

AV HOMES, INC.

FORM 10-K (Annual Report)

Filed 03/15/13 for the Period Ending 12/31/12

Address	8601 N. SCOTTSDALE RD. SUITE 225 SCOTTSDALE, AZ 85253
Telephone	4802147400
CIK	0000039677
Symbol	AVHI
SIC Code	1531 - Operative Builders
Industry	Construction Services
Sector	Capital Goods
Fiscal Year	12/31

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

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012.
- 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

(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act

Title of each class

Common Stock, \$1.00 Par Value

Name of exchange on which registered

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

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):

Larger 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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$132,330,879 as of June 30, 2012.

As of March 8, 2013, there were 12,824,153 shares of common stock, \$1.00 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Proxy Statement for its 2013 Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

The following business description should be read in conjunction with our audited consolidated financial statements and accompanying notes thereto appearing elsewhere in this Annual Report on Form 10-K. Unless otherwise indicated or the context otherwise requires, all references in this Annual Report on Form 10-K to “we,” “us,” “our,” “AV Homes,” or the “Company” refer to AV Homes, Inc. and its consolidated subsidiaries. Dollar amounts specified herein are in thousands, except per share amounts or as otherwise indicated.

Company Overview

AV Homes, Inc. was incorporated in the state of Delaware in 1970. On February 15, 2012, we changed our name from Avatar Holdings Inc. to AV Homes, Inc. Our principal executive offices are located at 8601 N. Scottsdale Rd., Suite 225, Scottsdale, Arizona 85253, and our telephone number is (480) 214-7400. Our website address is www.avhomesinc.com. Information on our website does not constitute part of this Annual Report on Form 10-K.

We are engaged in the business of homebuilding, community development, and land sales in Florida and Arizona. Our residential community sales and development activities have been adversely affected by economic conditions in both markets, and remain at low levels. Our sales of commercial and industrial land for third-party development have also been adversely affected by economic conditions. In addition, we own certain amenities within our master planned communities, which are now managed by third party providers.

Our assets consist primarily of real estate in the states of Florida and Arizona, as more fully detailed in the land holdings table located in “Item 1 Our Operations”. As of December 31, 2012, we owned 3,155 developed residential lots, 2,705 partially developed residential lots, 11,295 undeveloped residential lots, and 9,940 acres of mixed use, commercial, and industrial land.

Business Strategy

Our primary business is the development of active adult communities, in conjunction with construction and sales of residences within those communities. Active adult communities are age restricted or age targeted to the age 55+ demographic. We believe this demographic is good for active adult development with the “boomer” generation reaching the age 55 at this time. Solivita, Vitalia at Tradition and CantaMia, our active adult communities in Central Florida, South Florida and Goodyear, Arizona, respectively, serve as our flagship communities in our active adult business strategy. We also construct and sell homes in primary residential communities, targeted to the broader market, some of which we developed in prior years. Our business remains capital intensive and requires or may require expenditures for land and infrastructure development, housing construction, homeowners association (“HOA”) subsidies, real estate taxes, interest payments, funding of operating deficits and working capital, as well as potential new acquisitions of real estate and real estate-related assets. We continue to carefully manage our inventory levels through monitoring land development and home starts.

Our Operations

Our operations include homebuilding, community development, and land sales as summarized below. For further information regarding our financial condition and results of operations, please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

Active Adult Community Development

Our primary business is the development of active adult communities and the construction and sales of residences within those communities. We intend to grow that business, and continue to seek and evaluate opportunities to expand our active adult operations both in terms of assets and geography. Our current major active adult assets include:

Solivita.

Solivita comprises approximately 4,193 acres in Central Florida, south of the Orlando metropolitan area. Solivita offers its residents numerous activities through the community's Lifestyles program and approximately 148,000 square feet of recreation facilities. These facilities include two fitness centers, 14 heated swimming pools, restaurants, arts and crafts rooms, a café, and other meeting and ballroom facilities. We also developed and own two 18-hole championship golf courses. The community's activity park houses a variety of sports and games facilities, including an official softball field, shuffleboard courts, pickle ball courts and tennis courts. Social activities at Solivita include its 170 clubs, including such diverse interests as photography, softball, theatre and motorcycle riding.

Solivita commenced active sales in 2000. From inception, we have closed 3,601 of the 5,887 planned residences in Solivita and approximately 6,000 individuals reside in the community as of December 31, 2012.

CantaMia.

CantaMia is a 1,767-unit active adult community located on 541 acres in the Estrella Mountain Ranch master planned community in Goodyear, Arizona, west of Phoenix. CantaMia is composed of three phases, of which we own phases one and two comprising 402 acres and we have an option to purchase the 139 acres in phase three in December 2013. Residents have exclusive use of the 30,000 square foot recreation and lifestyle facility situated on the focal point ten acre man-made lake system. Amenities include an exercise facility and swimming pools, a demonstration kitchen, library, technology center, rooms for arts/crafts and games, a movement studio for yoga and aerobics, and a café. CantaMia also has space for outdoor sporting venues including swimming, softball, pickle ball, bocce ball, tennis and horseshoes.

We purchased phase one of the partially developed community in September 2010, and phase two in December 2011. We have been selling in the previously developed sections of CantaMia until recently but have now begun development on the remaining sections of phase I. Sales officially began in February 2010 and the grand opening of the recreation facility occurred in March 2011. As of December 31, 2012, 105 units have closed.

Vitalia at Tradition.

Vitalia at Tradition ("Tradition") is comprised of 260 developed lots, 365 partially developed lots and approximately 400 undeveloped master planned lots in a 452 acre active adult community located in St. Lucie County, Florida, located between Vero Beach and West Palm Beach on Florida's east coast. We acquired this property in 2009 in its partially developed condition. We have now completed new model homes and have begun to complete initial development of additional roadways and the recreation center amenity. Development commenced in 2005 and a total of 90 homes have closed as of December 31, 2012.

Borgata and Eastmark

We have also recently purchased two properties in the Phoenix metropolitan area which we intend to develop as age restricted or age targeted communities. Eastmark consists of approximately 310 acres within a larger planned development which will be developed as an active adult community. The Borgata is a retail center in Scottsdale, Arizona which, following entitlement and rezoning, we intend to develop as an active adult condominium community.

Primary Residential Community Development

Although our long term strategy focuses on the active adult segment, we continue to search for primary residential community development opportunities. The primary residential market has shown recent improvement and we believe continued investment in this segment will provide for a balanced portfolio for the Company. We are currently building in our communities in the Phoenix market and at Bellapointe and Bellalago in Central Florida. However, due to unfavorable market conditions in Rio Rico, Arizona, we have curtailed our primary residential homebuilding operations in this city.

Information relating to our backlog is incorporated herein by reference to Item 7 of Part II of this report under the heading "Results of Operations."

Poinciana Parkway

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

In December 2006, we entered into agreements with Osceola County, Florida and Polk County, Florida for us to develop and construct at our cost a 9.66 mile four-lane road in Osceola and Polk Counties beginning in Poinciana and connecting to the US17/US92 in Polk County to be known as the Poinciana Parkway (the "Poinciana Parkway"). These agreements were amended in 2008. The Poinciana Parkway is to include

a 4.15 mile segment to be operated as a toll road. We have acquired right-of-way and federal and state environmental permits necessary to construct the Poinciana Parkway. One additional permit is required for an interchange between the Poinciana Parkway and US17/US92 in Polk County which must be accomplished prior to completing construction on the road.

On July 16, 2012, the Osceola County Commission approved an agreement that is expected to facilitate the development of the Poinciana Parkway by Osceola County and its Expressway Authority. The agreement imposed a December 31, 2012 deadline for the negotiation and execution of a new public-private development agreement among one of our wholly owned subsidiaries, Avatar Properties Inc. (“API”), Osceola County, Polk County and the newly formed Osceola County Expressway Authority for construction and operation of the Poinciana Parkway as an Osceola County-owned toll road.

On October 15, 2012, a Development Agreement became effective among API, Osceola County, Polk County and the Osceola County Expressway Authority which provides for the public financing of the Poinciana Parkway by Osceola County and the Osceola County Expressway Authority (the “Development Agreement”). The Development Agreement calls for us to assign all permits and plans to Osceola County and to donate certain right-of-way parcels that will accommodate both the arterial and southern connector facilities and other lands to Osceola and Polk counties. The Osceola County Expressway Authority will be responsible for all design modifications, construction management and operation of that portion of Poinciana Parkway that is a part of the Osceola County Expressway Authority System. Polk and Osceola counties will own and operate all arterial roadway segments. The final funding package for the minimum two lane Poinciana Parkway will be determined and obtained by Osceola County and the Osceola County Expressway Authority. Construction is contingent on such funding. Should the Osceola County Expressway Authority decide to construct additional transportation capacity, i.e., four lanes, additional funding will be identified and contributed by Osceola County. At this time, Osceola County and the Osceola County Expressway Authority are proceeding with preliminary planning for a four-lane roadway. All our obligations will cease once public funding is obtained, and the Osceola County Expressway Authority completes.

If funding for the Poinciana Parkway is not obtained and construction cannot be commenced by February 14, 2014, the counties have no right to obtain damages or seek specific performance from API. Polk County’s sole remedy under its agreement with API is to cancel its agreement with API. With respect to Osceola County, if funding and commencement of construction is not met, (i) a portion of API’s land in Osceola County will become subject to Osceola County traffic concurrency requirements applicable generally to other home builders in the county and (ii) API will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway.

Commercial / Industrial and Other Land Sales

We may generate revenues through the sale of commercial and industrial land for third-party development, primarily in Poinciana, and other non-core residential land.

For further description of the various communities and the operations conducted therein, please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The following is a breakdown of our land holdings as of December 31, 2012:

	Estimated Planned Lots/Units (1)					Gross Acres (3)
	Closed Homes (2)	Developed	Partially Developed	Raw	Total Remaining Lots/Units	
Principal Communities						
Active Adult Communities						
<i>Florida</i>						
Solivita (4)	3,601	810	565	2,410	3,785	-
Tradition	90	260	365	400	1,025	-
	3,691	1,070	930	2,810	4,810	-
<i>Arizona</i>						
CantaMia (5)	105	125	400	665	1,190	-
	105	125	400	665	1,190	-
Total Active Adult Communities	3,796	1,195	1,330	3,475	6,000	-
Primary Residential Communities						
<i>Florida</i>						
Bellalago	1,022	490	635	-	1,125	-
Bellapointe	94	125	-	-	125	-
Isles of Bellalago	191	125	-	-	125	-
	1,307	740	635	-	1,375	-
<i>Arizona</i>						
Phoenix	106	40	-	-	40	-
	106	40	-	-	40	-
Total Primary Residential Communities	1,413	780	635	-	1,415	-
Multi-Family Communities	-	-	-	220	220	-
Total Principal Communities	5,209	1,975	1,965	3,695	7,635	-
Not Actively Building or Developing						
Scattered Lots (6)	-	890	740	30	1,660	-
Joint Venture Lots	-	235	-	-	235	-
Scattered Mixed-Use Raw Land	-	-	-	-	-	8,040
Total Not Actively Building or Developing	-	1,125	740	30	1,890	8,040
Land Held for Sale	-	55	-	7,570	7,625	280
Total Land Held for Sale (7)	-	55	-	7,570	7,625	280
Commercial & Industrial	-	-	-	-	-	1,620
Total Commercial & Industrial (7)	-	-	-	-	-	1,620
Grand Total	5,209	3,155	2,705	11,295	17,155	9,940

- (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. Estimated planned lots/units are rounded to the nearest multiple of 5.
- (2) Closed homes are only shown for communities where we are actively building.
- (3) Acres are reflected as gross acres and are not intended to represent net developable acres.
- (4) Included in the lot count for Solivita are 1,500 lots we intend to develop in the future as an expansion to the existing Solivita Community.
- (5) Total estimated planned lots at CantaMia exclude an option to purchase an additional 475 raw lots.
- (6) Included in scattered lots are 655 Poinciana lots (15 developed and 640 partially developed) and 1,005 Rio Rico lots (870 developed, 105 partially developed, and 30 raw).
- (7) Commercial and industrial land within this category is reflected as gross acres.

Business Segment Information

Our business segment information regarding revenues, results of operations and assets is incorporated herein by reference to Note P "Business Segments" to the Consolidated Financial Statements included in Part II of this Report.

Trademarks

We have federally registered trademarks and service marks or pending applications for federal registration for several of our entities, operations and communities, including AV Homes™, Joseph Carl Homes™, Stonegate®, Solivita™, and CantaMia™.

Employees

At December 31, 2012, we employed 112 individuals on a full-time or part-time basis. Relations with our employees are satisfactory and there have been no work stoppages.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy materials that we have filed with the SEC at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

You can access financial and other information on our website, at www.avhomesinc.com. The information on or accessible through our website is not incorporated by reference in this Form 10-K. We make available, free of charge, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing or furnishing such material electronically or otherwise with the SEC.

Regulation

Our business is subject to extensive federal, state and local statutes, ordinances and regulations that affect every aspect of our business such as environmental, hazardous waste and land use requirements and can result in substantial expense to AV Homes.

Homes and residential communities that we build must comply with federal, state and local laws, regulations, and ordinances relating to, among other things, zoning, construction permits or entitlements, construction material requirements, density requirements, and requirements relating to building design and property elevation, building codes and the handling of waste. These laws and regulations are subject to frequent change and often result in increased construction or other costs related to our business. In some instances, we must comply with laws that require commitments from us to provide roads and other offsite infrastructure to be in place prior to the commencement of new construction. These laws and regulations may result in fees and assessments, including, without limitation, fees and assessments for schools, parks, streets and highways and other public improvements, the costs of which can be substantial.

The residential homebuilding industry is also subject to a variety of federal, state and local statutes, ordinances, rules and regulations concerning the protection of human health and the environment. These environmental laws include such areas as storm water and surface water management, soil, groundwater, endangered or imperiled species, natural resources and wetlands protection, and air quality protection and enhancement. Complying with environmental laws for existing conditions may result in delays, may cause us to incur substantial compliance and other costs, and may prohibit or severely restrict homebuilding activity in environmentally-sensitive regions or areas.

Competition

The homebuilding industry is highly competitive. Homebuilders compete not only for home buyers, but also for desirable properties, financing, raw materials and skilled labor. We compete with other local, regional and national homebuilders, often within larger subdivisions, designed, planned and developed by such homebuilders. We also compete with home sales by others, foreclosures and rental properties. In addition, the consolidation of some homebuilding companies may create additional competitors that have greater financial, marketing and sales resources than we do and thus are able to compete more effectively against us, and there may be new entrants in the markets in which we currently conduct business. These competitive conditions in the homebuilding industry can affect our business and financial results through lower sales, lower selling prices, increased selling incentives, lower profit margins, impairments in the value of inventory and other assets, difficulty in acquiring suitable land, raw materials, and skilled labor at acceptable prices or terms, and delays in construction of our homes.

Seasonality

Our business is affected to some extent by the seasonality of home sales which are generally higher during the months of November through April for active adult communities in the geographic areas in which we conduct our business.

Warranty

Warranty reserves for houses are established to cover estimated costs for materials and labor with regard to warranty-type claims to be incurred subsequent to the closing of a house. Reserves are determined based on historical data and other relevant factors. We may have recourse against subcontractors or manufacturers for warranty claims relating to workmanship and materials.

Executive Officers of the Registrant

The following table includes information with respect to all persons serving as executive officers of AV Homes as of the date of this Form 10-K. Officers of AV Homes have been elected to serve until the next annual election of officers (which is expected to occur on June 5, 2013), when they are re-appointed or their successors are elected or until their earlier resignation or removal.

<u>Name</u>	<u>Age</u>	<u>Office and Business Experience</u>
Roger Cregg	56	Mr. Cregg has served as our President, Chief Executive Officer, and member of our Board of Directors since December 2012. Prior to this, Mr. Cregg served as senior vice president of finance and chief financial officer of The ServiceMaster Company, a residential and commercial service company, from August 2011 through November 2012. He served as Executive Vice President of PulteGroup, Inc. (formerly known as Pulte Homes, Inc.), a national homebuilding company, from May 2003 to May 2011 and Chief Financial Officer of PulteGroup, Inc. from January 1998 to May 2011. He served as Senior Vice President of PulteGroup, Inc. from January 1998 to May 2003. He has served as a director of Comerica Incorporated since 2006. He was a director of the Federal Reserve Bank of Chicago, Detroit Branch, from January 2004 to December 2009 and served as Chair from January to December 2006.
Joseph C. Mulac III	51	Mr. Mulac has served as our Executive Vice President and President of our wholly-owned subsidiary, Avatar Properties Inc., since October 25, 2010. Since April 2009, Mr. Mulac has served as Chief Executive Officer of Joseph Carl Homes, LLC (n/k/a Avatar Properties of Arizona, LLC). From March 2003 to April 2009, Mr. Mulac held various officer positions with Tousey, Inc.
Dave M. Gomez	48	Mr. Gomez has served as our Executive Vice President, General Counsel and Secretary since October 2012. From 2010 to 2012 he served as the Senior Vice President and General Counsel for StarTek, Inc., a business process outsourcing provider, and from 2008 until 2009 as Chief Legal Officer and Chief Compliance Officer with eTelecare Global Solutions, a Philippine-based BPO provider with over 13,000 agents worldwide. From 2005 until 2008, Mr. Gomez served as General Counsel for ProLink Holdings Corp. and from 2004 to 2005 as Senior Attorney at EaglePicher Incorporated. From 1996 to 2003, he was an associate with the law firm of Quarles & Brady, Streich Lang, LLP in Phoenix, Arizona. Prior to his legal career, Mr. Gomez was a Senior Design Engineer with Loral-Vought Systems and Rockwell International Space Systems Division. Mr. Gomez holds a Bachelor's degree in Aeronautical Engineering Technology from Arizona State University, an M.B.A. from Pepperdine University and a Juris Doctorate from The University of Texas School of Law.
Tina M. Johnston	45	Ms. Johnston has served as our Senior Vice President, Principal Financial Officer and Principal Accounting Officer since August 2011. From 2005 to 2011, Ms. Johnston was an independent consultant focusing on financial modeling, strategic planning of land acquisitions and dispositions, budgeting and forecasting. Ms. Johnston also served as Vice President of Finance for Richmond American Homes (MDCH) from 2004 to 2005. Prior to 2004, Ms. Johnston held various positions with Del Webb Corporation and Pulte Homes (who acquired Del Webb in 2001), including Director of Finance for the Del Webb Group.

No executive officer of AV Homes has any family relationship with any other executive officer or director of AV Homes.

ITEM 1A . RISK FACTORS

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 Annual Report on Form 10-K, 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 Annual Report on Form 10-K 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.

The risks, uncertainties and other factors that our stockholders and prospective investors should consider include the following.

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

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

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

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

An oversupply of alternatives to new homes can adversely impact our ability to sell new homes.

An oversupply of alternatives to new homes, including foreclosed homes, homes held for sale by investors and speculators, and other existing homes and rental properties, can also adversely impact our ability to sell new homes and can depress new home prices and reduce our margins on the sales of new homes. High levels of foreclosures not only contribute to additional inventory available for sale, but also reduce appraisal valuations for new homes, potentially resulting in lower sales prices. It is difficult to calculate the total number of units at foreclosure risk due to existing mortgagors' reticence to market all such homes on a current basis creating additional "shadow" inventory.

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

Our ability to respond to these factors is limited. The significant number of home mortgage foreclosures has increased supply and driven down prices, making the purchase of a foreclosed home an attractive alternative to purchasing a new home, although this trend is moderating in the Arizona market. However, due to the judicial foreclosure process in Florida, we believe that foreclosed homes coming onto the market in Florida will be an issue for the near term. The judicial foreclosure process had delayed the initiation of actions in Florida generally and we have begun to experience an increase in foreclosure notifications on homes within our communities within the last several months. We believe this is a broader market trend. Homebuilders have responded to declining sales and increased cancellation rates with significant concessions, further adding to the price declines. The price declines, in some cases, may cause current homeowners, particularly those in our active adult demographic, to delay the resale of their current home, impacting potential purchases of our new homes. With the decline in the values of homes and the inability of many homeowners to make their mortgage payments, the credit markets have been significantly disrupted, putting strains on many households and businesses. In the face of these conditions, the overall economy has weakened significantly, with high unemployment levels and substantially reduced consumer spending and confidence. As a result, demand for new homes remains at historically low levels.

We cannot predict the duration of the current recovery. Nor can we provide assurance that our responses to the homebuilding recovery or the government's actions to specifically resolve the housing market's issues and, more generally, the condition of the overall economy will be successful.

Our ability to generate sufficient cash or access our limited other sources of liquidity in order to operate our business and service our debt depends on many factors, some of which are beyond our control.

Our ability in the future to make payments on our outstanding indebtedness and to fund planned capital expenditures for construction and development costs will depend on our ability to generate sufficient cash flow and access other sources of capital. On a pro forma basis, our annualized interest incurred for the next twelve months will be \$7,740. For the years ended December 31, 2007 through 2012, our earnings were insufficient to cover our fixed charge obligations.

To a large extent, our ability to generate cash flow is subject to general economic, financial, competitive, legislative and regulatory factors, and other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations in an amount sufficient to enable us to pay principal and interest on the debt or to fund our other liquidity needs. As a result, we may need to refinance all or a portion of our debt on or before the maturity thereof, or incur additional debt. We cannot assure you that we will be able to refinance such debt or incur additional debt. If we are unable to refinance our debt on a timely basis or at all, we may need to dispose of certain assets, reduce capital expenditures, or take other steps that could be detrimental to our business. We cannot assure you that any of these alternatives would be available to us, if at all, on satisfactory terms or on terms that would not require us to breach the terms and conditions of our existing or future debt agreements. Any inability to generate sufficient cash flow or refinance our debt or incur additional debt could have a material adverse effect on our financial condition and could cause us to be unable to service our debt.

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

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

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

Our indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under our debt.

