July 1, 2016, the Company may, at its option, redeem the Notes, in whole or in part, at any time and from time to time, at the following redemption prices (expressed in percentages of the principal amount thereof), plus accrued and unpaid interest, if any, to but excluding the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date falling prior to or on the redemption date), if redeemed during the 12-month period beginning on July 1 of each year indicated below:

Year	Percentage
2016	106.375%
2017	103.188%
2018 and thereafter	100.000%

Financial covenants: The indenture will limit our ability to enter into and execute certain business transactions and agreements.

Exchange offer; registration rights: In connection with the issuance of the notes, we entered into an agreement with the initial purchasers obligating us to file a registration statement with the SEC within 360 days so that the initial purchasers can:

exchange the notes for registered notes having substantially the same terms as the notes and evidencing the same indebtedness as the notes

exchange the related note guarantees for registered guarantees having substantially the same terms as the original note guarantees.

We have assessed the 8.50% Notes and concluded that the impact of any embedded derivative features are not material as of June 30, 2014.

Senior Secured Credit Facility

On April 7, 2014, we entered into a senior secured credit facility with JPMorgan Chase Bank, N.A., as agent, a lender and a letter of credit issuer. The other lenders and letter of credit issuers include Royal Bank of Canada and Credit Suisse AG.

The senior secured credit facility includes revolving credit and letter of credit facilities in an aggregate principal amount of up to \$65,000, with an “accordion” feature that allows us, with the consent of the lenders, to increase the aggregate amount to \$175,000. The senior secured credit facility also includes a swing line loan facility in an aggregate principal amount of up to \$30,000. The maximum amount available under the senior secured credit facility is limited to 100% of cash maintained in a borrowing base account, to the extent it exceeds the interest reserve, escrowed deposits and funds payable to us following the sale of real property, plus the following, subject to certain limitations:

- 85% of the appraised value of our real property that is under contract or under construction and is or is planned to be single-family residential housing units or model homes; plus
- 65% of the appraised value of our finished lots and lots under development; plus
- 50% of the appraised value of our entitled lands that are not finished lots or lots under development.

To be included in this borrowing base, the real property must be owned by us or one of our subsidiaries that guaranties the senior credit facility and it must be appraised, pledged as collateral and meet certain other criteria. At June 30, 2014, we had qualified assets in the borrowing base of \$62,000 and no borrowings outstanding.

Note 6 - Estimated Development Liability for Sold Land

The estimated development liability consists primarily of utilities improvements in Rio Rico and Poinciana for more than 8,000 home sites previously sold, in most cases prior to 1980, and is summarized as follows:

	June 30, 2014	December 31, 2013
Gross estimated unexpended costs	\$36,086	\$36,117
Less costs relating to unsold home sites	(2,885	) (2,885)
Estimated development liability for sold land	\$33,201	\$33,232

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 potential 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 \$0 and \$10 during the three months ended June 30, 2014 and 2013, respectively, and \$0 and \$29 during the six months ended June 30, 2014 and 2013, respectively. Cash expenditures associated with these obligations were \$23 and \$10 during three months ended June 30, 2014 and 2013, respectively, and \$31 and \$20, during six months ended June 30, 2014 and 2013, 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 7 - 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, we believe it is probable, in accordance with ASC 450-20, Loss Contingencies, that certain claims may result in costs and expenses estimated at approximately \$0 and \$275, which have been accrued in the accompanying consolidated balance sheets

as of June 30, 2014 and December 31, 2013, respectively. The decrease from December 31, 2013 is due to a settlement that was paid in the six month period ending June 30, 2014. 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.

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, 2014, we had outstanding performance bonds of approximately \$22,820. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

Note 8 - Segments

Our current operations include the following reportable segments: the development, sale and management of active adult communities; the development and sale of primary residential communities; and the sale of commercial, industrial or other land.

Our operating segments are defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the chief operating decision maker, or decision-making group, to evaluate performance and make operating decisions. We have identified our chief operating decision maker as the Chief Executive Officer.

The following table summarizes our information for reportable segments for the three and six months ended June 30, 2014 and 2013:

	Three Months		Six Months	
	2014	2013	2014	2013
Revenues:				
Segment revenues				
Active adult communities	\$27,593	\$10,156	\$43,942	\$22,162
Primary residential	\$23,262	12,549	35,059	23,091
Commercial, industrial, or other land sales	\$520	6,577	16,226	8,882
Other operations	\$72	181	85	438
Total Revenues	51,447	29,463	95,312	54,573
Operating income (loss):				
Segment operating income (loss)				
Active adult communities	\$1,176	\$(1,554)	\$1,004	\$(2,433)
Primary residential	\$299	1,189	(12)	1,851
Commercial, industrial, or other land sales	\$226	2,185	3,988	3,625
Other operations	\$59	66	40	254
	1,760	1,886	5,020	3,297
Unallocated income (expenses)				
Interest income and other	70	93	173	102
Equity loss from unconsolidated entities	(6)	(15)	(5)	(78)
Net gain attributable to non-controlling interests	(36)	—	(329)	—
General and administrative expenses	(3,852)	(4,292)	(8,248)	(7,997)
Interest expense	—	(1,763)	(111)	(3,536)
Other real estate expenses	(225)	(577)	(714)	(1,215)
Loss attributable to AV Homes	\$(2,289)	\$(4,668)	\$(4,214)	\$(9,427)

Note 9 - 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:

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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, 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.