Our debt and debt service obligations increased significantly as a result of the issuance of the 7.50% Convertible Notes due 2016 (the "7.50% Notes"). During the three months ended September 30, 2012, the Company entered into exchange agreements under which it retired \$44,500 in aggregate principal amount of the Company's 7.50% Notes, in exchange for its issuance of \$44,500 in aggregate principal of new 7.50% Senior Exchange Convertible Notes due 2016 ("7.50% Exchange Notes"). Following these transactions, \$55,500 in aggregate principal amount of the 7.50% Notes remained outstanding for a total indebtedness under the 7.50% Notes and the 7.50% Exchange Notes of \$100,000.

Unlike the 7.50% Notes, the 7.50% Exchange Notes do not provide that the holder may require the Company to repurchase them on February 15, 2014. The cancellation of the existing put right extends the effective maturity date of the 7.50% Exchange Notes to February 15, 2016.

As of December 31, 2012, total consolidated indebtedness was \$105,402. Cash and cash equivalents at December 31, 2012 was approximately \$79,815. This level of debt could affect our future operations in a number of ways, including, among others:

- exposing us to the risks of an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;
- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased interest rates on our indebtedness upon maturity;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have a material adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the 7.50% Notes, the 7.50% Exchange Notes, the 4.50% Convertible Senior Notes due 2024 (the "4.50% Notes") and our other debt.

A higher level of indebtedness increases the risk that we may default on our debt obligations. We cannot assure that we will be able to generate sufficient cash flow to pay the interest on our debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt and to fund potential future acquisitions of real estate and real-estate related assets.

On February 4, 2013, the 7.50% Notes became current debt as the put feature would require payment within 12 months of that date.

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

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

We may be unable to purchase the notes upon a change of control.

We may not have the ability to raise the funds necessary to fulfill our obligations under the 7.50% Notes or the 7.50% Exchange Notes following a “change of control” as defined in these indenture governing the notes. Under the indentures, upon the occurrence of a defined change of control, which definition includes an involuntary change of control, we will be required to offer to repurchase all outstanding notes at 100% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. However, we may not have sufficient funds at the time of the change of control to make the required repurchase of the notes. Our failure to make or complete a change of control offer would place us in default under the indentures governing the notes. In addition, upon a sale of less than all of our assets, the ability of a holder of the 7.50% Notes and the 7.50% Exchange Notes to require us to repurchase such notes may be uncertain.

We could enter into significant transactions that would not constitute a change of control requiring us to repurchase the notes, but that could adversely affect our risk profile.

We could, in the future, enter into certain transactions, including certain recapitalizations, that would not result in a change of control, but would increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Such restrictions in the indentures governing the notes can be waived with the consent of the holders of a majority in principal amount of the notes then outstanding. Except for the limitations contained in such covenants, however, the indentures do not contain any covenants or provisions that may afford holders of the notes protection in the event of a highly leveraged transaction.

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

In December 2006, we entered into agreements with Osceola County, Florida and Polk County, Florida for us to develop and construct at our cost a 9.66 mile four-lane road in Osceola and Polk Counties beginning in Poinciana and connecting to the US17/US92 in Polk County to be known as the Poinciana Parkway (the “Poinciana Parkway”). Once completed, the roadway will provide significant relief to the currently constrained roadway infrastructure that accomodates the daily commuter traffic of Poinciana. This relief will allow for continued growth in residential, commercial, and employment in the Poinciana community, all of which the Company believes will aid its sales and land values in Poinciana. The Poinciana Parkway is to include a 4.15 mile segment to be operated as a toll road. We have acquired right-of-way and federal and state environmental permits necessary to construct the Poinciana Parkway. One additional permit is required for an interchange between the Poinciana Parkway and US17/US92 in Polk County which must be obtained prior to completing construction on the road.

On July 16, 2012, the Osceola County Commission approved an agreement that is expected to facilitate the development of the Poinciana Parkway by Osceola County and its Expressway Authority. The agreement imposed a December 31, 2012 deadline for the negotiation and execution of a new public-private development agreement among one of our wholly owned subsidiaries, API, Osceola County, Polk County and the newly formed Osceola County Expressway Authority for construction and operation of the Poinciana Parkway as an Osceola County-owned toll road.

On October 15, 2012, a Development Agreement became effective among API, Osceola County, Polk County and the Osceola County Expressway Authority which provides for the public financing of the Poinciana Parkway by Osceola County and the Osceola County Expressway Authority (the "Development Agreement"). The Development Agreement calls for us to assign all permits and plans to Osceola County and to donate certain right-of-way parcels that will accommodate both the arterial and southern connector facilities and other lands to Osceola and Polk counties. The Osceola County Expressway Authority will be responsible for all design modifications, construction management and operation of that portion of Poinciana Parkway that is a part of the Osceola County Expressway Authority System. Polk and Osceola counties will own and operate all arterial roadway segments. The final funding package for the minimum two lane Poinciana Parkway will be determined by Osceola County and the Osceola County Expressway Authority. Construction is contingent on such funding. Should the decision be made to construct additional transportation capacity, i.e., four lanes, additional funding will be identified and contributed by Osceola County.

If funding for the Poinciana Parkway is not obtained and construction cannot be commenced by February 14, 2014, the counties have no right to obtain damages or seek specific performance from API's. Polk County's sole remedy under its agreement with API is to cancel its agreement with API. With respect to Osceola County, if funding and commencement of construction is not met, (i) a portion of API's land in Osceola County will become subject to Osceola County traffic concurrency requirements applicable generally to other home builders in the county and (ii) API will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway.

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

In the event that we are called upon to satisfy any of these contingent liabilities, or any other contingent liabilities that may arise in the ordinary course of business but that have not come to our attention to date, it could significantly affect our liquidity and ability to generate cash flow, which could have a material adverse effect on our results of operations and financial condition.

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

Most of these liabilities relate to class action settlement agreements entered into by the Company in 1974 and the bankruptcy of the Company's predecessor and its affiliates in the mid-1970s (collectively, the "Orders"). Among other things, under the Orders, the Company is obligated to install certain utility infrastructure to lots sold by us in Rio Rico and Poinciana prior to such Orders ("Affected Lots"). Historically, the Company has identified such contingent obligations respecting the Orders in its SEC filings supported by the report of an independent engineer. In 2011, management of the Company determined that such engineer estimates should be further evaluated by another independent engineer. The second engineer's report reflected a much greater cost to complete the utility infrastructure at Rio Rico as a result of more accurate measurements of linear feet of utility lines required, cost updates and advanced techniques in identifying the location and number of Affected Lots. Management of the Company also determined that an error was made in 2005 when the total mileage of water pipe mains required was reduced based on assumptions that are not supported by our current research. Our estimate of the liability has been accrued and is included in the Estimated Development Liability line item on our Balance Sheet. If a significant number of the owners of the Affected Lots require AV Homes to install infrastructure in Rio Rico or Poinciana, it is possible that AV Homes may not have adequate liquidity to meet its obligations.

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

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

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

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

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

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

We believe that the elevated cancellation rate experienced each of the last four years was largely a result of reduced homebuyer confidence, due principally to continued price declines, the growing number of foreclosures and continued high unemployment. A more restrictive mortgage lending environment and the inability of some buyers to sell their existing homes have also impacted cancellations. Many of these factors are beyond our control, and it is uncertain whether they will cause cancellation rates to rise again in the future.

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

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

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

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

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

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

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

These difficulties may cause us to take longer or incur more costs to build our homes and materially adversely affect our revenues and margins. To the extent the housing market recovers and demand for labor and materials increase, our average per home cost of labor and building materials will likely increase, and our operating margins and results of operations may be adversely affected. In Arizona, we will need to replenish our inventory of improved or finished lots for construction in 2013 and beyond.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Although we operate in two primary markets, we have a high concentration of land assets in the Poinciana area market.

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

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

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

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

We continue to consider opportunities for growth, in both our existing markets, and in new markets. Additional growth of our business, either through increased land purchases, the development of larger projects, or into new business lines may have a material adverse effect on our cash flows or profitability. Any expansion of our business into new markets or new businesses could divert the attention of senior management from our existing business and could fail due to our relative lack of experience in those markets or businesses. In addition, opportunities may arise in the future to acquire other companies from third parties, and any acquisition could be difficult to integrate with our operations and could require us to assume unanticipated liabilities or expenses.

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

We are subject to extensive and complex regulations that affect land development and home construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to being approved, if approved at all. We are subject to determinations by these authorities as to the adequacy of water and sewage facilities, roads and other local services. New housing developments may also be subject to various assessments for schools, parks, streets and other public improvements. Furthermore, restrictions on immigration can create a shortage of skilled labor. Any of these regulatory issues can limit or delay home construction and increase our operating costs. We are also subject to a variety of local, state and federal laws and regulations concerning protection of health, safety and the environment. These matters may result in delays, may cause us to incur substantial compliance, remediation, mitigation and other costs or subject us to costs from fines, penalties and related litigation. These laws and regulations can also prohibit or severely restrict development and homebuilding activity in environmentally sensitive areas.

We may not realize our deferred income tax assets. In addition, our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

Since the end of our 2007 fiscal year, we have generated significant net operating losses (“NOL”), and we may generate additional NOL in 2013. Under federal tax laws, we can use our NOL (and certain related tax credits) to reduce our future taxable income for up to 20 years, after which they expire for such purposes. Until they expire, we can carry forward our NOL (and certain related tax credits) that we do not use in any particular year to reduce our taxable income in future years, and we have recorded a valuation allowance against our net deferred tax assets that include the NOL (and certain related tax credits) that we have generated but have not yet realized. At December 31, 2012, we had deferred tax assets, net of deferred tax liabilities, totaling \$126,533 against which we have provided a full valuation allowance. Our ability to realize our net deferred tax assets is based on the extent to which we generate sustained profits and we cannot provide any assurances as to when and to what extent we will generate sufficient future taxable income to realize our net deferred tax assets, whether in whole or in part.

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

In addition, the benefits of our NOL, built-in losses and tax credits would be reduced or eliminated if we experience an “ownership change,” as determined under Internal Revenue Code Section 382 (“Section 382”). A Section 382 ownership change occurs if a stockholder or a group of stockholders who are deemed to own at least 5% of our common stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. If an ownership change were to occur, Section 382 would impose an annual limit on the amount of NOL we could use to reduce our taxable income equal to the product of the total value of our outstanding equity immediately prior to the ownership change (reduced by certain items specified in Section 382) and the federal long-term tax-exempt interest rate in effect for the month of the ownership change. A number of complex rules apply in calculating this annual limit.

While the complexity of Section 382’s provisions and the limited knowledge any public company has about the ownership of its publicly-traded stock make it difficult to determine whether an ownership change has occurred, we currently believe that an ownership change has not occurred. However, if an ownership change were to occur, the annual limit Section 382 may impose could result in a material amount of our NOL expiring unused. This would significantly impair the value of our NOL and, as a result, have a material negative impact on our consolidated financial statements.

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

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

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

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

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

There is growing concern from members of the scientific community and the general public that an increase in global average temperatures due to emissions of greenhouse gases and other human activities have or will cause significant changes in weather patterns and increase the frequency and severity of natural disasters. An increased frequency or duration of extreme weather conditions and environmental events could limit, delay and/or increase the costs to develop land and build new homes and reduce the value of our land and housing inventory in locations that become less desirable to consumers or blocked to development. Projected climate change, if it occurs, may exacerbate the scarcity of water and other natural resources in affected regions, which could limit, prevent or increase the costs of residential development in certain areas. In addition, government mandates, standards or regulations intended to mitigate or reduce greenhouse gas emissions or projected climate change impacts could result in prohibitions or severe restrictions on land development in certain areas, increased energy, transportation and raw material costs that make building materials less available or more expensive, or cause us to incur compliance expenses and other financial obligations to meet permitting or land development- or home construction-related requirements that we may be unable to fully recover (due to market conditions or other factors), and may reduce our housing gross profit margins and may adversely impact our consolidated financial statements, potentially to a material degree. As a result, climate change impacts, and laws and land development and home construction standards, and/or the manner in which they are interpreted or implemented, to address potential climate change impacts, could increase our costs and have a long-term adverse impact on our business and our consolidated financial statements.

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

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

If a large number of shares of our common stock or equity-related securities become eligible for future issuance, the ownership interest of our current stockholders could be diluted and our share price could decline.

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

we predict our future needs to fund our operations or balance sheet with future equity issuances.

ITEM 1B . UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

AV Homes' operations are summarized in "Item 1. Business" above and described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Land developed and in the process of being developed, or held for investment and/or future development, is set forth in Note C "Land and Other Inventories" of the Notes to Consolidated Financial Statements in "Item 8. Notes to Consolidated Financial Statements". We maintain two corporate offices located in Scottsdale, Arizona, and Kissimmee, Florida. For information concerning properties leased by AV Homes, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations" and "Item 8. Notes to Consolidated Financial Statements", "Note I – Lease Commitments."

ITEM 3. LEGAL PROCEEDINGS

We are involved in litigation from time to time in the ordinary course of our business. We do not believe that any current pending legal or administrative proceedings or disputes will have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure you that the ultimate resolution of any of these proceedings or disputes will not have a material adverse effect on our business, financial condition and results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on The Nasdaq Global Select Market (“Nasdaq”) under the symbol “AVHI”. Prior to February 16, 2012, our common stock traded on Nasdaq under the symbol “AVTR”. There were approximately 3,299 record holders of common stock at February 28, 2013.

The high and low sales prices per share, as reported, for each fiscal quarter during the last two years were:

Quarter Ended	2012		2011	
	High	Low	High	Low
March 31	\$ 12.90	\$ 7.03	\$ 22.74	\$ 18.30
June 30	\$ 14.74	\$ 10.29	\$ 20.85	\$ 14.88
September 30	\$ 16.13	\$ 11.81	\$ 16.34	\$ 8.05
December 31	\$ 15.68	\$ 11.34	\$ 10.17	\$ 5.80

AV Homes has not declared any cash dividends on common stock since its incorporation and has no current plan to pay cash dividends. During the three months ended December 31, 2012, we did not repurchase any outstanding shares of common stock.

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA
Dollars in thousands (except share and per share data)

	At or for the Years ended December 31				
	2012	2011	2010	2009	2008
Statement of Operations Data					
Revenues	\$ 107,487	\$ 88,982	\$ 59,138	\$ 73,501	\$ 110,366
Income (loss) from operations before income taxes	\$ (87,683)	\$ (165,704)	\$ (36,057)	\$ (61,843)	\$ (142,341)
Income tax (expense) benefit	-	(473)	375	32,860	32,465
Net income (loss) (including net loss attributable to non-controlling interests)	(87,683)	(166,177)	(35,682)	(28,983)	(109,876)
Net (income) loss attributable to non-controlling interests	(2,552)	296	574	-	-
Net income (loss) attributable to AV Homes stockholders	\$ (90,235)	\$ (165,881)	\$ (35,108)	\$ (28,983)	\$ (109,876)
Basic Earnings (Loss) Per Share Data					
Net income (loss) attributable to AV Homes	\$ (7.19)	\$ (13.33)	\$ (3.07)	\$ (3.11)	\$ (12.85)
Diluted Earnings (Loss) Per Share Data					
Net income (loss) attributable to AV Homes	\$ (7.19)	\$ (13.33)	\$ (3.07)	\$ (3.11)	\$ (12.85)
Balance Sheet Data					
Cash and cash equivalents	\$ 79,815	\$ 124,316	\$ 115,502	\$ 217,132	\$ 175,396
Total assets	\$ 337,871	\$ 409,056	\$ 545,451	\$ 594,719	\$ 594,812
Notes, mortgage notes and other debt	105,402	\$ 105,402	\$ 77,057	\$ 119,002	\$ 131,061
Stockholders' equity (1)	166,172	\$ 254,197	\$ 418,490	\$ 444,101	\$ 429,511
Shares outstanding	12,827,283	12,942,502	12,900,626	11,355,451	8,829,798
Stockholders' equity per share	\$ 12.95	\$ 19.64	\$ 32.44	\$ 39.11	\$ 48.64

(1) These figures exclude cumulative non-controlling interests, which are classified in consolidated equity in accordance with authoritative accounting guidance. These non-controlling interests represent our partners' equity in LLCs which we consolidate for financial reporting purposes.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected Financial Data" and our audited consolidated financial statements and accompanying notes included elsewhere in this annual report. Dollar amounts set forth in this discussion and analysis are expressed in thousands, except for "per share" data.

In the preparation of our financial statements, we apply accounting principles generally accepted in the United States ("GAAP"). The application of GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying results. For a description of our accounting policies, please see "Critical Accounting Policies and Estimates" below.

Executive Overview and Outlook

We are engaged in the business of homebuilding, community development, and land sales in Florida and Arizona. Our residential community activities have been adversely affected by economic conditions in both markets, although home sales have improved from previous low levels. We also engage in other real estate activities, such as the operation of amenities and the sale for third-party development of commercial and industrial land, which activities have also been adversely affected by economic conditions.

Our primary business strategy is the development of residential communities for people age 55 and older, including the construction and sales of residences within those communities. We believe the demographic trends and lifestyle aspirations of aging Baby Boomers provide us with a favorable environment for future business. Although we have begun to see improvement in single family housing statistics, the active adult segment has been slower to recover. The decline in home values during the housing downturn had a greater impact on the 55+ population as they have traditionally been a market segment with the highest level of home equity. As values decreased, the active adult's net worth was negatively impacted and therefore, the buyers in this segment are more hesitant to commit to a new home purchase. We do expect to see improvement in this market segment, but on a slightly slower pace than the conventional market.

Solivita and Vitalia at Tradition, our active adult communities in Central Florida, and CantaMia in Goodyear, Arizona, serve as our flagship communities as we pursue our active adult business strategy. During the third quarter of 2012, we introduced twelve new model homes at Solivita. The new models were well received with nearly 3,000 people visiting during the opening weekend. We also held our grand opening for sales at our newest community, Vitalia at Tradition in Port St. Lucie, Florida, with 1,000 people visiting. This marks the first major marketing effort with our new Vitalia active adult branding. In addition, we anticipate adding two or three more communities which will broaden our geographic footprint and product offering, which will provide us with future participation in the longer term growth of demand from the wave of Baby Boomers entering their retirement years.

We also remain moderately active in the construction and sale of primary residences for people of all ages, some of which are located in communities we developed. Currently, we are selling from three primary locations, two in Florida and one in Arizona. Based on our internal projections, we expect to sell out of lots at all three communities within 12-15 months and are actively looking for replacement lot positions. Finished lot prices have increased significantly in our primary markets as builders compete to replenish their depleted holdings. We are also experiencing increases in material costs. Absent corresponding pricing power, these cost increases may negatively impact margins on future sales of primary residences.

During 2012, we continued to implement our new strategic plan. The primary efforts were focused on the evaluation of potential future investments and the orderly sale of our non-core assets. The search for appropriate sites in our target markets led us to several new and potential future investments. During the year, we invested approximately \$31 million in new land positions. We anticipate further investment activity as we continue to screen sites in new market locations. In addition to the acquisition costs, we plan to commit significant funds toward the development of these assets. In many instances, development costs will exceed the original acquisition costs and a portion of these costs will be expended before we can generate any meaningful sales revenues.

Our business remains capital intensive and requires or may require expenditures for land and infrastructure development, housing construction, funding of operating deficits, real estate taxes, HOA deficits, interest expense and working capital, as well as potential new acquisitions of real estate and real estate-related assets. We plan to carefully manage our inventory levels through monitoring land development and home starts. In that regard, our planned asset sales will help reduce and diversify land holdings and associated carry costs.

During 2012, our cash flow from operations was insufficient to cover our primary recurring costs for interest payments, real estate taxes, HOA subsidies, and unallocated general & administrative expenses. Although we made significant reductions in general and administrative expenses during 2011 and 2012, which are not fully reflected in either years' operations, we anticipate that we will continue to generate operating losses during 2013. We believe that we have sufficient available cash to fund these losses; however, our 7.50% Notes may be put to us in February 2014 which may significantly impair our ability to make further new investments and potentially to continue to fund operating losses. We anticipate using available cash and may be reliant, in part, upon asset sales to fund repayment of the 7.50% Notes or make new investments or new initiatives that are consistent with our new strategy. We also anticipate being reliant upon access to the capital markets to fully fund these activities and to repay debt upon maturity.

During the year ended December 31, 2012, our homebuilding results reflected some improvement over 2011, and especially late in 2012, but continue to show the difficult conditions in our Florida and Arizona markets for the full year characterized by high levels of homes available for sale, diminished buyer confidence and difficulty for homebuyers to obtain financing. The number of foreclosures, pending foreclosures, mortgage defaults and investor-owned units for sale; availability of significant discounts; the difficulty of potential purchasers in selling their existing homes at prices they are willing to accept; difficulty in arranging mortgage financing; the significant amount of standing inventory and competition continue to adversely affect both the number of homes we are able to sell and the prices at which we are able to sell them. Although we have experienced a strengthening market, it remains unclear if any sustained recovery in the industry will be reflected in our future results.

In addition, our business is affected to some extent by the seasonality of home sales which are generally higher during the months of November through April in the geographic areas in which we conduct our business. In addition, our residential community activities, along with other real estate activities such as the sale of commercial and industrial land, are heavily concentrated in the Poinciana, Florida submarket. These factors have a significant impact on our ability to participate in a market recovery. If the real estate market does not continue to stabilize or declines further, it may be necessary to take additional charges against our earnings for inventory impairments or write-downs of our investments in unconsolidated entities and other assets.

We continue our ongoing efforts to improve our operating efficiencies by identifying areas of our business where we can reduce our expenses. As part of this process, we will continue to examine our assets to determine which assets fit within our primary business strategy. These evaluations may also result in additional cash and non-cash charges or write-downs.

Critical Accounting Policies and Estimates

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

Revenue Recognition

As discussed in Note A to the Consolidated Financial Statements, in accordance with Accounting Standards Codification (“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 commercial, industrial and other land sales are recognized in full at closing, provided the purchaser's initial and continuing investment is adequate, all financing is considered collectible and there is no significant continuing involvement. As a result, our revenue recognition process does not involve significant judgments or estimates.