For assets held for sale (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, 2014 and December 31, 2013 are as follows:

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes Payable:				
4.50% Notes	\$—	\$—	\$5,402	\$5,425
7.50% Notes and 7.50% Exchange Notes	\$99,981	\$106,009	\$100,000	\$111,775
8.50% Senior Notes	\$200,000	200,000	\$—	\$—

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, 2014 and December 31, 2013, 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 10 - Subsequent Event

On July 31, 2014 we closed on an agreement to sell one of our non-core assets in Florida for approximately \$11,500.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(\$000's omitted, except share and per share data)

Executive Overview

We are engaged in the business of homebuilding, community development and the sale for third-party development of land in Florida, Arizona and North Carolina. We also engage to a limited degree in other real estate activities, such as the operation of amenities. We manage our business through three reportable segments:

- the development, sale and management of active adult communities;
- the development and sale of primary residential communities; and
- the sale of commercial, industrial or other land.

For the three months ended June 30, 2014, we derived 54% of our revenues from active adult, 45% of our revenues from primary residential, and 1% of our revenues from the commercial, industrial and other land segments, respectively. For the six months ended June 30, 2014, we derived 46% of our revenues from active adult, 37% of our revenues from primary residential and 17% of our revenues from commercial, industrial and other land segments, respectively.

Our primary business is the development of land and the construction and sale of primary residences for people of all ages, including active adults. Our current homebuilding sales activities include existing locations in Florida, Arizona and North Carolina, with additional communities in the pipeline for each state. While we have historically generated more than half of our homebuilding revenues from our active adult community segment, we have invested and intend to continue to invest in our primary residential community segment in order to provide us with a diversified and well-balanced portfolio. We generate a smaller portion of our revenues from the sale of land from our portfolio of legacy land holdings that we sell in favorable market conditions. While we have in the past acquired land with the intention to resell to developers and other third parties, we now purchase land for the purpose of developing communities and will opportunistically sell non-core commercial and industrial assets, as well as scattered lot positions and land assets, that are in excess of our needed supply in a given market.

Solivita and Vitalia at Tradition, our active adult communities in Central Florida, and CantaMia in Goodyear, Arizona, currently serve as our flagship communities as we pursue the active adult segment. In addition, we are adding active adult communities in Raleigh-Durham, North Carolina and Mesa, Arizona, named Creekside at Bethpage and Encore at Eastmark, respectively. These communities will broaden our geographic footprint and product offering, and should provide us with future participation in the longer term growth of demand from the wave of Baby Boomers entering their retirement years.

Our current selling community count includes 18 locations, 14 in Florida and four in Arizona, with additional communities in the pipeline for both states and North Carolina. Our current closing community count include 14 locations, 12 in Florida and two in Arizona, with additional communities in the pipeline for both states and North Carolina.

The primary residential market is a segment that we continue to invest in to create a more diversified portfolio that mitigates cyclical impact over time. In the second half of 2013, we acquired over 800 lots in five new communities in the Phoenix market and expect to begin home sales and construction on these lots in late 2014 along with current building in our existing communities in the Phoenix market. Additionally, we are building out our existing communities in Central Florida and our lot positions within the newly acquired Royal Oak Homes and are expanding into a new market in North Carolina. Replacement lot positions may require new acquisitions of developed lots or platted or unplatted undeveloped land, or we may decide to develop current land holdings, depending on market conditions within the submarket of these assets.

Factors affecting our results of operations

Our business is significantly influenced by a number of factors that affect our revenues, costs and capital expenditures, including those described below. In managing our business and the influence of these factors, we track several key operating metrics described below. This discussion includes forward-looking statements that are based on our current expectations. See “Risk factors” and “Cautionary statement regarding forward-looking statements.”

Revenue factors

General market conditions. Demand for housing in the United States is driven by a variety of factors including, among other things population growth, household income, mortgage rates, affordability, consumer confidence and employment levels. The supply of available housing varies from time to time based on a number of factors, including, among other things, home starts, inventories of existing homes available for sale and activities of speculative investors. Various housing indices have shown significant improvement in recent periods, with a downturn in the first quarter of 2014 as compared to the fourth quarter of 2013, that we believe was primarily driven by inclement weather in the northeastern United States. New home sales experienced volatility in the second half of 2013 as consumers adjusted to higher home prices and an increase in mortgage interest rates. While we believe that higher interest rates are inevitable and may have a moderating effect on demand and

pricing, we believe this impact will be outweighed by the other factors driving increased sales activity as overall new home sales remain low compared with historical levels. We believe that any sustained rise in interest rates will be indicative of a stronger macroeconomic environment that will support a continued recovery in the homebuilding industry.

Demographic trends. As a substantial part of our business focuses on the active adult population, demographic trends have an impact on our results of operations. We believe that we will benefit from the longterm growth in demand for active adult communities as a result of the Baby Boomer generation entering their retirement years.

Cost factors

Subcontractors. Substantially all of our construction work is done by third-party subcontractors with our company acting as the general contractor. Our costs of using subcontractors is significantly influenced by the cost and availability of skilled labor in the markets where we operate.

Raw materials. We use drywall, cement, steel, lumber, and insulation, among other things, in the construction of our homes. Our subcontractors contract with third parties for these raw materials. From time to time, there may be shortages in these raw materials during periods of strong demand for housing that could cause delays in and increase our costs of home construction, which in turn could negatively affect our operating results.

Homebuilding expenses. Selling, general and administrative expenses are included in Homebuilding Expenses and are comprised of expenses not directly associated with the acquisition of lots and construction of homes, such as advertising, expenses associated with operating model homes, and salaries and commissions of sales personnel.

Corporate expenses. Corporate general and administrative expenses are included in General and Administrative Expenses and include costs associated with our executive, marketing, finance, accounting, legal, information services and human resources functions at the corporate level.

Other factors

Inflation. We may be adversely affected during periods of inflation because of higher land and construction costs. Inflation may also increase our financing costs. While we attempt to pass on to our customers increases in our costs through increased sales prices, market forces may limit our ability to do so. If we are unable to raise sales prices enough to compensate for higher costs, or if mortgage interest rates increase significantly, our revenues, gross margins and net income could be adversely affected.

Working capital. Our business is capital intensive and requires or may require expenditures for land and infrastructure development, housing construction, funding of operating deficits, real estate taxes, HOA deficits and interest expense, as well as potential new acquisitions of real estate and real estate-related assets. We manage our inventory levels through monitoring land development and home starts. We believe our efforts to opportunistically sell land that we have decided not to develop will help reduce and diversify land holdings and associated carrying costs.

Key operating metrics

Contracts signed. Net contracts signed for a given period represents the number of contracts we have entered into with homebuyers for the purchase and sale of homes, less the number of contracts that were cancelled in the same period. We consider a home sales contract cancelled when the customer terminates the contract.

Home starts. Home starts is the number of new homes on which we have started construction in a given period. Home starts are monitored by management in order to minimize the time between contract signing and closing.

Closings. Closings represents the number of home sales closed in the period. We recognize revenue equal to the sales price of a home when the sales are closed and title passes to the purchasers.

Backlog. Backlog is the number of homes we are building that are under contract for sale that have not closed as of the end of the period being presented. The dollar value of backlog is the revenue anticipated to be realized at closing equal to the purchase price provided in the applicable contract. Backlog is an important indicator of home closings and homebuilding revenues in future periods.

Average sales price. Average sales price represents total revenue for a given period divided by the number of closings for such period.

Seasonality

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 and closings as well as other market factors. 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.

The following table provides a comparison of certain financial data related to our operations for the three and six months ended June 30, 2014:

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	Three Months		Six Months	
	2014	2013	2014	2013
Operating income (loss):				
Active adult communities				
Revenues				
Homebuilding	\$25,687	\$8,385	\$40,019	\$18,606
Amenity	1,906	1,771	3,923	3,556
Expenses				
Homebuilding	20,506	6,964	31,647	15,215
Homebuilding Selling, General and Administrative	3,903	2,692	7,473	5,273
Amenity	2,008	2,054	3,818	4,107
Segment operating income (loss)	1,176	(1,554)	) 1,004	(2,433)
Primary residential				
Revenues				
Homebuilding	22,738	11,739	34,008	21,672
Amenity	524	810	1,051	1,419
Expenses				
Homebuilding	19,123	8,934	28,560	16,630
Homebuilding Selling, General and Administrative	3,372	1,677	5,468	3,223
Amenity	468	749	1,043	1,387
Segment operating income (loss)	299	1,189	(12)	) 1,851
Commercial and industrial and other land sales				
Revenues	520	6,577	16,226	8,882
Expenses	294	4,392	12,238	5,257
Segment operating income	226	2,185	3,988	3,625
Other operations				
Revenues	72	181	85	438
Expenses	13	115	45	184
Segment operating income	59	66	40	254
Operating income	1,760	1,886	5,020	3,297
Unallocated income (expenses):				
Interest income and other	70	93	173	102
Equity loss from unconsolidated entities	(6)	) (15)	) (5)	) (78)
Corporate general and administrative expenses	(3,852)	) (4,292)	) (8,248)	) (7,997)
Interest expense	—	(1,763)	) (111)	) (3,536)
Other real estate expenses	(225)	) (577)	) (714)	) (1,215)
Loss before income taxes	(2,253)	) (4,668)	) (3,885)	) (9,427)
Income tax expense	—	—	—	—
Net income attributable to non-controlling interests	\$(36)) \$—	\$ (329)) \$—