Impairments of Long-Lived Assets

Each reporting period, we review our long-lived assets for indicators of impairment in accordance with ASC 360-10, *Property, Plant and Equipment* (“ASC 360-10”). Long-lived assets that we evaluate are our Land and Other Inventories, Property and Equipment and the Poinciana Parkway. The following is a discussion of each of these types of long-lived assets:

Impairments of Land and Other Inventories

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

In accordance with ASC 360-10, 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 range between 15% and 28%, depending on the state of development. Assumptions and estimates used in the determination of the estimated future cash flows are based on expectations of future operations and economic conditions and certain factors described below. Changes to these assumptions could significantly affect the estimates of future cash flows which could affect the potential for future impairments. Due to the uncertainties of the estimation process, actual results could differ significantly from such estimates.

For assets held for sale (such as completed speculative housing inventory), we perform an impairment test in which the asset is reviewed for impairment by comparing the fair value (estimated sales prices) less cost to sell the asset to its carrying value. If such fair value less cost to sell is less than the asset's carrying value, the carrying value is written down to its estimated fair value less cost to sell.

We evaluate our Land and Other Inventories for impairment on a quarterly basis to reflect market conditions including a significant oversupply of homes available for sale, higher foreclosure activity and significant competition. During the years ended December 31, 2012 and 2011, our impairment assessment resulted in impairment charges of \$1,635 and \$1,527, respectively, which related to homes completed or under construction, and \$49,749 and \$107,981, respectively, in impairment charges related to land developed and/or held for future development or sale. As of December 31, 2012, other than the Land and Other Inventories that we determined to be impaired and accordingly were written down to their fair value, and excluding homes completed or under construction, we had no other land and other inventories that had estimated undiscounted cash flows within 25% of their carrying values. However, we can give no assurance that any future evaluations will not result in further impairments given the current volatile real estate market, the likelihood of increased competition within the age restricted segment as conditions improve, and other factors as more fully described below.

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

Housing communities: Activities include the development of active adult and primary residential communities and the operation of amenities. The operating results and losses generated from active adult and primary residential communities during the twelve months ended December 31, 2012 and 2011 include operating expenses relating to the operation of the amenities in our communities as well as divisional overhead allocated among several communities.

Our active adult and primary residential communities are generally large master-planned communities in Florida and Arizona. Several of these communities are long term projects and some require ongoing investments in infrastructure that are contractual in nature and may, or may not, be considered economic at the time of expenditure. In reviewing each of our communities, we determine if potential impairment indicators exist by reviewing actual contribution margins on homes closed in recent months, projected contribution margins on homes in backlog, projected contribution margins on speculative homes, average selling prices, sales activities and local market conditions. If indicators are present, the asset is reviewed for impairment. In determining estimated future cash flows for purposes of the impairment test, the estimated future cash flows are significantly impacted by specific community factors such as: (i) sales absorption rates; (ii) estimated sales prices and sales incentives; and (iii) estimated cost of home construction, estimated land development costs, interest costs, indirect construction and overhead costs, and selling and marketing costs. In addition, our estimated future cash flows are also impacted by general economic and local market conditions, competition from other homebuilders, foreclosures and depressed home sales in the areas in which we build and sell homes, product desirability in our local markets and the buyers' ability to obtain mortgage financing. Our assumptions are based on current activity and recent trends at our active adult and primary residential communities. There are a significant number of assumptions with respect to each analysis. Many of these assumptions extend over a significant number of years. The substantial number of variables to these assumptions could significantly affect the potential for future impairments.

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

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

There are a significant number of assumptions with respect to each analysis. Many of these assumptions extend over a significant number of years. The substantial number of variables to these assumptions could significantly affect the potential for future impairments.

Land and Other Inventories consist of the following:

	December 31, 2012	December 31, 2011
Land developed and in process of development	\$ 86,931	\$ 91,964
Land held for future development or sale	53,526	64,773
Homes completed or under construction	30,563	23,134
Other	24	196
	<u>\$ 171,044</u>	<u>\$ 180,067</u>

Impairments of 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 as land inventory cost. Repairs and maintenance are expensed as incurred.

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

Each reporting period, we review our Property and Equipment for indicators of impairment in accordance with ASC 360-10. For our amenities, which are located within our housing communities, indicators of potential impairment are similar to those of our housing communities (described above) as these factors may impact our ability to generate revenues at our amenities or cause construction costs to increase. In addition, we factor in the collectability and potential delinquency of the fees due for our amenities. There were no impairments for the years ended December 31, 2012 or 2011.

Impairments of Poinciana Parkway

In December 2006, we entered into agreements with Osceola County, Florida and Polk County, Florida for us to develop and construct at our cost a 9.66 mile four-lane road in Osceola and Polk Counties beginning in Poinciana and connecting to the US17/US92 in Polk County to be known as the Poinciana Parkway (the "Poinciana Parkway"). Once completed, the roadway will provide significant relief to the currently constrained roadway infrastructure that accommodates the daily commuter traffic of Poinciana. This relief will allow for continued growth in residential, commercial, and employment in the Poinciana community, all of which the Company believes will aid its sales and land values in Poinciana. The Poinciana Parkway is to include a 4.15 mile segment to be operated as a toll road. We have acquired right-of-way and federal and state environmental permits necessary to construct the Poinciana Parkway. One additional permit is required for an interchange between the Poinciana Parkway and US17/US92 in Polk County which must be accomplished prior to completing construction on the road.

On July 16, 2012, the Osceola County Commission approved an agreement that is expected to facilitate the development of the Poinciana Parkway by Osceola County and its Expressway Authority. The agreement imposed a December 31, 2012 deadline for the negotiation and execution of a new public-private development agreement among one of our wholly owned subsidiaries, API, Osceola County, Polk County and the newly formed Osceola County Expressway Authority for construction and operation of the Poinciana Parkway as an Osceola County-owned toll road.

On October 15, 2012, a Development Agreement became effective among API, Osceola County, Polk County and the Osceola County Expressway Authority which provides for the public financing of the Poinciana Parkway by Osceola County and the Osceola County Expressway Authority (the "Development Agreement"). The Development Agreement calls for us to assign all permits and plans to Osceola County and to donate certain right-of-way parcels that will accommodate both the arterial and southern connector facilities and other lands to Osceola and Polk counties. The Osceola County Expressway Authority will be responsible for all design modifications, construction management and operation of that portion of Poinciana Parkway that is a part of the Osceola County Expressway Authority System. Polk and Osceola counties will own and operate all arterial roadway segments. The final funding package for the minimum two lane Poinciana Parkway will be determined by Osceola County and the Osceola County Expressway Authority. Construction is contingent on such funding. Should the decision be made to construct additional transportation capacity, i.e., four lanes, additional funding will be identified and contributed by Osceola County.

If funding for the Poinciana Parkway is not obtained and construction cannot be commenced by February 14, 2014, the counties have no right to obtain damages or seek specific performance. Polk County's sole remedy under its agreement with API is to cancel its agreement with API. With respect to Osceola County, if funding and commencement of construction is not met, (i) a portion of API's land in Osceola County will become subject to Osceola County traffic concurrency requirements applicable generally to other home builders in the county and (ii) API will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway. We reviewed the recoverability of the carrying value of the Poinciana Parkway on a quarterly basis in accordance with authoritative accounting guidance. In the fourth quarter of 2012, we determined that the probability of public funding to occur is high, and as a result, we recorded a non-cash charge of \$7,659 related to our expected transfer of mitigation credits carried on our books and the carrying value of contributed right-of-way parcels. The remaining mitigation credits' book value of \$749 was reclassified to Prepaid Expenses and Other Assets on our balance sheet as of December 31, 2012.

Non-capitalizable expenditures of \$944 related to the Poinciana Parkway were expensed during 2012. At December 31, 2012, the carrying value of the Poinciana Parkway was \$0.

Goodwill

In accordance with ASC 350, we review the carrying value of goodwill and other intangible assets of each of our reporting units on an annual basis as of December 31, or more frequently upon the occurrence of certain events or substantive changes in circumstances, based on a two-step impairment test. At September 30, 2011, we wrote off the full book value of the JEN earn-out liability in the amount of \$4,388. This led us to determine that circumstances existed that would require us to perform an interim analysis of the goodwill on our books. We performed a goodwill impairment test by comparing the fair value of the active adult reporting unit (the business unit for which the goodwill was assigned) with its carrying amount including goodwill. We determined that the fair value was less than the carrying value of this reporting unit and further determined that the goodwill should be fully written off as of September 30, 2011, in the amount of \$17,215. Following this action we had no remaining goodwill and therefore we have had no goodwill write-offs in 2012.

Variable Interest Entities

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

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

We participate in entities with equity interests ranging from 20% to 58.8% for the purpose of acquiring and/or developing land in which we may or may not have a controlling interest. These entities are VIEs and our investments in these entities, along with other arrangements represent variable interests, depending on the contractual terms of the arrangement. We analyze these entities when they are entered into or upon a reconsideration event.

Income Taxes

Income taxes have been determined 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.

On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 was enacted and amended Section 172 of the Internal Revenue Code to extend the permitted carryback period for offsetting certain net operating losses (NOLs) against earnings for up to five years. Due to this enacted federal tax legislation, AV Homes carried back its 2009 NOL against earnings it generated in the five previous years. As a result, AV Homes received a federal tax refund of \$33,627 during 2010.

In accordance with ASC 740, AV Homes evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a “more likely than not” standard. 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 2012 and 2011, we recognized an increase of \$35,050 and \$68,961, respectively, in the valuation allowance. As of December 31, 2012, our deferred tax asset valuation allowance was \$126,533. 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.

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

Warranty Reserves

Warranty reserves for houses are established to cover estimated costs for materials and labor with regard to warranty-type claims to be incurred subsequent to the closing of a house. Reserves are determined based on historical data and other relevant factors. We may have recourse against subcontractors for claims relating to workmanship and materials. Actual future warranty costs could differ from our currently estimated amounts.

Construction Reserves

Construction reserves for closed houses are established to cover potential costs for completion of houses closed. These reserves are determined on a per house basis based on estimated house budgets and other relevant factors. Actual construction costs could differ from our currently estimated amounts.

Estimated Development Liability

The estimated development liability consists primarily of utilities improvements in Poinciana and Rio Rico for more than 8,000 home sites previously sold. The estimated development liability for sold land is reduced by actual expenditures and is evaluated and adjusted, as appropriate, to reflect management’s estimate of anticipated costs. In addition, periodically we obtain third-party engineer evaluations and adjust this liability to reflect changes in the estimated costs.

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.

The calculation of the fair values of our stock-based compensation plans requires estimates that require management’s judgments. Under ASC 718, the fair value of awards of restricted stock and units which do not contain a specified hurdle price condition is based on the market price of our common stock on the date of grant. Under ASC 718, the fair value of restricted stock awards which contain a specified hurdle price condition is estimated on the grant date using the Monte-Carlo option valuation model. Under ASC 718, the fair value of each stock option is estimated on the grant date using the Black-Scholes option-pricing model. The valuation models require assumptions and estimates to determine expected volatility, expected life, expected dividends and expected risk-free interest rates. The expected volatility was determined using historical volatility of our stock based on the contractual life of the award. The risk-free interest rate assumption was based on the yield on zero-coupon U.S. Treasury strips at the award grant date. We also used historical data to estimate forfeiture experience.

Recently Issued Accounting Pronouncements

In May 2011, the FASB issued ASU No., 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (“ASU 2011-04”). ASU 2011-04 amends ASC 820, *Fair Value Measurements* (“ASC 820”), by providing a consistent definition of fair value, as well as ensuring consistent measurement and similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. The guidance was effective for us on January 1, 2012, to be applied prospectively. Our adoption of ASU 2011-04 did not have a significant impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income (“ASU 2011-05”). ASU 2011-05 requires the presentation of comprehensive income (loss) in either a continuous statement of comprehensive income or two separate but consecutive statements. We adopted the provisions of ASU 2011-05 on January 1, 2012, which did not have a material impact on our consolidated financial statements.

Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. In the preparation of our financial statements, we apply GAAP. The application of GAAP may require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying results.

The following table provides a comparison of certain financial data related to our operations:

	For the year ended December 31		
	2012	2011	2010
Operating income (loss):			
Active adult communities			
Revenues (1)	\$ 43,032	\$ 39,934	\$ 36,949
Expenses (2)	51,951	52,122	41,992
Net operating loss	(8,919)	(12,188)	(5,043)
Primary residential			
Revenues (3)	35,936	15,272	14,209
Expenses (4)	35,945	22,799	20,493
Net operating loss	(9)	(7,527)	(6,284)
Commercial and industrial and other land sales			
Revenues	26,595	31,731	4,712
Expenses	18,581	28,099	995
Net operating income (loss)	8,014	3,632	3,717
Other operations			
Revenues	598	932	1,485
Expenses	(33)	773	1,098
Net operating income	631	159	387
Operating loss	(283)	(15,924)	(7,223)
Unallocated income (expenses):			
Interest income	127	309	580
Gain (loss) on repurchase of 4.50% Notes	(1,144)	(211)	-
Equity loss from unconsolidated entities	259	(398)	(276)
General and administrative expenses	(16,148)	(17,502)	(20,508)
Change in fair value of contingent consideration	-	4,388	-
Interest expense	(7,973)	(9,516)	(5,531)
Other real estate expenses, net	(5,113)	(1,654)	(3,099)
Impairment of the Poinciana Parkway	(7,659)	-	-
Impairment of goodwill	-	(17,215)	-
Impairment of land developed or held for future development	(49,749)	(107,981)	-
Income (loss) from operations	(87,683)	(165,704)	(36,057)
Income tax benefit (expense)	-	(473)	375
Net loss attributable to non-controlling interests	(2,552)	296	574
Net loss attributable to AV Homes	\$ (90,235)	\$ (165,881)	\$ (35,108)

(1) Includes homebuilding revenues of \$36,012, amenity revenues of \$7,014, and other revenues of \$6

(2) Includes impairment charges for inventory of approximately \$1,620, \$1,060 and \$408 for 2012, 2011 and 2010, respectively.

(3) Includes homebuilding revenues of \$33,460, amenity revenue of \$2,447, and other revenues of \$29

(4) Includes impairment charges of approximately \$15, \$467 and \$252 for 2012, 2011 and 2010, respectively.

Data from closings for the active adult and primary residential homebuilding segments for the years ended December 31, 2012, 2011 and 2010 is summarized as follows:

<u>Years ended December 31,</u>	<u>Number of Units</u>	<u>Revenues</u>	<u>Average Price Per Unit</u>
<u>2012</u>			
Active adult communities	148	\$ 36,012	\$ 243
Primary residential	158	33,460	\$ 212
Total	<u>306</u>	<u>\$ 69,472</u>	<u>\$ 227</u>
<u>2011</u>			
Active adult communities	121	\$ 28,537	\$ 236
Primary residential	53	12,808	\$ 242
Total	<u>174</u>	<u>\$ 41,345</u>	<u>\$ 238</u>
<u>2010</u>			
Active adult communities	131	\$ 25,527	\$ 195
Primary residential	53	11,582	\$ 219
Total	<u>184</u>	<u>\$ 37,109</u>	<u>\$ 202</u>

Data from contracts signed for the active adult and primary residential homebuilding segments for the years ended December 31, 2012, 2011 and 2010 is summarized as follows:

<u>Years ended December 31,</u>	<u>Gross Number of Contracts Signed</u>	<u>Cancellations</u>	<u>Contracts Signed, Net of Cancellations</u>	<u>Dollar Value</u>	<u>Average Price Per Unit</u>
<u>2012</u>					
Active adult communities	221	(55)	166	\$ 40,522	\$ 244
Primary residential	275	(48)	227	50,481	\$ 222
Total	<u>496</u>	<u>(103)</u>	<u>393</u>	<u>\$ 91,003</u>	<u>\$ 232</u>
<u>2011</u>					
Active adult communities	178	(40)	138	\$ 32,935	\$ 239
Primary residential	109	(18)	91	18,541	\$ 204
Total	<u>287</u>	<u>(58)</u>	<u>229</u>	<u>\$ 51,476</u>	<u>\$ 225</u>
<u>2010</u>					
Active adult communities	148	(24)	124	\$ 24,427	\$ 197
Primary residential	52	(8)	44	10,616	\$ 241
Total	<u>200</u>	<u>(32)</u>	<u>168</u>	<u>\$ 35,043</u>	<u>\$ 209</u>

Backlog for the active adult and primary residential homebuilding segments as of December 31, 2012, 2011 and 2010 is summarized as follows:

As of December 31,	<u>Number of Units</u>	<u>Dollar Volume</u>	<u>Average Price Per Unit</u>
<u>2012</u>			
Active adult communities	63	\$ 16,158	\$ 256
Primary residential	122	26,906	\$ 221
Total	<u>185</u>	<u>\$ 43,064</u>	<u>\$ 233</u>
<u>2011</u>			
Active adult communities	45	\$ 11,691	\$ 260
Primary residential	53	9,849	\$ 186
Total	<u>98</u>	<u>\$ 21,540</u>	<u>\$ 220</u>
<u>2010</u>			
Active adult communities	28	\$ 7,294	\$ 261
Primary residential	15	4,115	\$ 274
Total	<u>43</u>	<u>\$ 11,409</u>	<u>\$ 265</u>

The number of net housing contracts signed during the year ended December 31, 2012, compared to the same period in 2011 increased 72%. The dollar value of housing contracts signed in 2012 increased 77% as a result of increased sales volume coupled with higher average sales prices in both of our operating segments. During the year ended December 31, 2012, cancellations of previously signed contracts totaled 103 compared to 58 during the year ended December 31, 2011. As a percentage of the gross number of contracts signed, this represents 21% and 20%, respectively.

As of December 31, 2012, our inventory of unsold (speculative) homes, both completed and under construction, was 62 units compared to 70 units as of December 31, 2011. As of December 31, 2012, approximately 34% of unsold homes were completed compared to approximately 63% as of December 31, 2011.

During the year ended December 31, 2012, compared to the year ended December 31, 2011, the number of homes closed increased by 76%, and the related revenues increased by 68%. Our average sales price for homes closed during the year ended December 31, 2012, decreased to \$227 compared to \$238 for the year ended December 31, 2011, primarily due to a change in mix of homes closed in our primary residential operating segment. We anticipate that we will close in excess of 80% of the homes in backlog as of December 31, 2012, during the subsequent 12-month period, subject to cancellations by purchasers prior to scheduled delivery dates. During the year ended December 31, 2011, compared to the year ended December 31, 2010, the number of homes closed decreased by 5%, however, the related revenues increased by 11%.

In general, prices of homes sold during 2012 ranged from approximately \$135 to approximately \$500 in our primary residential operations. At Solivita, prices ranged from approximately \$126 to approximately \$485 on homes sold during 2012. At CantaMia, prices ranged from approximately \$150 to approximately \$429 on homes sold during 2012. Closings on to-be-built homes generally occur within 180 to 210 days from sale, and closings on speculative homes generally occur within 30 to 60 days from sale.

Fiscal Year 2012 Compared to Fiscal Year 2011

Net loss attributable to AV Homes for the year ended December 31, 2012, was \$90,235 or (\$7.19) per basic and diluted share compared to a net loss of \$165,881 or (\$13.33) per basic and diluted share for the year ended December 31, 2011. The decrease in net loss for the year ended December 31, 2012, compared to the year ended December 31, 2011, was primarily due to significantly decreased land impairment charges, decreased losses from our two homebuilding segments, and increased income from our commercial and industrial and other land sales segment.

Revenues from active adult communities increased \$3,098 or 7.8% for the year ended December 31, 2012, compared to the same period in 2011. Expenses from active adult operations decreased \$171 for the year ended December 31, 2012, compared to the same period in 2011. The increase in revenues for fiscal year 2012 is primarily attributable to increased closings from Solivita and CantaMia, and a change in mix of homes closed. Expenses were relatively flat primarily due to increased closings, and a change in the mix of homes closed, offset in part by reduced expenses from amenities due to the outsourcing of operations at Solivita. During 2012, we recorded impairment charges in our active adult operations of \$1,620 compared to \$1,060 in 2011 from homes completed or under construction. The average sales price on closings from active adult homebuilding operations during 2012 was \$243 compared to \$236 during 2011.

The average contribution margin (excluding impairment charges) on closings from active adult homebuilding operations during 2012 was approximately 13% compared to approximately 11% during 2011. The increase in average contribution margins is generally attributable to a change in mix of homes closed and improved margins from Solivita, offset in part by deterioration in margins from CantaMia, and decreased closings from Tradition (which generated higher than average margins). During 2011, we re-engineered the current housing product at Solivita to make the homes more cost efficient. The result of this, coupled with increases in the average closing price per unit, generated higher operating margins at Solivita in 2012 than in 2011. Included in the results from active adult operations are divisional overhead allocated among several communities and our amenity operations.

Revenues from primary residential operations increased \$20,664 or 135.3% for the year ended December 31, 2012, compared to the same period in 2011. Expenses from primary residential operations increased \$13,146 or 57.7% for the year ended December 31, 2012, compared to the same period in 2011. The increase in revenues is primarily due to a 198% increase in unit closings offset in part by a reduction in the average price per unit closed in 2012 as compared to 2011. The reduction in average price per unit is due to an increase of entry level homes in our mix of homes closed in 2012. The increase in expenses is attributable to increased closings and a change in mix of homes closed in 2012 as compared to 2011, offset in part by decreased impairment charges.

During the year ended December 31, 2012, we recorded impairment charges in our primary residential operations of approximately \$15 compared to approximately \$467 for the year ended December 31, 2011, from homes completed or under construction. The average sales price on closings from primary residential homebuilding operations for 2012 was \$212 compared to \$242 for 2011.

The average contribution margin (excluding impairments) on closings from primary residential homebuilding operations for 2012 was approximately 12% compared to approximately 1% for 2011. The increase in average contribution margin is primarily due to our Phoenix primary homebuilding operations generating higher margins in 2012 versus 2011, offset in part by a change in mix of homes sold in our Florida communities which were weighted towards entry level homes. During 2012, our Phoenix operations generated an increased average closing price per unit with lower land and housing construction costs per unit as compared to 2011, due to a favorable change in the mix of homes closed and our ability to increase sales prices in excess of the cost increases realized. In Florida, we closed speculative inventory in 2011 in close-out communities which had a low cost basis, and in 2012 we had our first closings of new product in new communities that generated lower profit margins. Included in the results from primary residential operations are divisional overhead allocated among several communities and our amenity operations.