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Net loss attributable to AV Homes \$(2,289) \$(4,668) \$(4,214) \$(9,427)

We reclassified commission expense in the table above from "Homebuilding" to "Homebuilding Selling, General and Administrative." Below is a summary of the amounts reclassified for the time periods presented:

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	Three Months		Six Months	
	2014	2013	2014	2013
Commission expense--Active Adult	\$871	\$297	\$1,428	\$759
Commission expense--Primary Residential	\$952	\$610	\$1,462	\$1,088

Data from closings for the active adult and primary residential homebuilding segments for the three and six months ended June 30, 2014 and 2013 is summarized as follows:

For the three months ended June 30,	Number of Units	Revenues	Average Price Per Unit
2014			
Active adult communities	101	\$25,636	\$254
Primary residential	90	22,741	\$253
Total	191	\$48,377	\$253
2013			
Active adult communities	34	\$8,385	\$247
Primary residential	48	11,739	\$245
Total	82	\$20,124	\$245
For the six months ended June 30,	Number of Units	Revenues	Average Price Per Unit
2014			
Active adult communities	157	\$39,943	\$254
Primary residential	134	33,985	\$254
Total	291	\$73,928	\$254
2013			
Active adult communities	73	\$18,606	\$255
Primary residential	90	21,672	\$241
Total	163	\$40,278	\$247

First Half 2014 Highlights

During the first half of 2014, we continued to execute our strategic and operational business plan through (i) the continued deployment of existing capital into land and lot acquisitions, as well as the acquisition of homebuilder operations, (ii) the development of existing land and lot positions, in addition to the construction of homes for sale, (iii) the strong increase in the number of homes sold and closed, (iv) the sale of non-core asset positions, and (v) the successful completion of raising additional debt capital for continued growth and operational opportunities.

3 Months Ended June 30, 2014

Consolidated Results

Overall revenue increased by \$21,984 or 75% during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Homebuilding and amenity revenue increased by \$28,150 or 124% compared to the second quarter of 2013, partially offset by a \$6,057 decrease in land sales. The increase in homebuilding and amenity revenue was driven by a 133% in units closed and a 3% increase in the average sales price for homes sold. Land sales are highly variable from quarter to quarter and large fluctuations are not unexpected. Homebuilding and amenity expenses increased by \$26,355 or 114%, consistent with the increase in revenue. The average gross margin on land sales during the three months ended June 30, 2014 was approximately 43% compared to approximately 33% during the same period in 2013.

Corporate general and administrative expenses decreased by \$440 to \$3,852 for the three months ended June 30, 2014 compared to the same period in 2013. As a percentage of total revenue, general and administrative expenses improved to 8% for the three months ended June 30, 2014 compared to 15% for the same period in 2013. The decrease as a percent of revenue was driven by the significant increase in revenue, while containing our costs.

Interest expense decreased \$1,763 or 100% for the three months ended June 30, 2014 compared to the same period in 2013. The decrease in interest expense is primarily attributable to an increase in the amount of interest we capitalized to land under development and homes under construction in the second quarter of 2014 as compared to the second quarter of 2013. Interest costs incurred, prior to capitalization, remained consistent with the prior year at \$2,356 for 2014 as compared to \$2,326 in the second quarter of 2013.

Net loss for the three months ended June 30, 2014 was \$2,289 or \$0.10 per share compared to \$4,668 or \$0.36 per share for the three months ended June 30, 2013. The decrease in net loss for the three months ended June 30, 2014 compared to the same period in 2013 was primarily due to a decrease in operating loss, a decrease in interest expense, and a decrease in other real estate expenses.

Homebuilding Operations

Homebuilding revenue, which is revenue from home closings, increased 140% from \$20,124 to \$48,377 for the three months ended June 30, 2014 compared to the same period in 2013 due to a 133% increase in closings and a 3% increase in average sales price. In the active adult segment, revenues increased \$17,251 or 206% over the prior period driven by a 197% increase in units closed due to higher absorption at our three existing active adult communities, predominantly in Florida, and improved market conditions. The primary residential revenues increased \$11,002 or 94% over the prior period due to a 88% increase in units closed due to an increase in the number of communities in which we had closings from four to 11 and improved market conditions.

Gross margin from combined home closings decreased by 300 basis points from 21% to 18% for the three months ended June 30, 2014 compared to the same period in 2013. Gross margin from active adult homebuilding increased by 300 basis points from 17% to 20% for the three months ended June 30, 2014 compared to the same period in 2013 due to improved market conditions. Gross margin from primary residential homebuilding decreased by 800 basis points from 24% to 16% for the three months ended June 30, 2014 compared to the same period in 2013 due primarily to the write-up to fair value of inventory acquired in the Royal Oak acquisition of \$1,114, or 490 basis points. Additionally, the mix of homes sold in Arizona had a negative impact on margins as we closed out of higher margin communities in 2013 and are starting into newer communities which have lower initial margins. Capitalized interest included in cost of sales for the active adult and primary residential segments was \$578 and \$147, respectively, for the three months ended June 30, 2014 and was \$194 and \$227, respectively, for the same periods in 2013.