The amount and types of commercial and industrial and other non-core residential land sold vary from year to year depending upon demand, ensuing negotiations and the timing of the closings of these sales. Revenues from commercial and industrial and other land sales decreased \$5,136 for the year ended December 31, 2012, compared to the year ended December 31, 2011. During the year ended December 31, 2012, we realized pre-tax profits of \$8,014 on revenues of \$26,595 from sales of commercial, industrial and other land. During the year ended December 31, 2011, we realized pre-tax profits of \$3,632 on revenues of \$31,731 from sales of commercial, industrial and other land. Expenses from commercial, industrial and other land sales decreased \$9,518 for the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in expenses is attributable to a lower basis in the land sold in 2012 versus 2011.

Revenues from other operations decreased \$334 or 35.8% for the year ended December 31, 2012, compared to the year ended December 31, 2011. Expenses from other operations decreased \$805 or 104.1% for the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in revenues and expenses are primarily attributable to the sale of our title operations in July of 2011 and reduced leasing activities in 2012 as compared to 2011.

General and administrative expenses decreased \$1,354 or 7.7% for the year ended December 31, 2012, compared to the year ended December 31, 2011. The decreased expense for 2012 as compared to 2011 was primarily due to net changes in payroll expenses related to our restructuring efforts which have resulted in reduced headcount, and reduced office rent and office related expenses.

Interest expense decreased \$1,543 or 16.2% in 2012 as compared to 2011. The decrease in interest expense is primarily attributable to a decreased level of indebtedness during 2012 as compared to 2011.

Other real estate expenses, net, represented by real estate taxes, property maintenance and miscellaneous income not allocable to specific operations, increased by \$3,459 or 209.1% for the year ended December 31, 2012, compared to the year ended December 31, 2011. The increase in other real estate expenses for 2012 was primarily attributable to \$758 increase in Poinciana Parkway expenditures, loss from the sale of consolidated joint venture property of \$1,000, write off of fixed assets of \$746, a loss on restructuring of a note receivable of \$532 and other, offset in part by a decrease in our carrying costs associated with our non-core assets. Also contributing to the variance from 2011 were gains recognized in the year ended December 31, 2011 related to sales of impact fees and the sale of a utility easement, and a gain recognized from an adjustment made to the estimated development liability of \$860.

Income tax expense was provided for at an effective tax rate of 0.0% for the year ended December 31, 2012, compared to 0.3% income tax expense for the year ended December 31, 2011. In accordance with ASC 740, AV Homes evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. During 2008, we established a valuation allowance against our deferred tax assets. Our cumulative loss position over the evaluation period and the uncertain and volatile market conditions provided significant evidence supporting the need for a valuation allowance. During the year ended December 31, 2012, we recognized an increase of \$35,050 in the valuation allowance. As of December 31, 2012, our deferred tax asset valuation allowance was \$126,533. 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. Reference is made to the Income Taxes note to the Consolidated Financial Statements included in Item 8 of Part II of this Report.

Fiscal Year 2011 Compared to Fiscal Year 2010

Net loss attributable to AV Homes for the year ended December 31, 2011, was \$165,881 or (\$13.33) per basic and diluted share compared to net loss attributable to AV Homes of \$35,108 or (\$3.07) per basic and diluted share for the year ended December 31, 2010. The increase in net loss for the year ended December 31, 2011, compared to the year ended December 31, 2010, was primarily due to impairment charges of \$112,732 taken in 2011 and the write off of goodwill in the amount of \$17,215 in 2011, offset in part by the write off in 2011 of \$4,388 related to the earnout agreement that was signed in connection with our purchase agreement with JEN and decreased general and administrative expenses in 2011 of \$3,006 as compared to 2010.

Revenues from active adult operations increased \$2,985 or 8.1% for the year ended December 31, 2011, compared to the same period in 2010. Expenses from active adult operations increased \$10,130 or 24.1% for the year ended December 31, 2011, compared to the same period in 2010. The increase in revenues for fiscal year 2011 was primarily attributable to a full year of closings in 2011 from CantaMia which we acquired on October 25, 2010, 28 more closing from Solivita in 2011 versus 2010, offset in part by 68 fewer closing from Traditions in 2011 versus 2010. The increase in expenses was primarily due to a full year of CantaMia closings which have a higher average cost of sales per unit than our other active adult operations. During 2011, we recorded impairment charges in our active adult operations of \$1,060 compared to \$408 in 2010 from homes completed or under construction. The average sales price on closings from active adult homebuilding operations during 2011 was \$236 compared to \$195 during 2010. The average contribution margin on closings from active adult homebuilding operations during 2011 was approximately 11% compared to approximately 27% during 2010. The decrease in average contribution margins was attributable to deterioration in margins from CantaMia and Solivita, plus decreased closings from Traditions (which generated higher than average margins). Results from active adult operations included divisional overhead allocated among several communities and our amenity operations.

Revenues from primary residential operations increased \$1,063 or 7.50% for the year ended December 31, 2011, compared to the same period in 2010. Expenses from primary residential operations increased \$2,306 or 11.3% for the year ended December 31, 2011, compared to the same period in 2010. The increase in revenues was due to a change in mix of homes closed, offset in part by increased discounts on homes closed in 2011 versus 2010. The increase in expenses was due to a change in mix of homes closed. During the year ended December 31, 2011, we recorded impairment charges in our primary residential operations of approximately \$467 compared to approximately \$252 for the year ended December 31, 2010, from homes completed or under construction. The average sales price on closings from primary residential homebuilding operations for 2011 was \$242 compared to \$219 for 2010. The average contribution margin on closings from primary residential homebuilding operations for 2011 was approximately 1% compared to approximately (5%) for 2010. The increase in average contribution margin was primarily due to the close out of communities that generated net contribution losses in 2010, including Woods Landing, Rio Rico, and Terralargo. Included in the results from primary residential operations are divisional overhead allocated among several communities and our amenity operations.

The amount and types of commercial and industrial and other non-core residential land sold vary from year to year depending upon demand, ensuing negotiations and the timing of the closings of these sales. Revenues from commercial and industrial and other land sales increased \$27,019 for the year ended December 31, 2011, compared to the year ended December 31, 2010. During the year ended December 31, 2011, we realized pre-tax profits of \$3,632 on revenues of \$31,731 from sales of commercial, industrial and other land. During the year ended December 31, 2010, we realized pre-tax profits of \$3,717 on revenues of \$4,712 from sales of commercial, industrial and other land. Expenses from commercial, industrial and other land sales increased \$27,104 for the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in expenses was attributable to a higher basis in the land sold in 2011 versus 2010.

Revenues from other operations decreased \$553 or 37.2% for the year ended December 31, 2011, compared to the year ended December 31, 2010. Expenses from other operations decreased \$325 or 29.6% for the year ended December 31, 2011, compared to the year ended December 31, 2010. The decreases in revenues and expenses was primarily attributable to decreased volume of resale operations in Solivita.

Interest income decreased \$271 or 46.7% for the year ended December 31, 2011, compared to the year ended December 31, 2010. The decrease was primarily attributable to the payoff of certain notes receivable accounts in 2011 and decreased interest rates in 2011 as compared to 2010.

General and administrative expenses decreased \$3,006 or 14.7% for the year ended December 31, 2011, compared to the year ended December 31, 2010. The decrease was primarily related to our restructuring efforts. Interest expense increased \$3,985 or 72.0% for the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in interest expense was primarily attributable to the increase in outstanding indebtedness during 2011 compared to 2010 as a result of our issuance of 7.50% Notes, and the increased interest rate in the 7.50% Notes over our 4.50% Notes.

Other real estate expenses, net, represented by real estate taxes, property maintenance and miscellaneous income not allocable to specific operations, decreased by \$1,445 or 46.6% for the year ended December 31, 2011, compared to the year ended December 31, 2010. The decreases were primarily attributable to reductions in real estate taxes and property maintenance costs as well as an increase in miscellaneous income. Also, during the year ended December 31, 2011, we recognized a reduction in the Rio Rico development liability and a corresponding credit to other expenses in the amount of \$794. During the year ended December 31, 2010, we recognized charges of \$291. These charges to the development liability were based on third-party engineering evaluations. Also included in other real estate expenses for the year ended December 31, 2011, were non-capitalizable expenditures of \$221 compared to \$324 for the year ended December 31, 2010, related to the Poinciana Parkway.

Based on our review of the Poinciana Parkway carrying value during 2011, we determined the estimated future undiscounted cash flows of the Poinciana Parkway were greater than its carrying value, therefore no impairment losses were recorded during 2011. We did not recognize an impairment loss in 2010 either.

Income tax expense was provided for at an effective tax rate of 0.3% for the year ended December 31, 2011, compared to 1.0% income tax benefit for the year ended December 31, 2010. During the year ended December 31, 2011, we recognized an increase of \$68,961 in the valuation allowance against our deferred tax assets. As of December 31, 2011, our deferred tax asset valuation allowance was \$91,483.

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 December 31, 2012, our cash and cash equivalents totaled \$79,815 compared to \$124,316 as of December 31, 2011. As of December 31, 2012, total consolidated indebtedness was \$105,402, including \$5,402 carrying amount of our 4.50% Notes, \$55,500 carrying amount of our 7.50% Notes, and \$44,500 carrying amount of our 7.50% Exchange Notes, compared to total borrowings of \$105,402 as of December 31, 2011. Additionally, as of December 31, 2012, we had \$4,682 in restricted cash, of which \$3,613 is held to collateralize outstanding letters of credit, as compared to \$7,872 in restricted cash as of December 31, 2011.

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

For the year ended December 31, 2012, net cash used in operating activities amounted to \$48,313, primarily to fund our operating losses and to purchase land for the expansion of our active adult segment. Net cash used by investing activities amounted to \$4,387 due to the purchase of property and equipment. Net cash provided by financing activities of \$8,199 was attributable to contributions from a joint venture partner to acquire land, offset in part by payments of withholding taxes related to restricted stock, a distribution to a joint venture partner from the sale of the assets of the joint venture, and debt issuance costs associated with our 7.50% Exchange Notes.

For the year ended December 31, 2011, net cash used in operating activities amounted to \$17,568, primarily as a result of cash income from homebuilding and land sales operations not being sufficient to cover our fixed expenses such as general and administrative expenses, interest, real estate taxes and HOA subsidies. Net cash provided by investing activities amounted to \$3,173 due primarily to cash received from investments in unconsolidated entities, offset in part by purchases of property and equipment. Net cash provided by financing activities of \$23,209 was attributable to \$95,373 net cash received from issuance of the 7.50% Notes, largely offset by \$59,402 repurchase of the 4.50% Notes and \$12,501 used for the payoff of the JEN notes and other real estate notes. The JEN notes were paid in full before their maturity, which payment was made in the fourth quarter of 2011.

For the year ended December 31, 2010, net cash used in operating activities amounted to \$10,438, as a result of \$7,840 used to collateralize outstanding letters of credit and \$36,150 of cash used to fund operating losses. Offsetting cash used was \$33,627 received in income tax refunds. Net cash used in investing activities amounted to \$33,422 due primarily to our investment of \$33,303 (adjusted to reflect pro-rated real estate taxes) in the JEN Transaction. Net cash used by financing activities of \$57,770 was attributable to \$57,681 used for the repayment of borrowings of which \$55,881 related to the payoff of the Amended Unsecured Credit Facility in May 2010 as described in Note G "Notes Payable" to the Consolidated Financial Statements included in Part II of this Report.

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

Financing

7.50% Notes and 4.50% Notes

On March 30, 2004, we issued \$120,000 aggregate principal amount of 4.50% Notes in a private offering. Interest is payable semiannually on April 1 and October 1. The 4.50% Notes are senior, unsecured obligations and rank equal in right of payment to all of our existing and future unsecured and senior indebtedness. However, the 4.50% Notes are effectively subordinated to all of our existing and future secured debt to the extent of the collateral securing such indebtedness, and to all existing and future liabilities of our subsidiaries.

Holder may require us to repurchase the 4.50% Notes for cash on April 1, 2011, April 1, 2014 and April 1, 2019; or in certain circumstances involving a designated event, as defined in the indenture for the 4.50% Notes, holders may require us to purchase all or a portion of their 4.50% Notes. We may, at our option, redeem for cash all or a portion of the 4.50% Notes at any time on or after April 5, 2011. In each case, we will pay a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. On April 1, 2011, holders of \$41,637 principal amount of the 4.50% Notes exercised their right to require us to repurchase the 4.50% Notes. As of both December 31, 2012 and December 31, 2011, \$5,402 principal amount of the 4.50% Notes remained outstanding.

On January 31, 2011, AV Homes and API entered into an Underwriting Agreement with the Barclays Capital Inc. (the "Underwriter"). Pursuant to the Underwriting Agreement, AV Homes agreed to issue and sell to the Underwriter, and the Underwriter agreed to purchase for sale in an underwritten public offering, \$100,000 aggregate principal amount of 7.50% Notes with an effective maturity date of February 15, 2016. The 7.50% Notes were sold to the public at a purchase price of 100% of the principal amount plus accrued interest, if any, from February 4, 2011.

On February 4, 2011, AV Homes completed the sale of the 7.50% Notes in accordance with the terms of the Underwriting Agreement. The sale of the 7.50% Notes is registered pursuant to a Registration Statement filed by AV Homes with the SEC. Net proceeds to AV Homes from the sale of the 7.50% Notes were approximately \$95,373 after deducting the underwriting fees of 4.25% and expenses of approximately \$377. We intend to use the proceeds from the sale of the 7.50% Notes for general corporate purposes, including, without limitation, the repayment of debt, including the 4.50% Notes, which notes may be put to AV Homes pursuant to the terms thereof on each of April 1, 2011, April 1, 2014, and April 1, 2019, or called by AV Homes at any time on or after April 5, 2011, and potential new acquisitions of real estate and real estate-related assets. On February 4, 2011, we repurchased \$17,765 principal amount of the 4.50% Notes for approximately \$18,171. As of December 31, 2012, \$5,402 principal amount of the 4.50% Notes remain outstanding.

The 7.50% Notes are governed by the Base Indenture and the First Supplemental Indenture, together the Indenture, both dated as of February 4, 2011, between AV Homes and Wilmington Trust FSB, as trustee, and include the following terms:

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

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

Financial covenants : The Indenture includes the following financial covenants:

- until February 15, 2014, AV Homes will maintain, at all times, cash and cash equivalents of not less than \$20,000;
- until the second anniversary of the original issuance date of the 7.50% Notes, AV Homes' total consolidated indebtedness (as "indebtedness" is defined in the Indenture) may not exceed \$150,000;

- until the second anniversary of the original issuance date of the 7.50% Notes, AV Homes' total consolidated indebtedness (as "indebtedness" is defined in the Indenture) shall not exceed \$50,000 at any time, excluding for purposes of this covenant: (a) the 7.50% Notes, and (b) any indebtedness with a maturity date after February 15, 2014, which indebtedness does not provide the holder with a unilateral put right prior to February 15, 2014.

Repurchase Right: Holders of the 7.50% Notes have the right to require AV Homes to repurchase the 7.50% Notes on February 15, 2014; or upon the occurrence of a breach of any of the financial covenants, a "fundamental change" (as defined in the Indenture), or an event of default (as described in the Indenture).

Redemption Right : AV Homes may, at any time on or after February 15, 2014, at its option, redeem for cash all or any portion of the outstanding 7.50% Notes, but only if the last reported sale price of AV Homes' common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day before the date AV Homes provides the notice of redemption to holders exceeds 130% of the conversion price in effect on each such trading day and certain other conditions described in the Indenture are met.

FASB ASC 470-20 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. ASC 470-20 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The excess of the principal amount of the liability component over its carrying amount and the debt issuance costs are amortized to interest cost using the interest method over the expected life of a similar liability that does not have an associated equity component.

The discount on the liability component of the 4.50% Notes is amortized using the effective interest method based on an effective rate of 7.50%, which was the estimated market interest rate for similar debt without a conversion option on the issuance date. The discount was amortized from the issuance date in 2004 through April 1, 2011, the first date that holders of the 4.50% Notes could require us to repurchase the 4.50% Notes. The discount was fully amortized in 2011.

7.50% Senior Exchange Convertible Notes due 2016

During the year ended December 31, 2012, the Company entered into exchange agreements under which it retired \$44.5 million in aggregate principal amount of the Company's 7.50% Notes, in exchange for its issuance of \$44.5 million in aggregate principal of new 7.50% Senior Exchange Convertible Notes due 2016 ("7.50% Exchange Notes"). Following these transactions, \$55.5 million in aggregate principal amount of the 7.50% Notes remained outstanding.

The 7.50% Exchange Notes mature on February 15, 2016 and will pay interest semiannually at a rate of 7.50% per year, beginning on February 15, 2013. The 7.50% Exchange Notes have an initial conversion rate of 55.5555 shares of common stock per \$1 original principal amount of notes (equivalent to a conversion price of approximately \$18.00 per share), subject to adjustment in certain events. Unlike the 7.50% Notes, the 7.50% Exchange Notes do not provide that the holder may require the Company to repurchase them on February 15, 2014. The cancellation of the existing put right in the 7.50% Notes extends the effective maturity date of the 7.50% Exchange Notes to February 15, 2016.

Shares of the Company's common stock, into which the 7.50% Exchange Notes are convertible, have been reserved for issuance by the Company. The Company has the right to redeem the 7.50% Exchange Notes beginning February 15, 2015. Prior to that date, the 7.50% Exchange Notes are redeemable, on one occasion only, upon the occurrence of certain events. The Company has a right, but not an obligation, to require holders to convert the 7.50% Exchange Notes in whole or in part if the closing price of the common stock equals or exceeds 130% of the conversion price then in effect for a specified period.

The Second Supplemental Indenture includes the same financial covenants as those governing the 7.50% Notes, except that the outstanding 7.50% Exchange Notes, as well as the 7.50% Notes, are excluded from the third covenant. The Company may suspend the operation of these financial covenants with respect to the 7.50% Exchange Notes under certain circumstances.

The Company has assessed the provisions of the 7.50% Exchange Notes Base Indenture and Second Supplementary Indenture and concluded that the impact of any embedded derivative features are not material as of December 31, 2012, but will be subject to further review over the life of the 7.50% Exchange Notes.

Performance Bonds

Performance bonds, issued by third party entities, are used primarily to guarantee our performance to construct improvements in our various communities. As of December 31, 2012, we had outstanding performance bonds of approximately \$721. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

Poinciana Parkway

If funding for the Poinciana Parkway is not obtained and construction cannot be commenced by February 14, 2014, the counties have no right to obtain damages or seek specific performance. Polk County's sole remedy under its agreement with API is to cancel its agreement with API. With respect to Osceola County, if funding and commencement of construction is not met, (i) a portion of API's land in Osceola County will become subject to Osceola County traffic concurrency requirements applicable generally to other home builders in the county and (ii) API will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway.

Other

On October 13, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$9,864 previously authorized. On October 17, 2008, we repurchased \$35,920 principal amount of the 4.50% Notes for approximately \$28,112 including accrued interest. On December 12, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$1,888 remaining after the October 2008 activities. During 2009, we repurchased \$14,076 principal amount of the 4.50% Notes for approximately \$11,696 including accrued interest. As of December 31, 2012, the remaining authorization is \$18,304.

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

Off-balance Sheet Arrangements

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

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

We participate in entities with equity interests ranging from 20% to 58.8% for the purpose of acquiring and/or developing land in which we may or may not have a controlling interest. These entities are VIEs and our investments in these entities, along with other arrangements represent variable interests, depending on the contractual terms of the arrangement. We analyze these entities when they are entered into or upon a reconsideration event.

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

During 2009 and 2008, we entered into various transactions with unaffiliated third parties providing for the formation of LLCs; and we subsequently sold developed and partially-developed land to each of the newly-formed LLCs. We acquired a minority ownership interest in each of the LLCs and share in the management of each of the LLCs. AV Homes made contributions totaling \$135 and \$138 to these unconsolidated entities in 2012 and 2011, respectively.

As of December 31, 2012, these unconsolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners.

Disclosure of Contractual Obligations

The following table reflects contractual obligations as of December 31, 2012:

Contractual Obligations (1)	Total	Payments due by period			
		Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Long-Term Debt Obligations	\$ 105,402	\$ -	\$ -	\$ 100,000	\$ 5,402(2)
Interest Obligations on Long-Term Debt	26,173	7,743	15,486	1,424	1,520
Operating Lease Obligations	1,039	340	395	304	-
Capital Lease Obligations	471	279	192	-	-
Purchase Obligations – Residential Development	2,300	2,300	-	-	-
Compensation Obligations	500	250	250	-	-
Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP	37,425	2,590	3,380	5,072	26,383
Total	<u>\$ 173,310</u>	<u>\$ 13,502</u>	<u>\$ 19,703</u>	<u>\$ 106,800</u>	<u>\$ 33,305</u>

(1) Excluded from this table are future costs related to the Poinciana Parkway (described above) since timing and amount of future costs are currently estimated.

(2) Holders may require us to repurchase the 4.50% Notes for cash on April 1, 2014 and April 1, 2019; or in certain circumstances involving a designated event, as defined in the indenture for the 4.50% Notes.

Long-term debt obligations represent:

- \$55,500 outstanding under the 7.50% Notes; however, holders may require us to repurchase the 7.50% Notes on February 15, 2014; or upon the occurrence of a breach of any of the financial covenants, a “fundamental change” as defined in the Note Indenture, or an event of a default, as described in the Note Indenture.
- \$44,500 outstanding under the 7.50% Exchange Notes due February 15, 2016.
- \$5,402 outstanding under the 4.50% Notes; however, holders may require us to repurchase the 4.50% Notes for cash on April 1, 2014 and April 1, 2019, or in certain circumstances involving a designated event, as defined in the indenture for those Notes

Purchase obligations (residential development) represent purchase commitments for land development and construction expenditures, substantially for homebuilding operations that relate to contracts for services, materials and supplies, which obligations generally relate to corresponding contracts for sales of homes. Compensation obligations represent compensation to executives pursuant to employment contracts.