Homebuilding selling, general and administrative expenses as a percentage of homebuilding revenue improved to 15% for the three months ended June 30, 2014 from 22% for the same period in 2013, primarily driven by favorable cost leverage in the active adult segment. Homebuilding selling, general and administrative expenses for the active adult segment as a percentage of homebuilding revenue improved to 15% for the three months ended June 30, 2014 compared to 32% for the same period in 2013 due to the increased revenue, while we are containing our costs. Homebuilding selling, general and administrative expenses for the primary residential segment as a percentage of homebuilding revenue was 15% and 14% for the three month periods ended June 30, 2014 and 2013, respectively. Improvements in cost leverage from the increased revenue were offset by the costs incurred to start up new selling communities which are not yet generating revenue.

Amenity net loss for the three months ended June 30, 2014 and 2013 remained consistent at \$46 and \$222, respectively.

6 Months Ended June 30, 2014

Consolidated Results

Overall revenue increased by \$40,739 or 75% during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Homebuilding and amenity revenue increased by \$33,748 or 75% compared to the first half of 2013. The increase in homebuilding and amenity revenue was driven by a 79% increase in units closed and a 3% increase in the average sales price for homes sold. Revenue from land sales increased by \$7,344 or 83% during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. This increase for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 is primarily due to the sale of a multi-family property in Arizona to a related party for \$13,850 for

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a gain of \$2,315 in the first quarter of 2014. Homebuilding and amenity expenses increased by \$32,219 or 70%, consistent with the increase in revenue. The average gross margin on land sales during the six months ended June 30, 2014 was approximately 25% compared to approximately 41% during the same period in 2013.

Corporate general and administrative expenses increased by \$251 to \$8,248 for the six months ended June 30, 2014 compared to the same period in 2013. As a percentage of total revenue, general and administrative expenses improved to 9% for the six months ended June 30, 2014 compared to 15% for the same period in 2013. The decrease as a percent of revenue was driven by the significant increase in revenue, while containing our costs.

Interest expense decreased \$3,425 or 97% for the six months ended June 30, 2014 compared to the same period in 2013. The decrease in interest expense is primarily attributable to an increase in the amount of interest we capitalized to land under development and homes under construction in the six months ended June 30, 2014 as compared to the same period in 2013. Interest costs incurred, prior to capitalization, remained consistent with the prior year at \$4,687 for the six months ended June 30, 2014 as compared to the same period in 2013.

Net loss for the six months ended June 30, 2014 was \$4,214 or \$0.19 per share compared to \$9,427 or \$0.74 per share for the six months ended June 30, 2013. The decrease in net loss for the six months ended June 30, 2014 compared to the same period in 2013 was primarily due to a decrease in operating loss, a decrease in interest expense, and a decrease in other real estate expenses.

Homebuilding Operations

Homebuilding revenue increased 84% from \$40,278 to \$73,928 for the six months ended June 30, 2014 compared to the same period in 2013 due to a 79% increase in closings and a 3% in average sales price. In the active adult segment, revenues increased \$21,413 or 115% over the prior period driven by a 115% increase in units closed due to higher absorption at our three existing active adult communities, predominantly in Florida, and improved market conditions. The primary residential revenues increased \$12,336 or 57% over the prior period due to a 49% increase in units closed due to an increase in the number of communities in which we had closings from four to 11 and improved market conditions.

Gross margin from combined home closings decreased by 200 basis points from 21% to 19% for the six months ended June 30, 2014 compared to the same period in 2013. Gross margin from active adult homebuilding increased by 300 basis points from 18% to 21% for the six months ended June 30, 2014 compared to the same period in 2013 due to improved market conditions. Gross margin from primary residential homebuilding decreased by 700 basis points from 23% to 16% for the six months ended June 30, 2014 compared to the same period in 2013 due primarily to the write-up to fair value of inventory acquired in the Royal Oak acquisition of \$1,396, or 410 basis points. Additionally, the mix of homes sold in Arizona had a negative impact on margins as we closed out of higher margin communities in 2013 and are starting into newer communities which have lower initial margins. Capitalized interest included in cost of sales for the active adult and primary residential segments was \$992 and \$310, respectively, for the six months ended June 30, 2014 and was \$454 and \$397, respectively, for the same period in 2013.

Combined homebuilding selling, general and administrative expenses as a percentage of homebuilding revenue improved to 17% for the six months ended June 30, 2014 from 21% for the same period in 2013, primarily driven by favorable cost leverage in the active adult segment. Homebuilding selling, general and administrative expenses for the active adult segment as a percentage of homebuilding revenue improved to 19% for the six months ended June 30, 2014 compared to 28% for the same period in 2013 due to increased revenue, while containing our costs.

Homebuilding selling, general and administrative expenses for the primary residential segment as a percentage of homebuilding revenue was 16% and 15% for the six month periods ended June 30, 2014 and 2013, respectively. Improvements in cost leverage from the increased revenue were offset by the costs incurred to start up new selling

communities which are not yet generating revenue.

Amenity net income (loss) for the six months ended June 30, 2014 improved to \$113 from (\$519) for the six months ended June 30, 2013.

Data from contracts signed for the active adult and primary residential homebuilding segments for the three and six months ended June 30, 2014 and 2013 is summarized as follows:

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For the three months ended June 30,	Gross Number of Contracts Signed	Cancellations	Contracts Signed, Net of Cancellations	Dollar Value	Average Price Per Unit
2014					
Active adult communities	145	(13)	132	\$34,752	\$263
Primary residential	164	(15)	149	37,785	\$254
Total	309	(28)	281	\$72,537	\$258
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
For the six months ended June 30, 2014					
Active adult communities	283	(26)	257	\$67,743	\$264
Primary residential	249	(25)	224	56,410	\$252
Total	532	(51)	481	\$124,153	\$258
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

Backlog for the active adult and primary residential homebuilding segments as of June 30, 2014 and 2013 is summarized as follows:

As of June 30	Number of Backlog Units	Dollar Volume	Average Price Per Unit
2014			
Active adult communities	227	\$60,109	\$265
Primary residential	253	63,541	\$251
Total	480	\$123,650	\$258
2013			
Active adult communities	164	\$38,404	\$234
Primary residential	112	24,765	\$221
Total	276	\$63,169	\$229

The total number of net housing contracts signed during three months ended June 30, 2014 compared to the same period in 2013 increased by 162 or 136%. The dollar value of housing contracts signed increased by \$43,397 or 149%. The increase in units and value were driven by improvements in both the active adult and primary residential segments. The number of net housing contracts signed for the active adult segment during three months ended June 30, 2014 increased by 42 or 47%, while the dollar value of housing contracts signed increased by \$14,259 or 70%. The number of net housing contracts signed for the primary residential segment during three months ended June 30,

2014 increased by 120 or 414%, while the dollar value of housing contracts signed increased by \$29,137 or 337%. The increase reflects an increase in the number of selling communities from eight to 18 as well as improved market conditions for both of our homebuilding segments.

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During the three months ended June 30, 2014 and 2013, cancellations of previously signed contracts totaled 28 compared to 35 during the three months ended June 30, 2013. As a percentage of the gross number of contracts signed, this represents 9% and 23% for the three months ended June 30, 2014 and 2013, respectively. The 2013 cancellation rate was higher due to one primary residential community in Florida that experienced higher than normal rates.

The total number of net housing contracts signed during six months ended June 30, 2014 compared to the same period in 2013 increased by 227 or 89%. The dollar value of housing contracts signed increased by \$65,622 or 112%. The increase in units and value were driven by improvements in both the active adult and primary residential segments. The number of net housing contracts signed for the active adult segment during six months ended June 30, 2014 increased by 83 or 48%, while the dollar value of housing contracts signed increased by \$28,212 or 71%. The number of net housing contracts signed for the primary residential segment during six months ended June 30, 2014 increased by 144 or 180%, while the dollar value of housing contracts signed increased by \$37,410 or 197%. The increase reflects an increase in the number of selling communities from eight to 18 as well as improved market conditions for both of our homebuilding segments.

During the six months ended June 30, 2014 and 2013, cancellations of previously signed contracts totaled 51 compared to 69 during the six months ended June 30, 2013. As a percentage of the gross number of contracts signed, this represents 10% and 22% for the six months ended June 30, 2014 and 2013, respectively. The 2013 cancellation rate was higher due to one primary residential community in Florida, which closed out in 2013, that experienced higher than normal rates.

The backlog of housing contracts as of June 30, 2014 compared to June 30, 2013 increased by 204 or 74%, and the dollar value of backlog increased by \$60,481 or 96%. The increase in both units and value of backlog were driven by both the active adult and primary residential sectors. The backlog of housing contracts in the active adult segment as of June 30, 2014 compared to June 30, 2013 increased by 63 or 38%, and the dollar value increased by \$21,705 or 57%. The backlog of housing contracts in the primary residential segment as of June 30, 2014 compared to June 30, 2013 increased by 141 or 126%, and the dollar value increased by \$38,776 or 157%.

As of June 30, 2014, our inventory of unsold (speculative) homes, both completed and under construction, was 191 units, as compared to 60 units as of December 31, 2013. The increase in speculative homes is due to increased community count, the increase in pace of sales, and the improved housing environment compared to the prior year. As of June 30, 2014, approximately 27% of unsold homes were completed compared to approximately 22% as of December 31, 2013.