Other long-term contractual obligations represent the estimated cost-to-complete of certain utilities improvements in areas within Poinciana and Rio Rico where home sites have been sold and certain development obligations associated with CantaMia.

Effects of Inflation and Economic Conditions

Our operations have been negatively affected by general economic conditions. Reduction in real estate values, adverse changes in employment levels, decreased consumer income and confidence, reduction in available financing and interest rates may continue to result in fewer sales and/or lower sales prices. Other economic conditions could affect operations (see “Risk Factors”).

The weakening of the residential real estate market has negatively impacted the homebuilding industry. Since 2008, the market for homes in the geographic areas in which our developments are located was severely and negatively impacted by the dislocations in the financial markets and the collapse or near collapse of major financial institutions. Unemployment has increased significantly and consumer confidence has continued to erode. We have experienced a significant increase in the number of homes for sale or available for purchase or rent through foreclosures or otherwise. The price points at which these homes are available have put further downward pressure on our margins.

The housing market in the geographic areas in which our developments are located continues to be compromised by an oversupply of alternatives to new homes, including rental properties and investment homes available for sale, foreclosures, and homes being sold by lenders. We continue to manage our housing inventory levels through curtailing land development, reducing home starts and reducing selling prices to enable us to deliver completed homes.

Forward Looking Statements

Certain statements discussed in Item 1 (“Business”), Item 3 (“Legal Proceedings”), Item 7 (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”), and elsewhere in this Form 10-K 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 recent JEN Transaction and other factors as are described in Item 1A (“Risk Factors”) of this Form 10-K. At least 80% of active adult homes are intended for occupancy by at least one person 55 years or older. 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 7A . QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

AV Homes is subject to market risk associated with changes in interest rates and the cyclical nature of the real estate industry. A majority of the purchasers of our homes finance their purchases through third-party lenders providing mortgage financing or, to some extent, rely upon investment income. In general, housing demand is dependent on home equity, consumer savings, employment and income levels and third-party financing and is adversely affected by increases in interest rates, unavailability of mortgage financing, increasing housing costs and unemployment levels. The amount or value of discretionary income and savings, including retirement assets, available to home purchasers can be affected by a decline in the capital markets. Fluctuations in interest rates could adversely affect our real estate results of operations and liquidity because of the negative impact on the housing industry. Real estate developers are subject to various risks, many of which are outside their control, including real estate market conditions (both where our communities and homebuilding operations are located and in areas where our potential customers reside), changing demographic conditions, adverse weather conditions and natural disasters, such as hurricanes, tornadoes and wildfires, delays in construction schedules, cost overruns, changes in government regulations or requirements, increases in real estate taxes and other local government fees, availability and cost of land, materials and labor, and access to financing. See Notes G and Q (“Notes Payable” and “Fair Value Disclosures”) to the Consolidated Financial Statements included in Item 8 of Part II of this Report. See Item 1A “Risk Factors” for further discussion of risks.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we assessed the effectiveness of internal control over financial reporting of AV Homes, Inc. and its subsidiaries as of the end of the period covered by this annual report based on the framework in “*Internal Control—Integrated Framework*” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our Chief Executive Officer and Principal Financial Officer concluded that our internal control over financial reporting was effective as of December 31, 2012.

Ernst & Young LLP, an independent registered public accounting firm that audited the consolidated financial statements of AV Homes, Inc. and its subsidiaries included in this annual report, has issued an attestation report on the effectiveness of our internal control over financial reporting. The attestation report follows this report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AV Homes, Inc.

We have audited AV Homes, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AV Homes, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AV Homes, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AV Homes, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2012 of AV Homes, Inc. and subsidiaries, and our report dated March 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Phoenix, Arizona

March 15, 2013

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AV Homes, Inc.

We have audited the accompanying consolidated balance sheets of AV Homes, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AV Homes, Inc. and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AV Homes, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Phoenix, Arizona

March 15, 2013

AV HOMES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	December 31 <u>2012</u>	December 31 <u>2011</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 79,815	\$ 124,316
Restricted cash	4,682	7,872
Land and other inventories	171,044	180,067
Receivables, net	6,730	7,729
Income tax receivable	1,293	1,293
Property and equipment, net	36,661	37,976
Poinciana Parkway	-	8,437
Investments in and notes receivable from unconsolidated entities	1,220	845
Prepaid expenses and other assets	10,777	10,443
Assets held for sale	25,649	30,078
Total Assets	<u>\$ 337,871</u>	<u>\$ 409,056</u>
<u>Liabilities and Equity</u>		
<u>Liabilities</u>		
Accounts payable	\$ 4,656	\$ 3,357
Accrued and other liabilities	12,978	9,996
Customer deposits and deferred revenues	1,985	1,611
Earn-out liability	-	-
Estimated development liability for sold land	32,974	34,044
Notes Payable	105,402	105,402
Total Liabilities	<u>157,995</u>	<u>154,410</u>
<u>Equity</u>		
Common Stock, par value \$1 per share Authorized: 50,000,000 shares Issued: 12,938,157 shares at December 31, 2012 14,194,776 shares at December 31, 2011	12,938	14,195
Additional paid-in capital	262,363	282,953
Retained earnings	(106,110)	2,973
	<u>169,191</u>	<u>300,121</u>
Treasury stock: at cost, 110,874 shares at December 31, 2012 and 1,252,274 at December 31, 2011	<u>(3,019)</u>	<u>(45,924)</u>
Total AV Homes stockholders' equity	<u>166,172</u>	<u>254,197</u>
Non-controlling interest	<u>13,704</u>	<u>449</u>
Total Equity	<u>179,876</u>	<u>254,646</u>
Total Liabilities and Equity	<u>\$ 337,871</u>	<u>\$ 409,056</u>

See notes to consolidated financial statements.

AV HOMES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income (Loss)
(in thousands, except per-share amounts)

	For the year ended December 31		
	2012	2011	2010
Revenues			
Real estate revenues	\$ 106,161	87,583	\$ 57,259
Interest income	127	309	580
Other	1,199	1,090	1,299
Total revenues	<u>107,487</u>	<u>88,982</u>	<u>59,138</u>
Expenses			
Real estate expenses	111,121	101,500	68,220
Impairment charges	59,043	129,947	660
General and administrative expenses	16,148	17,502	20,508
Change in fair value of contingent consideration	-	(4,388)	-
Loss on extinguishment of debt	1,144	211	-
Interest expense	7,973	9,516	5,531
Total expenses	<u>195,429</u>	<u>254,288</u>	<u>94,919</u>
Income (Loss) from unconsolidated entities, net	<u>259</u>	<u>(398)</u>	<u>(276)</u>
Loss before income taxes	<u>(87,683)</u>	<u>(165,704)</u>	<u>(36,057)</u>
Income tax (expense) benefit	-	(473)	375
Net loss and comprehensive loss	<u>(87,683)</u>	<u>(166,177)</u>	<u>(35,682)</u>
Net (income) loss and comprehensive (income) loss attributable to non-controlling interests in consolidated entities	<u>(2,552)</u>	<u>296</u>	<u>574</u>
Net loss and comprehensive loss attributable to AV Homes stockholders	<u>\$ (90,235)</u>	<u>(165,881)</u>	<u>\$ (35,108)</u>
Basic and Diluted Loss Per Share	<u>\$ (7.19)</u>	<u>(13.33)</u>	<u>\$ (3.07)</u>

See notes to consolidated financial statements.

AV HOMES, INC. AND SUBSIDIARIES

Consolidated Statements of Equity

(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Non- Controlling Interest	Retained Earnings	Treasury Stock	
	Shares	Amount				Shares	Amount
Balance at January 1, 2010	14,013,912	\$ 14,014	\$ 286,096	\$ 1,018	\$ 211,373	(2,658,461)	\$ (78,937)
Issuance of common stock in JEN transaction	1,050,572	1,051	18,648	-	-	-	-
Issuance of restricted stock units and stock units	498,248	498	(514)	-	-	-	-
Repurchase of restricted stock to satisfy employee statutory minimum withholding taxes	-	-	-	-	-	(3,645)	(73)
Amortization of restricted stock units and stock units	-	-	1,442	-	-	-	-
Net loss	-	-	-	(574)	(35,108)	-	-
Balance at December 31, 2010	15,562,732	\$ 15,563	\$ 305,672	\$ 444	\$ 176,265	(2,662,106)	\$ (79,010)
Issuance of common stock	4,935	5	49	-	-	-	-
Issuances of restricted stock units and stock units	365,500	365	3,691	-	-	-	-
Forfeiture of restricted stock	(293,178)	(293)	(3,819)	-	-	-	-
Repurchase of restricted stock to satisfy employee withholding taxes	(35,381)	(35)	(226)	-	-	-	-
Amortization of restricted stock units and stock units	-	-	1,850	-	-	-	-
Retirement of treasury stock	(1,409,832)	(1,410)	(24,264)	-	(7,411)	1,409,832	33,086
Contributions (distributions) from non controlling interests	-	-	-	301	-	-	-
Net loss	-	-	-	(296)	(165,881)	-	-
Balance at December 31, 2011	14,194,776	\$ 14,195	\$ 282,953	\$ 449	\$ 2,973	(1,252,274)	\$ (45,924)
Issuance of common stock	22,834	23	177	-	-	-	-
Issuances of restricted stock units and stock units	424,520	424	2,879	-	-	-	-
Forfeiture of restricted stock	(501,084)	(501)	(2,802)	-	-	-	-
Repurchase of restricted stock to satisfy employee withholding taxes	(61,489)	(62)	(759)	-	-	-	-
Amortization of restricted stock units							

and stock units	-	-	2,834	-	-	-	-
Retirement of treasury stock	(1,141,400)	(1,141)	(22,919)	-	(18,848)	1,141,400	42,905
Contributions (distributions) from non controlling interests	-	-	-	10,703	-	-	-
Net (loss) income	-	-	-	<u>2,552</u>	<u>(90,235)</u>	-	-
Balance at December 31, 2012	<u>12,938,157</u>	<u>\$ 12,938</u>	<u>\$ 262,363</u>	<u>\$ 13,704</u>	<u>\$ (106,110)</u>	<u>(110,874)</u>	<u>\$ (3,019)</u>

There are 10,000,000 authorized shares of \$0.10 par value preferred stock, none of which are issued.

See notes to consolidated financial statements.

AV HOMES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	For the year ended December 31		
	2012	2011	2010
OPERATING ACTIVITIES			
Net loss (including net loss attributable to non-controlling interests)	\$ (87,683)	\$ (166,177)	\$ (35,682)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	4,405	3,762	4,794
Amortization of stock based compensation	3,034	1,850	1,442
Impairment of goodwill	-	17,215	-
Impairment of land and other inventories	51,384	112,732	660
Impairment of Poinciana Parkway	7,659	-	-
Change in fair value of contingent consideration	-	(4,388)	239
Change in estimated development liability	(927)	2,825	-
Loss on extinguishment of debt	1,144	-	-
Gain from write-off of 5.50% term bonds	-	(111)	-
Loss on disposal of assets	1,130	-	-
Equity loss from unconsolidated entities	(259)	398	276
Distributions (return) of earnings from an unconsolidated entity	-	357	(53)
Deferred income taxes	-	-	-
Changes in operating assets and liabilities:			
Restricted cash	3,190	550	(7,723)
Receivables, net	999	(1,295)	33,546
Income tax receivable	-	473	-
Land and other inventories	(40,576)	11,230	(6,300)
Assets held for sale	4,429	-	-
Prepaid expenses and other assets	(786)	4,426	(832)
Accounts payable, estimated development liability and accrued and other liabilities	4,135	(680)	(488)
Customer deposits and deferred revenues	374	(946)	(317)
NET CASH USED IN OPERATING ACTIVITIES	(48,313)	(17,568)	(10,438)
INVESTING ACTIVITIES			
Investment in property and equipment	(4,421)	(831)	(53)
Proceeds from sales of property and equipment	150	-	-
Return from (investment in) Poinciana Parkway	-	15	30
Investment related to JEN Transaction	-	-	(33,303)
Investment in unconsolidated entities	(135)	(138)	(96)
Notes receivable from unconsolidated affiliates	-	3,669	-
Return of capital from unconsolidated joint venture	19	458	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(4,387)	3,173	(33,422)
FINANCING ACTIVITIES			
Proceeds from issuance of 7.50% Convertible Notes	-	100,000	-
Net proceeds from issuance of common stock	-	-	-
Repurchase of 4.50% Convertible Notes	-	(59,402)	-
Principal payments of real estate borrowings	-	(12,501)	(57,681)
Payment of withholding taxes related to restricted stock and units withheld	(821)	(261)	(89)
Debt Issuance costs	(1,683)	(4,627)	-
Contributions from consolidated joint venture partner	13,779	-	-
Distributions to consolidated joint venture partner	(3,076)	-	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	\$ 8,199	23,209	(57,770)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(44,501)	8,814	(101,630)
Cash and cash equivalents at beginning of year	124,316	115,502	217,132
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 79,815	124,316	\$ 115,502
NON-CASH FINANCING ACTIVITIES			
Notes, mortgage notes and other debt from the JEN Transaction	\$ -	-	\$ 14,301

See notes to consolidated financial statements.

AV HOMES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

(Dollars in thousands except per-share data)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

We are engaged in the business of homebuilding, community development, and land sales in Florida and Arizona. Our residential community development activities have been adversely affected in both markets, bringing development of our active adult and primary residential communities to their lowest level in several years. We also engage in other real estate activities, such as the operation of amenities, and the sale for third-party development of commercial and industrial land, which activities have also been adversely affected by economic conditions.

Principles of Consolidation and Basis of Presentation

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

In the preparation of our financial statements, we apply accounting principles generally accepted in the United States ("GAAP"). The application of GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those reported.

JEN Transaction

During October 2010 ("the acquisition date"), we acquired from entities affiliated with JEN Partners LLC ("JEN") a portfolio of real estate assets in Arizona and Florida (the "JEN Transaction"). The purchase price was approximately \$62,000, consisting of cash, stock and promissory notes, plus an earn-out of up to \$8,000 in common stock. Additionally, we agreed to reimburse development, construction and operating expenditures made by JEN from August 1, 2010, to October 25, 2010, of approximately \$3,600.

The assets and properties acquired in the JEN Transaction include:

Arizona Assets:

- *CantaMia* - a 1,767-unit active adult community located in the Estrella Mountain Ranch Master Plan Community in Goodyear, Arizona. CantaMia is composed of three phases. In October 2010, we acquired phase 1 consisting of 593 partially or fully developed lots, 29 houses under construction, a recreation center, and a fully finished sales center; and an option for phases 2 and 3 consisting of 1,138 undeveloped lots. Phase 2 was purchased in December 2011 for \$6,000 and the option price for phase 3 is approximately \$3,600, of which \$1,000 was paid during December 2010.
- *Various Arizona Properties* - includes 99 fully developed lots, 15 houses completed or under construction and 16 developed lots for which we had an option to acquire.
- *Joseph Carl Homes, LLC (now known as Avatar Properties of Arizona, LLC)* - a Phoenix-based private home builder and the developer of CantaMia.

Florida Assets:

- *Sharpe properties* - 445 acres located in Orange County, Florida, comprised of 839 partially developed single-family and townhome lots, a multi-family tract, and a two-acre commercial site.

The acquisition date fair value of the consideration transferred totaled \$69,085, which consisted of \$33,600 in cash (including the aforementioned \$3,600), \$19,698 in restricted common stock which resulted in the issuance of 1,050,572 shares subject to a two-year lock up agreement, \$12,000 of notes divided equally into two \$6,000 notes, one with a one-year maturity, and the second with a two-year maturity and contingent consideration (earn-out) of \$4,149. At closing, we entered into an earn-out agreement with the seller which provided for the payment of up to \$8,000 in common stock (up to 420,168 shares), depending upon the achievement of certain agreed upon metrics related to the CantaMia project by December 31, 2014. We estimated the fair value of the earn-out using a probability-weighted discounted cash flow model. This fair value measurement was based on a discounted cash flow and thus represented a Level 3 measurement as defined in Accounting Standards Codification ("ASC") 820 (see Note Q). As of December 31, 2010, there were no significant changes in the range of outcomes of the earn-out compared to the acquisition date, and the earn-out liability increased to \$4,388 as a result of an increase in AV Homes' stock price as of December 31, 2010, compared to the acquisition date. At December 31, 2012 and December 31, 2011, we performed an analysis of the value of the earn-out (in terms of the agreement) and determined the fair value to be \$0.

Legal and accounting expenses incurred for the JEN Transaction were approximately \$1,800 and are included in general and administrative expenses in the Consolidated Statement of Operations and comprehensive income (loss) for the year ended December 31, 2010.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

	October 25, 2010
Land and other inventories	\$ 57,824
Less: Net liabilities assumed	(5,954)
Net identifiable assets acquired	\$ 51,870
Goodwill	17,215
Net assets acquired	\$ 69,085

Included in our consolidated statement of operations and comprehensive income (loss) from the acquisition date to the period ending December 31, 2010, are revenues of \$4,408 and losses of \$1,025 from the operations related to the assets and properties acquired in the JEN Transaction.

The following represents the pro forma consolidated statement of operations as if the JEN Transaction had been included in the consolidated results of AV Homes for the entire year ending December 31, 2010:

	2010
Total revenues	\$ 66,112
Net Loss	\$ 37,619

Mr. Joshua Nash, our Chairman of the Board of Directors, and Mr. Paul Barnett, a member of our Board of Directors, in the aggregate own a 1.5% indirect limited partnership interest in the JEN affiliates from which we purchased the above assets. Neither Mr. Nash nor Mr. Barnett voted on the JEN Transaction.

Cash and Cash Equivalents and Restricted Cash

We consider all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. As of December 31, 2012, our cash and cash equivalents were invested primarily in money market accounts that invest in U.S. government securities. Due to the short maturity period of the cash equivalents, the carrying amount of these instruments approximates their fair values.

Our cash items that are restricted as to withdrawal or usage include deposits of \$4,682 and \$7,872 as of December 31, 2012 and 2011, respectively. The balance as of December 31, 2012 is comprised primarily of \$3,613 on deposit with Citibank, N.A. to collateralize letters of credit, \$477 in land escrow accounts and \$554 of housing deposits from customers that will become available when the housing contracts close.

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.

Income Tax Receivable

Income tax receivable consists of tax refunds we expect to receive within one year. As of December 31, 2012 and 2011, there was \$1,293 and \$1,293, respectively, of income tax receivables. We did not receive any income tax refunds during 2012.

Land and Other Inventories

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

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

For assets held and used, if indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the estimated future undiscounted cash flows to be generated by the asset to its carrying value. If such cash flows are less than the asset’s carrying value, the carrying value is written down to its estimated fair value. Generally, fair value is determined by discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. The discount rate used in the determination of fair value ranges between 15% and 28%, depending on the state of development. Assumptions and estimates used in the determination of the estimated future cash flows are based on expectations of future operations and economic conditions and certain factors described below. Changes to these assumptions could significantly affect the estimates of future cash flows which could affect the potential for future impairments. Due to the uncertainties of the estimation process, actual results could differ significantly from such estimates.

For assets held for sale (such as completed speculative housing inventory), we perform an impairment test in which the asset is reviewed for impairment by comparing the fair value (estimated sales prices) less cost to sell the asset to its carrying value. If such fair value less cost to sell is less than the asset’s carrying value, the carrying value is written down to its estimated fair value less cost to sell.

We evaluate our Land and Other Inventories for impairment on a quarterly basis to reflect market conditions including a significant oversupply of homes available for sale, higher foreclosure activity and significant competition. During the years ended December 31, 2012 and 2011, our impairment assessment resulted in impairment charges of \$1,635 and \$1,527, respectively, which related to homes completed or under construction, and \$49,749 and \$107,981, respectively, in impairment charges related to land developed and/or held for future development or sale. As of December 31, 2012, other than the Land and Other Inventories that we determined to be impaired and accordingly were written down to fair value, and excluding homes completed or under construction, we had no other land and other inventories that had estimated undiscounted cash flows within 25% of their carrying values. However, we can give no assurance that any future evaluations will not result in further impairments given the real estate market, the likelihood of increased competition within the age restricted segment as conditions improve, and other factors as more fully described below.

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

Housing communities: Activities include the development of active adult and primary residential communities and the operation of amenities. The operating results and losses generated from active adult and primary residential communities during 2012, 2011 and 2010 include operating expenses relating to the operation of the amenities in our communities as well as divisional overhead allocated among several communities.

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

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

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

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 as land inventory cost. Repairs and maintenance are expensed as incurred.

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

Each reporting period, we review our Property and Equipment for indicators of impairment in accordance with ASC 360-10. For our amenities, which are located within our housing communities, indicators of potential impairment are similar to those of our housing communities (described above) as these factors may impact our ability to generate revenues at our amenities or cause construction costs to increase. In addition, we factor in the collectability and potential delinquency of the fees due for our amenities. As of December 31, 2012 and 2011, no impairments existed for Property and Equipment.

Poinciana Parkway

In December 2006, we entered into agreements with Osceola County, Florida and Polk County, Florida for us to develop and construct at our cost a 9.66 mile four-lane road in Osceola and Polk Counties beginning in Poinciana and connecting to the US17/US92 in Polk County to be known as the Poinciana Parkway (the “Poinciana Parkway”). Once completed, the roadway will provide significant relief to the currently constrained roadway infrastructure that accommodates the daily commuter traffic of Poinciana. This relief will allow for continued growth in residential, commercial, and employment in the Poinciana community, all of which the Company believe will aid its sales and land values in Poinciana. The Poinciana Parkway is to include a 4.15 mile segment to be operated as a toll road. We have acquired right-of-way and federal and state environmental permits necessary to construct the Poinciana Parkway. One additional permit is required for an interchange between the Poinciana Parkway and US17/92 in Polk County which must be accomplished prior to completing construction on the road.