The following is a breakdown of our land holdings as of June 30, 2014:

	Total Lots (1)	Closed Lots (2)	Remaining Lots			Total Remaining Lots	Total Acres (3)
			Developed	Partially Developed	Raw		
Principal Communities							
Active Adult Communities							
Florida							
Solivita	10,387	3,805	609	564	5,409	6,582	
Vitalia at Tradition	1,144	200	155	351	438	944	
	11,531	4,005	764	915	5,847	7,526	—
Arizona							
CantaMia	1,696	222	204	196	1,074	1,474	
Eastmark	905	—	—	905	—	905	
	2,601	222	204	1,101	1,074	2,379	

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North Carolina Bethpage	658	—	46	55	557	658	
Total Active Adult Communities	14,790	4,227	1,014	2,071	7,478	10,563	—

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Primary Residential Communities

Florida	5,695	1,617	1,886	1,294	898	4,078	
Arizona	1,171	146	468	212	345	1,025	
North Carolina	685	—	11	564	110	685	
Total Primary Residential Communities	7,551	1,763	2,365	2,070	1,353	5,788	
Total Principal Communities	22,341	5,990	3,379	4,141	8,831	16,351	
Commercial & Industrial	—	—	—	—	—	—	1,615
Not Actively Building or Developing							
Platted Scattered Lots	4,812	3,545	748	488	31	1,267	
Unplatted Scattered Mixed-Use Raw Land	—	—	—	—	—	—	5,478
Total Not Actively Building or Developing	4,812	3,545	748	488	31	1,267	5,478
Land Held for Sale							
Platted Residential	4,036	102	134	—	3,800	3,934	
Unplatted Residential, Commercial or Industrial	—	—	—	—	—	—	175
Total Land Held for Sale	4,036	102	134	—	3,800	3,934	175
Grand Total	31,189	9,637	4,261	4,629	12,662	21,552	7,268

(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 lots 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.

In accordance with ASC 740, we evaluate our 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 three months and six months ended June 30, 2014, we recognized an increase of \$909 and \$1,641, respectively, in the valuation allowance. As of June 30, 2014, our deferred tax asset valuation allowance was \$131,873. 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, 2014, our cash and cash equivalents totaled \$212,709 compared to \$144,727 as of December 31, 2013. As of June 30, 2014 and December 31, 2013, total consolidated indebtedness was \$299,981 and \$105,402, respectively. The increase in cash and debt balances at June 30, 2014 are due to issuance of the \$200,000 8.50% Senior Notes in the second quarter of 2014. Additionally, as of June 30, 2014, we had \$11,348 in restricted cash, of which \$7,682 is held on deposit as an interest reserve to comply with the terms of our Senior Secured Credit Facility, \$3,136 in land escrow accounts and \$311 of housing deposits from customers that will become available when the housing contracts close, as compared to \$3,956 in restricted cash as of December 31, 2013.

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

For the six months ended June 30, 2014, net cash used in operating activities amounted to \$53,185 primarily to investments in land, land development and home construction, partially offset by the sale of land holdings. Net cash used by investing activities amounted to \$65,158 due to the purchase of Royal Oak. Net cash provided by financing activities was \$186,325 due to the issuance of the 8.50% Senior Notes in the second quarter.

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.

Off Balance Sheet Arrangements

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, 2014, we had outstanding performance bonds of approximately \$22,820. The amount of outstanding performance bonds could fluctuate depending on the level of development activity. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

Other

Assuming that no significant adverse changes occur in our business, we anticipate the aggregate cash on hand, cash flow generated through homebuilding and related operations, sales of commercial and industrial and other land, and the revolving line of credit will provide sufficient liquidity to fund our business for 2014.

Critical Accounting Policies

There were no material changes in AV Homes' critical accounting policies during six months ended June 30, 2014. For additional information regarding AV Homes' critical accounting policies, refer to Item 7. Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in AV Homes' market risk during the six months ended June 30, 2014. 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, 2013.

Special notes concerning forward-looking statements

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 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, including our acquisition of Royal Oak Homes, LLC and other factors as are described in our Annual Report on Form 10-K for the year ended December 31, 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.

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 Chief 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 Chief 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 Chief Financial Officer, we have determined that, during the fiscal quarter ended June 30, 2014, 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

ITEM 1A. RISK FACTORS (Dollars in thousands)

Our business, financial condition, results of operations, cash flows and prospects, and the prevailing market price and performance of our common stock, may be adversely affected by a number of factors, including the matters discussed below. Certain statements and information set forth in this Quarterly Report on Form 10-Q, as well as other written or oral statements made from time to time by us or by our authorized officers on our behalf, constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. We intend for our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this document speak only as of the date of this Quarterly Report on Form 10-Q and we undertake no duty or obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Although we believe that the expectations, plans, intentions and projections reflected in our forward-looking statements are reasonable, such statements are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

There have not been any material changes to the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013. However, the below risks and uncertainties related to our recent issuance of 8.5% Notes and our entry into the Credit Agreement should be considered by stockholders and potential investors in addition to the risk factors contained within our 10-K for the year ended December 31, 2013.

We may not be able to generate sufficient cash to service all of our indebtedness, including the notes, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations, including the notes offered hereby, depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness, including the notes. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. The credit agreement governing the revolving credit facility and the indenture that will govern the notes will restrict our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations under the 7.5% Notes, the 7.5% Exchange Notes and the 8.5%

Notes (collectively, the "Notes").