On July 16, 2012, the Osceola County Commission approved an agreement that is expected to facilitate the development of the Poinciana Parkway by Osceola County and its Expressway Authority. The agreement imposed a December 31, 2012 deadline for the negotiation and execution of a new public-private development agreement among one of our wholly owned subsidiaries, API, Osceola County, Polk County and the newly formed Osceola County Expressway Authority for construction and operation of the Poinciana Parkway as an Osceola County-owned toll road.

On October 15, 2012, a Development Agreement became effective among API, Osceola County, Polk County and the Osceola County Expressway Authority which provides for the public financing of the Poinciana Parkway by Osceola County and the Osceola County Expressway Authority (the “Development Agreement”). The Development Agreement calls for us to assign all permits and plans to Osceola County and to donate certain right-of-way parcels that will accommodate both the arterial and southern connector facilities and other lands to Osceola and Polk Counties. The Osceola County Expressway Authority will be responsible for all design modifications, construction management and operation of that portion of Poinciana Parkway that is a part of the Osceola County Expressway Authority System. Polk and Osceola counties will own and operate all arterial roadway segments. The final funding package for the minimum two lane Poinciana Parkway will be determined by Osceola County and the Osceola County Expressway Authority. Construction is contingent on such funding. Should the decision be made to construct additional transportation capacity, i.e., four lanes, additional funding will be identified and contributed by Osceola County.

If funding for the Poinciana Parkway is not obtained and construction cannot be commenced by February 14, 2014, the counties have no right to obtain damages or seek specific performance. Polk County’s sole remedy under its agreement with API is to cancel its agreement with API. With respect to Osceola County, if funding and commencement of construction is not met, (i) a portion of API’s land in Osceola County will become subject to Osceola traffic concurrency requirements applicable generally to other home builders in the county and (ii) API will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway. We reviewed the recoverability of the carrying value of the Poinciana Parkway on a quarterly basis in accordance with authoritative accounting guidance. In the fourth quarter of 2012, we determined that the probability of public funding to occur is high, and as a result, we recorded a non-cash charge of \$7,659 related to our expected transfer of mitigation credits carried on our books and the carrying value of contributed right-of-way parcels. The remaining mitigation credits’ book value of \$749 was reclassified to Prepaid Expenses and Other Assets on our balance sheet as of December 31, 2012.

Non-capitalizable expenditures of \$944 related to the Poinciana Parkway were expensed during 2012. At December 31, 2012, the carrying value of the Poinciana Parkway is \$0.

Goodwill

In accordance with ASC 350, we reviewed the carrying value of goodwill and other intangible assets of each of our reporting units on an annual basis as of December 31, or more frequently upon the occurrence of certain events or substantive changes in circumstances, based on a two-step impairment test. We considered our active adult communities segment to be an individual reporting unit which is also an individual operating segment. Goodwill acquired in business combinations was assigned to the reporting unit expected to benefit from the synergies of the combination as of the acquisition date. We concluded the business combination from the JEN Transaction benefited our active adult communities reporting segment. The first step of the impairment test compared the fair value of each reporting unit with its carrying amount including goodwill. The fair value of each reporting unit was calculated using the average of an income approach and a market comparison approach which utilized similar companies as the basis for the valuation. If the carrying amount exceeded fair value, then the second step of the impairment test was performed to measure the amount of any impairment loss. The impairment loss was determined by comparing the implied fair value of goodwill to the carrying value of goodwill. The implied fair value of goodwill represented the excess of the fair value of the reporting unit over amounts assigned to its net assets.

The determination of fair value utilized an evaluation of historical and forecasted operating results and other estimates. Fair value measurements are generally determined through the use of valuation techniques that may include a discounted cash flow approach, which reflects our own assumptions of what market participants would use in pricing the asset or liability.

We monitored the actual performance of our reporting units relative to the fair value assumptions used in our annual goodwill impairment test, including potential events and changes in circumstance affecting our key estimates and assumptions.

On October 25, 2010, we recorded goodwill of \$17,215 as a result of the JEN Transaction which was allocated to our active adult reporting segment. At September 30, 2011, we reversed the full book value of the JEN earn-out liability in the amount of \$4,388. This led us to determine that circumstances existed that would require us to perform an interim analysis of the goodwill on our books. We performed a goodwill impairment test by comparing the fair value of the active adult reporting unit (the business unit for which the goodwill was assigned) with its carrying amount including goodwill. We determined that the fair value was less than the carrying value of this reporting unit and further determined that the goodwill should be fully written off as of September 30, 2011, in the amount of \$17,215. There was no remaining balance of goodwill at December 31, 2012 and December 31, 2011.

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 commercial, industrial and other land sales are recognized in full at closing, provided the purchaser's initial and continuing investment is adequate, any financing is considered collectible and there is no significant continuing involvement.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2012, 2011 and 2010, advertising costs totaled \$2,907, \$2,537 and \$1,357, respectively, and are included in Real Estate Expenses 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 may have recourse against subcontractors for certain claims relating to workmanship and materials. Warranty reserves are included in Accrued and Other Liabilities in the consolidated balance sheets.

During the years ended December 31, 2012, 2011 and 2010, changes in the warranty reserve consist of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Accrued warranty reserve, beginning of period	\$ 537	477	\$ 458
Estimated warranty expense	774	453	517
Amounts charged against warranty reserve	(762)	(393)	(498)
Accrued warranty reserve, end of period	<u>\$ 549</u>	<u>537</u>	<u>\$ 477</u>

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.

In accordance with ASC 740, AV Homes evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a “more likely than not” standard. 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 2012 and 2011 we recognized an increase of \$35,050 and \$68,961, respectively, in the valuation allowance. As of December 31, 2012, our deferred tax asset valuation allowance was \$126,533. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

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

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.

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

Non-controlling Interest

AV Homes has consolidated certain LLCs, which qualify as variable interest entities because we determined that AV Homes is the primary beneficiary. Therefore, the LLCs' financial statements are consolidated in AV Homes' consolidated financial statements and the other partners' equity in each of the LLCs is recorded as non-controlling interest as a component of consolidated equity. At December 31, 2012 and 2011, non-controlling interest was \$13,704 and \$449, respectively. The increase in non-controlling interest is attributable to capital contributions of \$13,779 and net income of \$2,552, offset by distributions of \$3,076 from these LLCs during the year ended December 31, 2012.

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.

As of December 31, 2012, an aggregate of 1,128,201 shares of our common stock, subject to certain adjustments, were reserved for issuance under the Incentive Plan, including an aggregate of 371,024 options, restricted stock units and stock units granted. There were 757,177 shares available for grant at December 31, 2012.

Retirement of Treasury Stock

In December 2011, we retired 1,409,832 shares of treasury stock. These shares remain as authorized stock; however they are now considered unissued. In accordance with ASC 505, "Equity" ("ASC 505"), the treasury stock retirement resulted in reductions to common stock \$1,410, treasury stock \$33,086, retained earnings \$7,411 and paid in capital \$24,264. There was no effect on the total stockholders' equity position as a result of the retirement.

In March 2012, we retired 1,141,400 shares of treasury stock, which shares also remain as authorized but unissued. This treasury stock retirement resulted in reductions to common stock of \$1,141, treasury stock of \$42,905, retained earnings \$18,848 and paid in capital of \$22,919. There was no effect on the total stockholders' equity position as a result of the retirement.

Repurchase of Common Stock and Notes

On October 13, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$9,864 previously authorized. On October 17, 2008, we repurchased \$35,920 principal amount of the 4.50% Notes for approximately \$28,112 including accrued interest. On December 12, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$1,888 remaining after the October 2008 activities. In 2009, we repurchased \$14,076 principal amount of the 4.50% Notes for approximately \$11,696 including accrued interest. No repurchases were made during 2011 or 2012. As of December 31, 2012, the remaining authorization is \$18,304.

Loss Per Share

We present loss per share in accordance with ASC 260, *Earnings Per Share* ("ASC 260"). Basic earnings (loss) per share is computed by dividing net 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. In accordance with ASC 260, the computation of diluted loss per share for the year ended December 31, 2012 and 2011 did not assume the effect of restricted stock units, employee stock options, the 4.50% Notes or the 7.50% Notes because the effects were antidilutive.

The weighted average number of shares outstanding in calculating basic earnings per share includes the issuance of 122,388, 140,143 and 1,135,903 shares of our common stock for 2012, 2011 and 2010, respectively, due to the stock issued in connection with the JEN Transaction in 2010, equity offering in 2009 as described above, exercise of stock options, conversion of restricted stock units, stock units and conversion of 4.50% Notes. Excluded from the weighted average number of shares outstanding for 2012, 2011 and 2010 are 209,270, 439,000 and 537,267, respectively, restricted shares that are subject to vesting and performance requirements (see Note K). In accordance with ASC 260, nonvested shares are not included in basic earnings per share until the vesting and performance 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 years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Numerator :</u>			
Basic and diluted loss per share – net loss attributable to AV Homes	<u>\$ (90,235)</u>	<u>\$ (165,881)</u>	<u>\$ (35,108)</u>
<u>Denominator :</u>			
Basic and diluted weighted average shares	<u>12,557,416</u>	<u>12,448,423</u>	<u>11,455,466</u>

Recently Issued Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (“ASU 2011-04”) which provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards (IFRS). The guidance changes certain fair value measurement principles and expands the disclosure requirements particularly for Level 3 fair value measurements. The guidance was effective for us on January 1, 2012, to be applied prospectively. The adoption of this ASU 2011-04 did not have a material impact on our consolidated financial statements or disclosures.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income (“ASU 2011-05”) which requires the presentation of comprehensive income in either a continuous statement of comprehensive income (loss) or two separate but consecutive statements. The guidance was effective for us on January 1, 2012. Our adoption of ASU 2011-05 did not have a material effect on our consolidated financial statements or disclosures.

Comprehensive Income (Loss)

Net loss and comprehensive loss are the same for the years ended December 31, 2012, 2011 and 2010.

NOTE B - REAL ESTATE REVENUES

The components of real estate revenues are as follows:

	<u>For the year ended December 31</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Active adult communities	\$ 43,032	\$ 39,934	\$ 36,949
Primary residential	35,936	15,272	14,209
Commercial, industrial and other land sales	26,595	31,731	4,712
Other real estate operations	598	646	1,389
Total real estate revenues	<u>\$ 106,161</u>	<u>\$ 87,583</u>	<u>\$ 57,259</u>

During the year ended December 31, 2012, we realized pretax profits of \$8,014 on revenues of \$26,595 from sales of commercial, industrial and other land. During the year ended December 31, 2011, we realized pre-tax profits of \$3,632 on revenues of \$31,731 from sales of commercial, industrial and other land. During the year ended December 31, 2010, pre-tax profits from sales of commercial and industrial land were \$3,717 on aggregate revenues of \$4,712 and pre-tax losses from other land sales were \$4,721.

In December 2009, Frenchman’s Yacht Club Developers, LLC (“Frenchman’s”), a Florida limited liability company in which our wholly-owned subsidiary, API, is the sole member, sold its interest in the proposed development known as Frenchman’s Yacht Club to an unrelated third party for cash and a purchase money note of \$4,208. The amount of cash we received did not meet the criteria in authoritative accounting guidance to record this sale under the full accrual method of profit recognition. As a result, this transaction was accounted for under the cost recovery method. Under the cost recovery method, no profit is recognized until cash payments by the buyer, including principal and interest on the purchase money note due to us exceeds the cost of the property sold. In the Frenchman’s transaction, since we sold the property at a loss, in accordance with authoritative accounting guidance we recognized the loss of approximately \$3,800 in full. The note receivable was discounted by \$1,291 to the fair value for purposes of measuring the loss on this transaction. Additionally, future interest cash receipts is recorded as deferred income, and presented as a reduction to the note receivable until such time that the cumulative cash payments by the buyer exceed AV Homes’ book value in the property at the time of sale.

See “Business Segments” in Note P.

NOTE C - LAND AND OTHER INVENTORIES

Land and other inventories consist of the following:

	December 31,	
	2012	2011
Land developed and in process of development	\$ 86,931	\$ 91,964
Land held for future development or sale	53,526	64,773
Homes completed or under construction	30,563	23,134
Other	24	196
	<u>\$ 171,044</u>	<u>\$ 180,067</u>

Land developed and in process of development primarily consists of land, land development costs, capitalized interest and real estate taxes associated with land undergoing improvement activity. We may defer development activity if we believe such a deferral will result in greater returns and/or maximize the economic performance of a community. Land held for future development or sale principally reflects land and land development costs related to land where development activity has been suspended. We may suspend development activity due to building permit moratoriums or regulatory restrictions, or on large land parcels that we plan to build out over several years and/or parcels that have not yet been entitled. Homes completed or under construction is comprised of costs associated with homes in various stages of construction and includes direct construction and related land and land development costs.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation consist of the following:

	December 31	
	2012	2011
Land and improvements	\$ 19,122	\$ 22,325
Buildings and improvements	37,812	32,963
Machinery, equipment and fixtures	9,875	12,989
Amenities construction in progress	-	1,484
	<u>66,809</u>	<u>69,761</u>
Less accumulated depreciation	<u>(30,148)</u>	<u>(31,785)</u>
	<u>\$ 36,661</u>	<u>\$ 37,976</u>

Amenities owned by AV Homes and which are not held for sale or future transfer to homeowners associations are included in property and equipment. The net book values of these amenities (excluding amenities construction in progress) were \$34,330 and \$35,245 as of December 31, 2012 and 2011, respectively.

We review our Property and Equipment quarterly for indicators of impairment in accordance with ASC 360-10. For our amenities, which are located within our housing communities, indicators of potential impairment are similar to those of our housing communities (described above) as these factors may impact our ability to generate revenues at our amenities or cause construction costs to increase. In addition, we factor in the collectability and potential delinquency of the fees due for our amenities. There were no impairments of our amenities in 2012, 2011, or 2010.

Depreciation charged to operations during 2012, 2011 and 2010 was \$2,636, \$2,837 and \$3,091, respectively.

NOTE E - ESTIMATED DEVELOPMENT LIABILITY FOR SOLD LAND

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

	December 31,	
	2012	2011
Gross estimated unexpended costs	\$ 35,879	\$ 37,106
Less costs relating to unsold home sites	<u>(2,905)</u>	<u>(3,062)</u>
Estimated development liability for sold land	<u>\$ 32,974</u>	<u>\$ 34,044</u>

Charges associated with these obligations of approximately \$88, (\$794) and \$291 were recorded during 2012, 2011 and 2010, 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 F - VARIABLE INTEREST ENTITIES

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

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

We participate in entities with equity interests ranging from 20% to 58.8% for the purpose of acquiring and/or developing land in which we may or may not have a controlling interest. These entities are VIEs and our investments in these entities, along with other arrangements represent variable interests, depending on the contractual terms of the arrangement. We analyze these entities when they are entered into or upon a reconsideration event.

Consolidation of Variable Interest Entities

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

In May 2012, the Company entered into an agreement with JEN Arizona 4, LLC to form a limited liability company, EM 646, LLC ("EM 646"). The Company holds a 58.8% interest in the venture, which was organized for the purpose of acquiring, entitling, developing, and distributing specific sections of real property located in Mesa, Arizona. The property was acquired in November, 2012, and will be distributed to the partners at cost, once certain entitlements and development activities are completed.

We determined that these entities qualified as VIEs which require consolidation by the entity determined to be the primary beneficiary. As a result of our analyses, we hold a variable interest in the VIEs through the purchase money notes, the land option contracts and an economic interest in these LLCs. As of December 31, 2012, our consolidated balance sheets include \$32,659 in land and other inventories from these LLCs. As of December 31, 2011, our consolidated balance sheets included \$3,470 in land and other inventories and \$1,049 in property and equipment from these LLCs.

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

In October 2012, all of the club and real property owned by the remaining consolidated joint venture was sold to an unrelated third party. The net gain on this sale of approximately \$1,339 is fully recognized and included as a component of net loss on our consolidated statement of operations and comprehensive income (loss). The joint venture partner's 60% share of the gain of approximately \$803 is presented on our consolidated statement of operations and comprehensive income (loss) as a component of net income (loss) attributable to non-controlling interests in consolidated entities.

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

As of December 31, 2012, these consolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners. The assets of our VIEs can only be used to settle obligations of the VIEs.

Unconsolidated Variable Interest Entities

We participate in entities with equity interests ranging from 20% to 50% for the purpose of acquiring and/or developing land in which we do not have a controlling interest. We analyze these entities when they are entered into or upon a reconsideration event. All of such entities in which we had an equity interest at December 31, 2012 and 2011 are accounted for under the equity method.

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

Prior to 2010, we entered into various transactions with unaffiliated third parties providing for the formation of LLCs; and we subsequently sold developed and partially-developed land to each of these entities. We acquired a minority ownership interest in each of the LLCs and share in the management of each. We made contributions totaling \$135, \$138 and \$143 to our unconsolidated entities during 2012, 2011 and 2010, respectively.

At December 31, 2010 we had approximately \$3,669 recorded as mortgages receivable from one of our unconsolidated joint ventures. During 2011, these mortgages were paid in full in conjunction with two lot purchase transactions the Company made from the JV.

As of December 31, 2012, these unconsolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners.

The consolidated condensed balance sheets of our unconsolidated entities are:

	December 31, 2012	December 31, 2011
<u>Assets :</u>		
Cash	\$ 53	\$ 197
Land and other inventory	6,126	6,928
Other assets	6	11
Total assets	<u>\$ 6,185</u>	<u>\$ 7,136</u>
<u>Liabilities and Partners' Capital :</u>		
Accounts payable and accrued liabilities	\$ 83	\$ 1,900
Partners' Capital of:		
AV Homes	1,220	845
Equity partner	4,882	4,391
Total liabilities and partners' capital	<u>\$ 6,185</u>	<u>\$ 7,136</u>

The consolidated condensed statements of operations of our unconsolidated entities for the years ended December 31, are:

	2012	2011	2010
Revenues	\$ 1,849	6,081	\$ 507
Costs and expenses	1,193	5,768	1,213
Net gain/(loss) from unconsolidated entities	<u>\$ 656</u>	<u>313</u>	<u>\$ (706)</u>
AV Homes' share of loss from unconsolidated entities	<u>\$ 259</u>	<u>(398)</u>	<u>\$ (276)</u>

NOTE G - NOTES PAYABLE

Notes payable are summarized as follows:

	December 31	
	2012	2011
Corporate		
7.50% Convertible Notes, due 2016	\$ 55,500	100,000
7.50% Exchange Notes, due 2016	44,500	-
4.50% Convertible Senior Notes, due 2024	\$ 5,402	\$ 5,402
Total	<u>\$ 105,402</u>	<u>\$ 105,402</u>

Corporate7.50% Notes and 4.50% Notes

On January 31, 2011, the Company entered into an Underwriting Agreement with the Barclays Capital Inc. (the “Underwriter”). Pursuant to the Underwriting Agreement, AV Homes agreed to issue and sell to the Underwriter, and the Underwriter agreed to purchase for sale in an underwritten public offering, \$100,000 aggregate principal amount of 7.50% Notes. The 7.50% Notes were sold to the public at a purchase price of 100% of the principal amount plus accrued interest, if any, from February 4, 2011.

On February 4, 2011, the Company completed the sale of the 7.50% Notes in accordance with the terms of the Underwriting Agreement. The sale of the 7.50% Notes is registered pursuant to a Registration Statement filed by AV Homes with the SEC. Net proceeds to the Company from the sale of the 7.50% Notes were approximately \$95,373 after deducting the underwriting fees of 4.25% and expenses of approximately \$377. We intend to use the proceeds from the sale of the 7.50% Notes for general corporate purposes, including, without limitation, the repayment of debt, including the 4.50% Notes, which notes may be put to the Company pursuant to the terms thereof on each of April 1, 2011, April 1, 2014, and April 1, 2019, or called by the Company at any time on or after April 5, 2011, and potential new acquisitions of real estate and real estate-related assets. On February 4, 2011, we repurchased \$17,765 principal amount of the 4.50% Notes for approximately \$18,171. As of December 31, 2012, \$5,402 principal amount of the 4.50% Notes remain outstanding.

The 7.50% Notes are governed by the Base Indenture and the First Supplemental Indenture, together the Indenture, both dated as of February 4, 2011, between the Company and Wilmington Trust FSB, as trustee, and include the following terms:

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

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

Financial covenants : The Indenture includes the following financial covenants:

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

Repurchase Right: Holders of the 7.50% Notes have the right to require the Company to repurchase the 7.50% Notes on February 15, 2014; or upon the occurrence of a breach of any of the financial covenants, a "fundamental change" (as defined in the Indenture), or an event of default (as described in the Indenture).

Redemption Right : AV Homes may, at any time on or after February 15, 2014, at its option, redeem for cash all or any portion of the outstanding 7.50% Notes, but only if the last reported sale price of AV Homes' common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day before the date the Company provides the notice of redemption to holders exceeds 130% of the conversion price in effect on each such trading day and certain other conditions described in the Indenture are met.

On March 30, 2004, we issued \$120,000 aggregate principal amount of 4.50% Notes in a private offering. Interest is payable semiannually on April 1 and October 1. The 4.50% Notes are senior, unsecured obligations and rank equal in right of payment to all of our existing and future unsecured and senior indebtedness. However, the 4.50% Notes are effectively subordinated to all of our existing and future secured debt to the extent of the collateral securing such indebtedness, and to all existing and future liabilities of our subsidiaries.

Holders may require us to repurchase the 4.50% Notes for cash on April 1, 2011, April 1, 2014 and April 1, 2019; or in certain circumstances involving a designated event, as defined in the indenture for the 4.50% Notes, holders may require us to purchase all or a portion of their 4.50% Notes. We may, at our option, redeem for cash all or a portion of the 4.50% Notes at any time on or after April 5, 2011. In each case, we will pay a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. On April 1, 2011, holders of \$41,637 principal amount of the 4.50% Notes exercised their right to require us to repurchase the 4.50% Notes. As of both December 31, 2012 and December 31, 2011, \$5,402 principal amount of the 4.50% Notes remained outstanding.