If we cannot make scheduled payments on our debt, we will be in default and holders of the notes could declare all outstanding principal and interest to be due and payable, the lenders under the revolving credit facility could terminate their commitments to loan money, the lenders could foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation.

Despite our current level of indebtedness, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

We and our subsidiaries may be able to incur significant additional indebtedness in the future. Although the indentures related to our Notes contain and the credit agreement governing our revolving credit facility contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness. If new debt is added to our current debt levels, the related risks that we face could intensify.

The terms of the credit agreement governing our revolving credit facility and the indentures governing the Notes will restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The indentures governing the Notes contain and the credit agreement governing our revolving credit facility contains a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to:

- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions or repurchase or redeem our capital stock;
- prepay, redeem or repurchase certain debt;
- issue certain preferred stock or similar equity securities;
- make loans and investments;
- sell assets;
- incur liens;
- enter into transactions with affiliates;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries' ability to pay dividends;
and
- consolidate, merge or sell all or substantially all of our assets.

In addition, the restrictive covenants in the credit agreement governing our revolving credit facility require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we may be unable to meet them.

A breach of the covenants or restrictions under the indentures governing the Notes or under the credit agreement governing our revolving credit facility could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the credit agreement governing our revolving credit facility would permit the lenders under our revolving credit facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable under our revolving credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or Noteholders accelerate the repayment of our

borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our strategy. In addition, our financial results, our substantial indebtedness and our credit ratings could adversely affect the availability and terms of our financing.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our revolving credit facility are at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. Assuming all loans are fully drawn, each quarter point change in interest rates would result in a \$0.2 million change in annual interest expense on our indebtedness under our revolving credit facility. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

A major health and safety incident relating to our business could be costly in terms of potential liabilities and reputational damage.

Building sites are inherently dangerous, and operating in the homebuilding industry poses certain inherent health and safety risks. Due to health and safety regulatory requirements and the number of projects we work on, health and safety performance is critical to the success of all areas of our business. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly in terms of potential liabilities incurred as a result. Such a failure could generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities, and our ability to sell homes, which, in turn, could have a material adverse effect on our business, financial condition and operating results.

We may incur additional healthcare costs arising from federal healthcare reform legislation and our compliance therewith.

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the "Healthcare Reform Legislation") were signed into law in the United States. The Healthcare Reform Legislation increases the level of regulatory complexity for companies that offer health and welfare benefits to their employees. Due to the breadth and complexity of the Healthcare Reform Legislation and the staggered implementation, the uncertain timing of the regulations and limited interpretive guidance, it is difficult to predict the overall impact of the healthcare reform legislation on our business over the coming years. Possible adverse effects include increased healthcare costs, which could adversely affect our business, financial condition and results of operations.

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 Form 8-K filed on April 11, 2014 (File No. 1-7395), and incorporated herein by reference).
- 3.4 * Certificate of Designation of Series B Junior Participating Preferred Stock of AV Homes, Inc. (filed as Exhibit 3.2 to Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
- 4.1 * Indenture, dated March 30, 2004, between Avatar Holdings Inc. and JPMorgan Chase Bank, in respect of 4.50% Convertible Senior Notes due 2024 (filed as Exhibit 4.1 to Form 10-Q for the quarter ended March 31, 2004 (File No. 0-7616), and incorporated herein by reference).
- 4.2 * Indenture, dated February 4, 2011, between Avatar Holdings Inc. and Wilmington Trust FSB, as Trustee (filed as Exhibit 4.1 to Form 8-K dated February 4, 2011, and incorporated herein by reference).
- 4.3 * First Supplemental Indenture, dated as of February 4, 2011, between Avatar Holdings Inc., and Wilmington Trust FSB, as Trustee (filed as Exhibit 4.2 to Form 8-K dated February 4, 2011, and incorporated herein by reference).
- 4.4 * 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 Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
- 4.5 * Indenture, dated June 30, 2014, by and among AV Homes, Inc., certain subsidiaries of AV Homes, Inc., Wilmington Trust, National Association, as Trustee (filed as Exhibit 4.1 to Form 8-K dated July 1, 2014 (File No. 1-7395), and incorporated herein by reference).
- 4.6 * Registration Rights Agreement, dated June 30, 2014, by and among AV Homes, Inc., certain subsidiaries of AV Homes, Inc., and J.P. Morgan Securities LLC (filed as Exhibit 4.2 to Form 8-K dated July 1, 2014 (File No. 1-7395), and incorporated herein by reference).
- 10.2 * Credit Agreement, by and among Av Homes, Inc., JPMorgan Chase Bank, N.A., as Lender, Administrative Agent and Collateral Agent, and the Lenders thereto (filed as Exhibit 10.1 to Form 8-K dated April 11, 2014 (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 Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 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 Principal 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.

* These exhibits are incorporated by reference and are on file with the Securities and Exchange Commission.

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 4, 2014

By:

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

Date: August 4, 2014

By:

/s/ Michael S. Burnett
Michael S. Burnett
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)