FASB ASC 470-20 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. ASC 470-20 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The excess of the principal amount of the liability component over its carrying amount and the debt issuance costs are amortized to interest cost using the interest method over the expected life of a similar liability that does not have an associated equity component.

The discount on the liability component of the 4.50% Notes is amortized using the effective interest method based on an effective rate of 7.50%, which was the estimated market interest rate for similar debt without a conversion option on the issuance date. The discount was amortized from the issuance date in 2004 through April 1, 2011, the first date that holders of the 4.50% Notes could require us to repurchase the 4.50% Notes. The discount was fully amortized in 2011.

7.50% Senior Exchange Convertible Notes due 2016

During the year ended December 31, 2012, the Company entered into exchange agreements under which it retired \$44.5 million in aggregate principal amount of the Company's 7.50% Notes, in exchange for its issuance of \$44.5 million in aggregate principal of new 7.50% Senior Exchange Convertible Notes due 2016 ("7.50% Exchange Notes"). Following these transactions, \$55.5 million in aggregate principal amount of the 7.50% Notes remained outstanding.

The 7.50% Exchange Notes mature on February 15, 2016 and will pay interest semiannually at a rate of 7.50% per year, beginning on February 15, 2013. The 7.50% Exchange Notes have an initial conversion rate of 55.5555 shares of common stock per \$1 original principal amount of notes (equivalent to a conversion price of approximately \$18.00 per share), subject to adjustment in certain events. Unlike the 7.50% Notes, the 7.50% Exchange Notes do not provide that the holder may require the Company to repurchase them on February 15, 2014. The cancellation of the existing put right in the 7.50% Notes extends the effective maturity date of the 7.50% Exchange Notes to February 15, 2016.

Shares of the Company's common stock, into which the 7.50% Exchange Notes are convertible, have been reserved for issuance by the Company. The Company has the right to redeem the 7.50% Exchange Notes beginning February 15, 2015. Prior to that date, the 7.50% Exchange Notes are redeemable, on one occasion only, upon the occurrence of certain events. The Company has a right, but not an obligation, to require holders to convert the 7.50% Exchange Notes in whole or in part if the closing price of the common stock equals or exceeds 130% of the conversion price then in effect for a specified period.

The Second Supplemental Indenture includes the same financial covenants as those governing the 7.50% Notes, except that the outstanding 7.50% Exchange Notes, as well as the 7.50% Notes, are excluded from the third covenant. The Company may suspend the operation of these financial covenants with respect to the 7.50% Exchange Notes under certain circumstances.

The Company has assessed the provisions of the 7.50% Exchange Notes Base Indenture and Second Supplementary Indenture and concluded that the impact of any embedded derivative features are not material as of December 31, 2012, but will be subject to further review over the life of the 7.50% Exchange Notes.

Maturities of notes payable at December 31, 2012 are as follows:

	<u>Total</u>
2013	-
2014	-
2015	-
2016	\$ 100,000(1)(2)
2017	-
Thereafter	5,402(3)
	<u>\$ 105,402</u>

- (1) Holders may require us to repurchase the 7.50% Notes for cash on February 15, 2014; or upon the occurrence of a breach of any of the financial covenants, a "fundamental change" or in an event of default (as defined in the indenture for the 7.50% Notes); or we may call the 7.50% Notes at any time on or after February 15, 2014, according to restrictions defined in the Indenture.
- (2) Holders may require us to repurchase the 7.50% Exchange notes upon the occurrence of a breach of any of the financial covenants, a "fundamental change" or in an event of default (as defined in the indenture for the 7.50% Exchange Notes); or we may call the 7.50% Exchange Notes at any time on or after February 15, 2014, according to restrictions defined in the indenture.
- (3) Holders may require us to repurchase the 4.50% Notes for cash on April 1, 2014 and April 1, 2019; or in certain circumstances involving a designated event, as defined in the indenture for the 4.50% Notes; or we may call the 4.50% Notes at any time on or after April 5, 2011.

The following table represents interest incurred, interest capitalized, and interest expense for 2012, 2011 and 2010:

	2012	2011	2010
Interest incurred	\$ 9,236	\$ 9,955	\$ 5,681
Interest capitalized	(1,263)	(439)	(150)
Interest expense	<u>\$ 7,973</u>	<u>\$ 9,516</u>	<u>\$ 5,531</u>

We made interest payments of \$7,587, \$6,136 and \$3,572 for the years ended December 31, 2012, 2011 and 2010, respectively.

NOTE H - EMPLOYEE BENEFIT PLANS

We have a defined contribution savings plan that covers substantially all employees. Under this savings plan, we may contribute to the plan based upon specified percentages of employees' voluntary contributions. We made no contributions to the plan for the years ended December 31, 2012, 2011 and 2010. Our Board of Directors determined to not effect a matching contribution during 2012 and 2011.

NOTE I - LEASE COMMITMENTS

We lease the majority of our administration and sales offices under operating leases that expire at varying times through 2017. Rental expense for the years 2012, 2011 and 2010 was \$409, \$1,809 and \$1,086, respectively. The decrease in rental expense in 2012 over 2011 is primarily attributable to the lease termination associated with the closing of our corporate office in Coral Gables, Florida. Minimum rental commitments under non-cancelable operating leases as of December 31, 2012, are as follows: 2013 - \$619; 2014 - \$422; 2015 - \$164; 2016 - \$161; 2017 - \$143; thereafter -\$0.

NOTE J - ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities are summarized as follows:

	December 31	
	2012	2011
Property taxes and assessments	\$ 439	\$ 1,833
Interest	3,057	2,871
Accrued compensation	960	2,653
Warranty reserve	549	537
Infrastructure obligations	6,042	-
Other	1,931	2,102
	<u>\$ 12,978</u>	<u>\$ 9,996</u>

NOTE K - SHARE-BASED PAYMENTS AND OTHER EXECUTIVE COMPENSATION

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.

Under the Incentive Plan, we granted performance-based restricted shares to select executives. Vesting is contingent upon the achievement of certain performance objectives, some of which are subjective in nature. Compensation cost for these awards is recognized over the service period, and variable accounting is applied where by the fair value of the award is remeasured each reporting period until vesting occurs.

As of December 31, 2012, an aggregate of 1,128,201 shares of our Common Stock, subject to certain adjustments, were reserved for issuance under the Incentive Plan, including an aggregate of 371,024 options, restricted stock units and stock units granted. There were 757,177 shares available for grant at December 31, 2012.

During 2012, we granted 442,195 restricted stock and restricted stock units, which have a weighted average grant date fair value of \$7.98 per share.

During the year ended December 31, 2012 and 2011, previously restricted stock of 160,327 and 175,524 shares, respectively, vested. As of December 31, 2012, there are 230,095 shares of restricted stock that are considered legally outstanding but are not considered outstanding for accounting purposes until the vesting conditions are satisfied in accordance with ASC 718.

Compensation expense related to share-based compensation for the years ended December 31, 2012, 2011 and 2010 was \$3,034 (including \$1,891 related to performance-based shares), \$1,796, and \$1,352.

Under ASC 718, the fair value of awards of restricted stock and units which do not contain a specified hurdle price condition is based on the market price of our common stock on the date of grant. Under ASC 718, the fair value of restricted stock awards which contain a specified hurdle price condition is estimated on the grant date using the Monte-Carlo option valuation model. Under ASC 718, the fair value of each stock option is estimated on the grant date using the Black-Scholes option-pricing model. The valuation models require assumptions and estimates to determine expected volatility, expected life, expected dividend yield and expected risk-free interest rates. The expected volatility was determined using historical volatility of our stock based on the contractual life of the award. The risk-free interest rate assumption was based on the yield on zero-coupon U.S. Treasury strips at the award grant date. We also used historical data to estimate forfeiture experience.

The significant weighted average assumptions used for the years ended December 31, 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Dividend yield	0%	0%	0%
Volatility rate	47.40%-61.25%	40.24%-52.55%	42.70%-49.50%
Risk-free interest rate	0.17%-0.43%	0.15%-0.65%	0.35%-1.24%
Expected life (years)	0.50-4.08	0.26-4.41	1.0-5.2
Weighted average fair value of units granted	\$ 7.98	\$ 11.63	\$ 14.23

A summary of the status of the stock option activity for the years ended December 31, 2012, 2011 and 2010 is presented below:

	2012		2011		2010	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	110,000	\$ 25.00	110,000	\$ 25.00	110,000	\$ 25.00
Exercised	-	\$ -	-	\$ -	-	\$ -
Forfeited	-	\$ -	-	\$ -	-	\$ -
Outstanding at end of year	110,000	\$ 25.00	110,000	\$ 25.00	110,000	\$ 25.00
Exercisable at end of year	110,000	\$ 25.00	110,000	\$ 25.00	110,000	\$ 25.00

The weighted average remaining contractual life of stock options outstanding as of December 31, 2012, was .2 years.

A summary of the restricted stock and stock units activity for the year ended December 31, 2012, is presented below:

	Restricted Stock and Stock Units	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	449,310(1)	\$ 11.36
Granted	442,195	\$ 10.78
Exercised	(160,327)	\$ 13.61
Expired/Forfeited	(501,083)	\$ 8.28
Cancelled	-	\$ -
Outstanding at end of year	230,095	\$ 15.38

(1) Restricted stock shares are considered legally outstanding but are not considered outstanding for accounting purposes until the vesting conditions are satisfied in accordance with authoritative accounting guidance.

As of December 31, 2012, there was \$2,488 of unrecognized compensation expense related to unvested restricted stock and restricted stock units, which is expected to be recognized over a weighted-average period of 1.5 years. As of December 31, 2012, there was no unrecognized compensation expenses related to stock options.

Under a deferral program, non-management directors may elect to defer up to 50% of annual retainer fees, committee fees and/or chairperson fees, for which the director is credited with a number of stock units based upon the closing price of AV Homes' common stock on the due date of each payment. The number of stock units become distributable as shares of common stock upon the earlier of a date designated by the individual director or the date of the individual's separation from service as a director. No stock units were distributed to non-management directors during the years ended December 31, 2012, 2011 and 2010, respectively. The outstanding balance of stock units as of December 31, 2012, 2011 and 2010 was 30,929, 23,053 and 17,757, respectively.

NOTE L - INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Current			
Federal	\$ -	-	\$ -
State	-	-	-
Total current	-	-	-
Deferred			
Federal	-	473	(375)
State	-	-	-
Total deferred	-	473	(375)
Total income tax expense (benefit)	\$ -	473	\$ (375)

On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 was enacted into law and amended Section 172 of the Internal Revenue Code to extend the permitted carryback period for offsetting certain net operating losses (NOLs) against earnings for up to five years. Due to this enacted federal tax legislation, AV Homes carried back its 2009 NOL against earnings it generated in the five previous years. As a result, AV Homes received a federal tax refund of \$33,627 during 2010.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred income tax assets and liabilities as of December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred income tax assets		
Tax over book basis of land inventory	\$ 14,564	\$ 14,524
Unrecoverable land development costs	6,622	6,965
Executive incentive compensation	1,099	548
Net operating loss carry forward	33,872	19,987
Impairment charges	74,551	56,973
Other	5,428	5,945
Total deferred income tax assets	<u>136,136</u>	<u>104,942</u>
Valuation allowance for deferred tax assets	<u>(126,533)</u>	<u>(91,483)</u>
Net deferred income tax assets	9,603	13,459
Deferred income tax liability		
Book over tax income recognized on sale of the Ocala Property	(9,118)	(12,899)
Tax over book on 4.50% Convertible Notes	(696)	(767)
Book over tax basis of depreciable assets	211	207
Restricted stock	-	-
	<u>(9,603)</u>	<u>(13,459)</u>
Net deferred income tax liability	<u>\$ -</u>	<u>\$ -</u>

In accordance with ASC 740, AV Homes evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a “more likely than not” standard. 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 2012 and 2011 we recognized an increase of \$35,050 and \$68,961, respectively, in the valuation allowance. As of December 31, 2012, our deferred tax asset valuation allowance was \$126,533. 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.

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

No additional income tax benefits were generated from the exercise of share-based compensation during 2012, 2011 and 2010.

A reconciliation of income tax expense (benefit) to the expected income tax expense (benefit) at the federal statutory rate of 35% for each of the years ended December 31, 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Income tax (benefit) expense computed at statutory rate	\$ (31,582)	(57,893)	\$ (12,419)
State income tax (benefit) expense, net of federal benefit	(3,388)	(6,521)	(1,200)
Adjustment to 2009 net operating loss carryback	-	-	795
Change in valuation allowance on deferred tax assets	35,050	68,961	12,103
Prior period adjustments charged to retained earnings	-	(4,044)	-
Other	(80)	(30)	346
Income tax (benefit) expense	<u>\$ -</u>	<u>473</u>	<u>\$ (375)</u>

During 2010 and 2009, we received income tax payment refunds of approximately \$33,627 and \$21,356, respectively, related to taxable losses generated during 2009 and 2008, respectively. We did not receive income tax payment refunds in 2011 or 2012.

On February 10, 2012, AV Homes agreed with the Internal Revenue Service’s Notice of Proposed Adjustment to the 2009 net operating loss carryback. This adjustment generated an income tax expense of \$473 for 2011 with a reduction in the anticipated income tax receivable in the same amount. The anticipated income tax receivable as of December 31, 2012 is \$1,293.

NOTE M - COMMITMENTS AND CONTINGENCIES

We are involved in various pending litigation matters primarily arising in the normal course of our business. These cases are in various procedural stages. Although the outcome of these matters cannot be determined, AV Homes believes it is probable in accordance with ASC 450-20, *Loss Contingencies*, that certain claims may result in costs and expenses estimated at approximately \$258 and \$275, which have been accrued in the accompanying consolidated balance sheets as of December 31, 2012 and 2011, respectively. Liabilities or costs arising out of these and other currently pending litigation are 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 December 31, 2012, we had outstanding performance bonds of approximately \$1,032. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

NOTE N - RESTRUCTURING

In July 2011, in response to the difficult operating environment due to the downturn in the homebuilding industry, we undertook a strategic planning effort to improve our market position and to reduce our operating costs. As a result of this effort, in the third quarter of 2011, we took further steps to reduce staffing, cut salaries, and we negotiated a lease termination associated with the planned closing of our corporate office in Coral Gables, Florida. Restructuring costs include employee severance benefits, corporate office lease exit costs, and other costs related to the closure of the Coral Gables office, and are summarized below:

	Twelve Months Ended December 31, 2011
Employee severance benefits	\$ 697
Lease exit costs	952
Other	140
Total restructuring charges	<u>\$ 1,789</u>

The restructuring costs reflected in the above table are included within general and administrative expenses in our Consolidated Statements of Operations and comprehensive income (loss). Liabilities for employee severance benefits totaled \$279 at December 31, 2011.

NOTE O - OTHER MATTERS

At our community of Solivita, tax-exempt bond financing is utilized to fund and manage portions of public infrastructure consisting primarily of storm water management facilities, drainage works, irrigation facilities, and water and wastewater utilities. The bonds were issued by the Poinciana Community Development District and Poinciana West Community Development District (the “CDDs”), independent special-purpose units of county government, established and operating in accordance with Chapter 190 of the Florida Statutes. The bonds are serviced by non-ad valorem special assessments levied on certain developable and developed property within Solivita, and the assessments constitute a liability against the developable and developed property and are intended to secure the CDDs’ ability to meet bond servicing obligations. In accordance with EITF 91-10, *Accounting for Special Assessments and Tax Increment Financing*, we record and pay the assessments on parcels owned by AV Homes when such assessments are fixed and determinable. The bonds are not a liability of AV Homes or any other landowner within the CDDs but are obligations secured by the land. For the developable and developed parcels AV Homes owns within the CDDs, AV Homes pays the assessments until such parcels are sold. After a sale by AV Homes, AV Homes no longer pays the assessments on the parcel sold and any future assessments become the responsibility of the new owner and its successors in title until the bonds are paid in full.

NOTE P - BUSINESS SEGMENTS

In accordance with ASC 280, *Segment Reporting* (“ASC 280”), our current operations include the following 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. In accordance with ASC 280, our title insurance agency (which we sold in July 2011) does not qualify as a separate reportable segment and is included in “Other Operations”.

The following tables summarize our information for reportable segments for the years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues:			
Segment revenues			
Active adult communities	\$ 43,032	\$ 39,934	\$ 36,949
Primary residential	35,936	15,272	14,209
Commercial and industrial and other land sales	26,595	31,731	4,712
Other operations	598	932	1,485
	<u>106,161</u>	<u>87,869</u>	<u>57,355</u>
Unallocated revenues			
Interest income	127	309	580
Other	1,199	804	1,203
Total revenues	<u>\$ 107,487</u>	<u>\$ 88,982</u>	<u>\$ 59,138</u>
Operating income (loss):			
Segment operating income (loss)			
Active adult communities	\$ (8,919)	(12,188)	\$ (5,043)
Primary residential	(9)	(7,527)	(6,284)
Commercial and industrial and other land sales	8,014	3,632	3,717
Other operations	631	159	387
	<u>(283)</u>	<u>(15,924)</u>	<u>(7,223)</u>
Unallocated income (expenses)			
Interest income	127	309	580
Gain (loss) on extinguishment of debt	(1,144)	(211)	-
Equity loss from unconsolidated entities	259	(398)	(276)
General and administrative expenses	(16,148)	(17,502)	(20,508)
Change in fair value of contingent consideration	-	4,388	-
Interest expense	(7,973)	(9,516)	(5,531)
Other real estate expenses	(5,113)	(1,654)	(3,099)
Impairment of the Poinciana Parkway	(7,659)	-	-
Impairment of goodwill	-	(17,215)	-
Impairment of land developed or held for future development	(49,749)	(107,981)	-
Loss before income taxes	<u>\$ (87,683)</u>	<u>(165,704)</u>	<u>\$ (36,057)</u>
		December 31	
		<u>2012</u>	<u>2011</u>
Segment assets:			
Active adult communities		\$ 89,793	\$ 166,369
Primary residential		56,951	41,188
Commercial and industrial and other land sales		30,095	8,774
Poinciana Parkway		-	8,437
Assets held for sale		25,649	30,078
Unallocated assets		135,383	154,210
Total assets		<u>\$ 337,871</u>	<u>\$ 409,056</u>

(a) Our businesses are primarily conducted in the United States.

(b) Identifiable assets by segment are those assets that are used in the operations of each segment.

- (c) No significant part of the business is dependent upon a single customer or group of customers.
- (d) The caption “Unallocated assets” under the table depicting the segment assets represents the following as of December 31, 2012 and 2011, respectively: cash, cash equivalents and restricted cash of \$86,163 and \$119,456; land inventories of \$36,715 and \$20,876 (a majority of which is bulk land); property and equipment of \$2,164 and \$845; investment in and notes from unconsolidated entities of \$1,220 and \$845; receivables of \$4,661 and \$7,584; and prepaid expenses and other assets of \$4,459 and \$4,605. None of the foregoing are directly attributable to a reportable segment in accordance with ASC 280.
- (e) There is no interest expense from active adult communities, primary residential, and commercial, industrial and other land sales included in segment operating income/(loss) for 2012, 2011 and 2010.
- (f) Included in segment operating profit/(loss) for 2012 is depreciation expense of \$2,069, \$90 and \$476 from active adult, primary residential communities and unallocated corporate/other, respectively. Included in segment operating profit/(loss) for 2011 is depreciation expense of \$2,167, \$546 and \$124 from active adult, primary residential communities and unallocated corporate/other, respectively. Included in segment operating profit/(loss) for 2010 is depreciation expense of \$2,282, \$552 and \$257 from active adult, primary residential communities and unallocated corporate/other, respectively.
- (g) During fiscal year 2012, impairment losses of approximately \$1,620 and \$15 reduced the carrying value of the assets of active adult and primary residential communities, respectively. During fiscal year 2011, impairment losses of approximately \$1,060 and \$467 reduced the carrying value of the assets of active adult and primary residential communities, respectively. During fiscal year 2010, impairment losses of approximately \$408 and \$252 reduced the carrying value of the assets of active adult and primary residential communities, respectively.

NOTE Q - FAIR VALUE DISCLOSURES

FASB 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 generally accepted accounting principles, 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.

FASB ASC 820-10-65, *Fair Value Measurements and Disclosures – Overall – Transition and Open Effective Date Information*, provides guidelines for making fair value measurements more consistent with the principles presented in ASC 820-10, *Fair Value Measurements and Disclosures - Overall*. This topic provides additional authoritative guidance in determining whether a market is active or inactive, and whether a transaction is distressed; is applicable to all assets and liabilities (i.e. financial and nonfinancial); and requires enhanced disclosures.

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

- Level 1: Fair value determined based on quoted market prices in active markets for identical assets and liabilities.
- Level 2: Fair value determined using significant observable inputs, such as quoted prices for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data, by correlation or other means.
- Level 3: Fair value determined using significant unobservable inputs, such as discounted cash flows, or similar techniques.

The carrying value of cash and cash equivalents, restricted cash, receivables 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, Poinciana Parkway 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.

AV Homes' assets measured at fair value as of December 31, 2012, and gain (losses) for the year ended December 31, 2012, on a nonrecurring basis are summarized below:

Non-financial Assets/Liabilities	Fair Value Hierarchy	Fair Value at December 31, 2012	Gains/(Losses)
Homes completed or under construction	Level 3	\$ 7,426	\$ (1,635)
Poinciana Parkway	Level 3	\$ -	\$ (7,659)
Land and other inventories	Level 3	\$ 873	\$ (46,887)
Assets held for sale	Level 2	\$ 25,649	\$ (2,862)

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 range between 15 and 28% 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 December 31, 2012 and 2011 are as follows:

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 79,815	\$ 79,815	\$ 124,316	\$ 124,316
Restricted cash	\$ 4,682	\$ 4,682	\$ 7,872	\$ 7,872
Receivables, net	\$ 6,730	\$ 6,730	\$ 7,729	\$ 7,729
Income tax receivable	\$ 1,293	\$ 1,293	\$ 1,293	\$ 1,293
Notes, mortgage notes and other debt:				
Corporate:				
7.50% Notes	\$ 100,000	\$ 101,500	\$ 100,000	\$ 90,000
4.50% Notes	\$ 5,402	\$ 5,343	\$ 5,402	\$ 5,295

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

Cash and cash equivalents and Restricted cash: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents and restricted cash approximates their fair value.

Receivables, net and Income tax receivable: The carrying amounts reported in the consolidated balance sheets for receivables, net and income tax receivable approximates their fair value.

7.50%, 7.50% Exchange and 4.50% Notes: At December 31, 2012 and 2011, the fair values of the 7.50% Notes, 7.50% Exchange Notes and 4.50% Notes are estimated, based on quoted or estimated market prices.

NOTE R - QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 2012 and 2011 is as follows:

	2012 Quarter			
	First	Second	Third	Fourth
Net revenues	\$ 26,710	\$ 18,966	\$ 28,652	\$ 33,159
Expenses	33,597	30,354	40,164	91,314
Equity earnings (losses) from unconsolidated entities	(36)	(43)	(38)	376
Loss before income taxes	(6,923)	(11,431)	(11,550)	(57,779)
Less: Net loss attributable to non-controlling interests	1,528	(86)	33	1,077
Net loss attributable to AV Homes	\$ (8,451)	\$ (11,345)	\$ (11,583)	\$ (58,856)
Loss per share:				
Basic and Diluted	\$ (0.68)	\$ (0.91)	\$ (0.92)	\$ (4.67)
	2011 Quarter			
	First	Second	Third	Fourth
Net revenues	\$ 12,212	\$ 28,366	\$ 14,703	\$ 33,701
Expenses	22,308	45,163	135,705	51,112
Equity earnings (losses) from unconsolidated entities	(128)	143	(341)	(72)
Loss before income taxes	(10,224)	(16,654)	(121,343)	(17,483)
Less: Net income (loss) attributable to non-controlling interests	127	128	132	(91)
Income tax expense	-	-	(350)	(123)
Net loss attributable to AV Homes stockholders	\$ (10,097)	\$ (16,526)	\$ (121,561)	\$ (17,697)
Loss per share:				
Basic and Diluted	\$ (0.81)	\$ (1.33)	\$ (9.76)	\$ (1.42)

1. Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with the per share amounts for the year.
2. During the first quarter of 2012, our impairment evaluation resulted in total impairment charges of \$3,428 which included \$581 in impairment charges for homes completed or under construction and \$2,847 in impairment charges for land developed and/or held for future development.
3. During the second quarter of 2012, our impairment evaluation resulted in total impairment charges of \$152 which related to impairment charges for homes completed or under construction.
4. During the third quarter of 2012, our impairment evaluation resulted in total impairment charges of \$3,784, which included \$807 in impairment charges for homes completed or under construction and \$2,977 in impairment charges for land developed and/or held for future development.
5. During the fourth quarter of 2012, our impairment evaluation resulted in total impairment charges of \$51,679 which included \$95 in impairment charges for homes completed or under construction, \$43,925 in impairment charges for land developed and/or held for future development, and \$7659 in impairment charges related to the Poinciana Parkway.

NOTE S - SUBSEQUENT EVENTS

None

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

During 2012, the Company completed a software conversion which encompassed both operational and financial reporting systems. The new system was implemented by November 1, 2012 and we have evaluated the impact of this conversion as it relates to the Company’s internal controls.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we have determined that except as disclosed above, during the fiscal quarter ended December 31, 2012, 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.

See Part II – Item 8. “Financial Statements and Supplementary Data” for “Management’s Report on Internal Control over Financial Reporting” and the “Report of Independent Registered Public Accounting Firm”, as they relate to internal control over financial reporting, incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K, or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period, except for the information regarding the executive officers of AV Homes, which information is included in Part I of this Annual Report under the heading “Executive Officers of the Registrant”.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K, or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K, or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K, or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K, or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements and Schedules :

See Item 8. "Financial Statements and Supplementary Data" of this report.

(a)(2) Financial Statements Schedules :

Schedule II - Valuation and Qualifying Accounts

Schedules other than those listed above are omitted, since the information required is not applicable or is included in the financial statements or notes thereto.

(a)(3)	<u>Exhibits:</u>	
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. 0-7616), 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. 0-7616), and incorporated herein by reference).
3.3	*	Certificate of Ownership and Merger Merging AV Homes, Inc., a Delaware corporation, with and into Avatar Holdings Inc., a Delaware Corporation (filed as Exhibit 3.1 to Form 8-K dated February 15, 2012, and incorporated herein by reference).
3.4	*	Amended and Restated By-laws as of February 15, 2012 (filed as Exhibit 3.2 to Form 8-K dated February 15, 2012, 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	*	Global Note in the principal sum of \$100,000,000, dated February 4, 2011 (filed as Exhibit 4.3 to Form 8-K dated February 4, 2011, and incorporated herein by reference).
10.1	*1	Amended and Restated 1997 Incentive and Capital Accumulation Plan (2005 Restatement) (filed as Exhibit 10.1 to Form 8-K dated May 24, 2005 (File No. 0-7616), and incorporated herein by reference).
10.2	*1	2005 Executive Incentive Compensation Plan (filed as Exhibit 10.2 to Form 8-K dated May 24, 2005 (File No. 0-7616), and incorporated herein by reference).
10.3	*1	Form of Deferred Compensation Agreement for Non-Employee Directors' Fees (filed as Exhibit 10.1 to Form 8-K dated June 13, 2005 (File No. 0-7616), and incorporated herein by reference).
10.4	*1	Form of Non-Employee Director Amended and Restated Restricted Stock Unit Agreement (filed as Exhibit 10.3 to Form 10-Q for the quarter ended June 30, 2009 (File No. 0-7616), and incorporated by reference).
10.5	*	Option Agreement, dated October 20, 2006, between Avatar Properties Inc. and The Nature Conservancy (filed as Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2006 (File No. 0-7616), and incorporated by reference).
10.6	*1	Employment Agreement, dated as of November 8, 2006, between Avatar Holdings Inc. and Patricia Kimball Fletcher (filed as Exhibit 10(bx) to Form 10-K for the year ended December 31, 2006 (File No. 0-7616), incorporated herein by reference).
10.7	*1	Restricted Stock Unit Agreement, dated as of November 8, 2006, between Avatar Holdings Inc. and Patricia Kimball Fletcher (filed as Exhibit 10(by) to Form 10-K for the year ended December 31, 2006 (File No. 0-7616), incorporated herein by reference).
10.8	*1	Letter Agreement, dated as of November 8, 2006, among Avatar Holdings Inc. and Patricia Kimball Fletcher (filed as Exhibit 10(bz) to Form 10-K for the year ended December 31, 2006 (File No. 0-7616), incorporated herein by reference).
10.9	*	Poinciana Parkway Regulatory Agreement dated as of December 15, 2006 by and between Osceola County, Florida and Avatar Properties Inc. (filed as Exhibit 10(ca) to Form 10-K for the year ended December 31, 2006 (File No. 0-7616), incorporated herein by reference).
10.10	*	Poinciana Parkway Regulatory Agreement dated as of December 20, 2006 by and between Polk County, Florida and Avatar Properties Inc. (filed as Exhibit 10(cb) to Form 10-K for the year ended December 31, 2006 (File No. 0-7616), incorporated herein by reference).
10.11	*1	Amendment to Avatar Holdings Inc. Amended and Restated 1997 Incentive and Capital Accumulation Plan (2005 Restatement) (filed as Exhibit 10.1 to Form 8-K dated June 4, 2007 (File No. 0-7616), and incorporated herein by reference).
10.12	*	First Amended and Restated Poinciana Parkway Regulatory Agreement, dated as of July 25, 2008, by and between Avatar Properties Inc. and Osceola County, Florida (filed as Exhibit 10.1 to Form 8-K dated July 29, 2008 (File No. 0-7616), and incorporated herein by reference).
10.13	*	Transportation Concurrency Agreement, dated December 15, 2006, by and between Avatar Properties Inc. and Osceola County, Florida (filed as Exhibit 10.2 to Form 8-K dated July 29, 2008 (File No. 0-7616), and incorporated herein by reference).
10.14	*	Amendment to Transportation Concurrency Agreement, dated as of July 25, 2008, by and between Avatar Properties Inc. and Osceola County, Florida (filed as Exhibit 10.3 to Form 8-K dated July 29, 2008 (File No. 0-7616), and incorporated herein by reference).
10.15	*	First Amended and Restated Poinciana Parkway Regulatory Agreement, dated as of August 6, 2008, by and between Avatar Properties Inc. and Polk County, Florida (filed as Exhibit 10.1 to Form 8-K dated August 11, 2008 (File No. 0-7616), and incorporated herein by reference).
10.16	*1	Amended and Restated Restricted Stock Unit Agreement, dated December 22, 2008, between Avatar Holdings Inc. and Patricia K. Fletcher (filed as Exhibit 10.4 to Form 8-K dated December 22, 2008 (File No. 0-7616), and incorporated herein by reference).
10.17	*1	Amended and Restated Employment Agreement, dated December 22, 2008, between Avatar Holdings Inc. and Patricia K. Fletcher (filed as Exhibit 10.11 to Form 8-K dated December 22, 2008 (File No. 0-7616), and incorporated herein by reference).
10.18	*1	Amended and Restated Form of Deferred Compensation Agreement for Non-Employee Directors' Fees (filed as Exhibit 10.97 to Form 10-K for the year ended December 31, 2008 (File No. 0-7616), and incorporated herein by reference).

10.19 *1 First Amendment to Amended and Restated Employment Agreement, between Avatar Holdings Inc. and Patricia Kimball Fletcher, dated October 26, 2009 (filed Exhibit 10.84 to Form 10-K for the year ended December 31, 2009, and incorporated herein by reference).

10.20	*1	Second Amendment to Amended and Restated Employment Agreement, dated August 25, 2010, between Avatar Holdings Inc. and Patricia Kimball Fletcher (filed as Exhibit 10.1 to Form 8-K dated August 25, 2010 (File No. 0-7616), and incorporated herein by reference).
10.21	*1	Restricted Stock Unit Agreement, dated August 25, 2010, between Avatar Holdings Inc. and Patricia Kimball Fletcher (filed as Exhibit 10.2 to Form 8-K dated August 25, 2010 (File No. 0-7616), and incorporated herein by reference).
10.22	*1	Employment Agreement, dated as of October 22, 2010, between Avatar Holdings Inc., Avatar Properties Inc., and Carl Mulac (filed as Exhibit 10.79 to Form 10-K for the year ended December 31, 2010 (File No. 001-07395), and incorporated herein by reference).
10.23	*1	Master Transaction Agreement, dated as of October 25, 2010, by and among Avatar Properties Inc., Terra West Communities LLC, JEN JCH, LLC, Joseph Carl Mulac III, Stephen Adams and Sun Terra Communities, LLC (collectively, "Sellers"), Avatar Holdings Inc., and JEN Partners, LLC (filed as Exhibit 10.80 to Form 10-K for the year ended December 31, 2010 (File No. 001-07395), and incorporated herein by reference).
10.24	*1	Earn out Agreement, dated as of October 25, 2010, by and among Avatar Holdings Inc., Avatar Properties Inc., JEN I, L.P. and JEN Residential LP (filed as Exhibit 10.81 to Form 10-K for the year ended December 31, 2010 (File No. 001-07395), and incorporated herein by reference).
10.25	*1	Voting Standstill and Lock-Up Letter Agreement, dated as of October 25, 2010, by and among Avatar Holdings Inc., Avatar Properties Inc., JEN I, L.P. and JEN Residential LP (filed as Exhibit 10.82 to Form 10-K for the year ended December 31, 2010 (File No. 001-07395), and incorporated herein by reference).
10.26	*1	Registration Rights Agreement, dated as of October 25, 2010, by and among Avatar Holdings Inc., JEN I, L.P. and JEN Residential LP (filed as Exhibit 10.83 to Form 10-K for the year ended December 31, 2010 (File No. 001-07395), and incorporated herein by reference).
10.27	*1	Stock Award Agreement, dated as of October 25, 2010, between Avatar Holdings Inc. and Joseph Carl Mulac, III (filed as Exhibit 10.2 to Form 8-K dated April 29, 2011 (File No. 001-07395), and incorporated herein by reference).
10.28	*1	Amended and Restated 1997 Incentive and Capital Accumulation Plan (2011 Restatement) (filed as Exhibit 10.1 to Form 8-K dated June 7, 2011 (File No. 001-07395), and incorporated herein by reference).
10.29	*1	Amended and Restated 2005 Executive Incentive Compensation Plan (2011 Restatement) (filed as Exhibit 10.2 to Form 8-K dated June 7, 2011 (File No. 001-07395), and incorporated herein by reference).
10.30	*1	Employment Agreement, dated as of June 15, 2011, by and between Avatar Holdings Inc. and Allen J. Anderson (filed as Exhibit 10.6 to Form 10-Q for the quarter ended June 30, 2011, and incorporated herein by reference).
10.31	*1	First Amendment, dated as of August 8, 2011, to the Employment Agreement, dated as of June 15, 2011, between Avatar Holdings Inc. and Allen J. Anderson (filed as Exhibit 10.7 to Form 10-Q for the quarter ended June 30, 2011, and incorporated herein by reference).
10.32	*1	Stock Award Agreement, dated as of June 15, 2011, between Avatar Holdings Inc. and Allen J. Anderson (filed as Exhibit 10.8 to Form 10-Q for the quarter ended June 30, 2011, and incorporated herein by reference).
10.33	*1	Employment Agreement, dated August 15, 2011, by and among Avatar Holdings Inc., Avatar Properties Inc. and Tina Johnston (filed as Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference).
10.34	*1	Stock Award Agreement, dated August 15, 2011, by and between Avatar Holdings Inc. and Tina Johnston (filed as Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference).
10.35	*1	Amended and Restated Employment Agreement, dated September 29, 2011, by and among Avatar Holdings Inc., Avatar Properties Inc. and Carl Mulac (filed as Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference).
10.36	*1	Stock Award Agreement, dated September 29, 2011, by and between Avatar Holdings Inc. and Carl Mulac (filed as Exhibit 10.4 to Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference).
10.37	*1	Second Amended and Restated Employment Agreement, dated September 29, 2011, by and among Avatar Holdings Inc., Avatar Properties Inc. and Patricia K. Fletcher (filed as Exhibit 10.5 to Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference).
10.38	*1	Stock Award Agreement, dated September 29, 2011, by and between Avatar Holdings Inc. and Patricia K. Fletcher (filed as Exhibit 10.6 to Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference).
10.39	*1	Amended and Restated Employment Agreement, dated September 29, 2011, by and among Avatar Holdings Inc., Avatar Properties Inc. and Tina Johnston (filed as Exhibit 10.7 to Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference).
10.40	*1	Amended and Restated Employment Agreement, effective December 31, 2011, by and between Avatar Holdings, Inc. and Allen Anderson (filed as Exhibit 10.97 to form 10-K for the year ended December 31, 2011).
10.41	*1	Stock Award Agreement, dated January 1, 2012, by and between Avatar Holdings, Inc. and Allen Anderson (filed as Exhibit 10.98 to form 10-K for the year ended December 31, 2011).
10.42	*1	Stock Award Agreement, dated January 1, 2012, by and between Avatar Holdings, Inc. and Tina Johnston (filed as Exhibit 10.99 to form 10-K for the year ended December 31, 2011).
10.43	1	Separation Agreement with Allen Anderson dated November 20, 2012.
10.44	1	Separation Agreement with Patricia K. Fletcher dated September 25, 2012.
10.45	1	Offer letter to Dave M. Gomez dated September 20, 2012.
21		Subsidiaries of Registrant (filed herewith).
23.1		Consent of Independent Registered Public Accounting Firm (filed herewith).
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.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Act of 1934 and otherwise are not subject liability under those sections.

1 Management contract or compensatory plan or arrangement.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

AV HOMES, INC. AND SUBSIDIARIES

(Dollars in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deduction/ (Addition)	Balance at End of Period
Year ended December 31, 2012:				
Deducted from asset accounts:				
Deferred gross profit on home site sales	\$ 5	\$ -	\$ -	\$ 5
Allowance for doubtful accounts	1,508	-	95	1,413
Valuation allowance for deferred tax assets	91,483	35,050(4)	-	126,533
Total	<u>\$ 92,996</u>	<u>\$ 35,050</u>	<u>\$ 95</u>	<u>\$ 127,951</u>
Year ended December 31, 2011:				
Deducted from asset accounts:				
Deferred gross profit on home site sales	\$ 22	\$ 2(1)	\$ (19)	\$ 5
Allowance for doubtful accounts	1,217	421	(130)	1,508
Valuation allowance for deferred tax assets	22,522	68,961(4)	-	91,483
Total	<u>\$ 23,761</u>	<u>\$ 69,384</u>	<u>\$ (149)</u>	<u>\$ 92,996</u>
Year ended December 31, 2010:				
Deducted from asset accounts:				
Deferred gross profit on home site sales	\$ 22	\$ -	\$ -	\$ 22
Allowance for doubtful accounts	1,192	144(1)	(119)(3)	1,217
Valuation allowance for deferred tax assets	10,419	12,103(4)	-	22,522
Total	<u>\$ 11,633</u>	<u>\$ 12,247</u>	<u>\$ (119)</u>	<u>\$ 23,761</u>

(1) (Credit) charge to operations as an (increase) decrease to revenues.

(2) Charge to operations as an increase to real estate expenses.

(3) Uncollectible accounts written off.

(4) In accordance with ASC 740, Avatar evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. During 2008, we established a valuation allowance against our deferred tax assets. Based on our evaluation during the year ended December 31, 2008, we recorded an additional valuation allowance against the deferred tax assets generated as a result of our net loss during the year ended December 31, 2008. 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 first nine months of 2009, we recognized an increase of \$9,522 in the valuation allowance. However due to the new federal tax legislation as discussed above, we decreased the valuation allowance for the year ended December 31, 2009 by \$9,148. As of December 31, 2009, our deferred tax asset valuation allowance was \$10,419. During the year ended December 31, 2010 we recognized an increase of \$12,103 in the valuation allowance. As of December 31, 2010, our deferred tax asset valuation allowance was \$22,522. During the year ended December 31, 2011 we recognized an increase of \$68,961 in the valuation allowance. As of December 31, 2011, our deferred tax asset valuation allowance was \$91,483. During the year ended December 31, 2012 we recognized an increase of \$35,050 in the valuation allowance. As of December 31, 2012, our deferred tax valuation allowance was \$126,533. 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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: March 15, 2013

By: /s/ Roger A. Cregg
Roger A. Cregg, Director, President, and
Chief Executive Officer (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 15, 2013

By: /s/ Roger A. Cregg
Roger A. Cregg, Director, President, and
Chief Executive Officer (Principal Executive Officer)

Dated: March 15, 2013

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

Dated: March 15, 2013

By: /s/ Joshua Nash
Joshua Nash, Director and Chairman of the Board

Dated: March 15, 2013

By: /s/ Allen J. Anderson
Allen J. Anderson, Director

Dated: March 15, 2013

By: /s/ Paul D. Barnett
Paul D. Barnett, Director

Dated: March 15, 2013

By: /s/ Roger W. Einiger
Roger W. Einiger, Director

Dated: March 15, 2013

By: /s/ Reuben S. Leibowitz
Reuben S. Leibowitz, Director

Dated: March 15, 2013

By: /s/ Joel M. Simon
Joel M. Simon, Director

EXHIBIT INDEX

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** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Act of 1934 and otherwise are not subject liability under those sections.

1 Management contract or compensatory plan or arrangement.

SEPARATION AGREEMENT

THIS SEPARATION AGREEMENT (this "Agreement") is entered into on November 20, 2012, by and between AV Homes, Inc. f/k/a Avatar Holdings Inc. a Delaware corporation (the "Company") and Allen Anderson (the "Executive").

WHEREAS, the Executive and the Company (each, a "Party" and together, the "Parties") are parties to an Amended and Restated Employment Agreement dated as of December 31, 2011 (the "Employment Agreement"); and

WHEREAS, the Parties have agreed that the Executive's employment with the Company will terminate as of December 3, 2012 (the "Termination Date"); and

WHEREAS, the Parties wish to set forth herein their respective rights and obligations in connection with the termination of the Executive's employment with the Company.

NOW, THEREFORE, based upon the mutual promises and conditions contained herein, the Parties agree as follows:

1. Termination of Employment.

The Executive's employment as Chief Executive Officer shall terminate as of the Termination Date.

2. The Executive's Entitlements.

In connection with the foregoing, and in accordance with the applicable terms of the Employment Agreement, the Executive shall:

(a) be paid any accrued and unpaid Base Salary (as defined in the Employment Agreement) and vacation earned but unused through the Termination Date, such payment to be made within 15 days following the Termination Date;

(b) receive benefits under the Benefits Plans (as defined in the Employment Agreement), on terms and conditions set forth in such plans; and

(c) as of the Termination Date vest in the restricted stock subject to the Second Tranche (as defined in that certain Stock Award Agreement, dated January 1, 2012 by and between the Company and the Executive – the "Stock Award Agreement") to the extent (expressed as a percentage) the applicable Performance Goals (as defined in the Stock Award Agreement) have been met as of the Termination Date.

3. Mutual Release of Claims.

(a) Release by the Executive. The Executive, on his own behalf and on behalf of his heirs, executors, administrators and legal representatives (collectively, the "Executive Parties") hereby irrevocably and unconditionally releases and forever discharges the Company and its shareholders, employees, officers and directors (collectively, the "Company Parties") from any and all claims, actions, causes of action, rights, judgments, obligations, damages, demands, accountings or liabilities of whatever kind or character (collectively, "Claims"), whether known or unknown, whether now existing or hereafter arising, that any Executive Party may have, may have had, or may hereafter have, and that are based in whole or in part on facts, whether or not now known, existing prior to the Effective Date, regarding any matter whatsoever, including but not limited to any Claim based on Title VII of the Civil Rights Act of 1964; the Americans With Disabilities Act; the Fair Labor Standards Act; the Equal Pay Act; the Family and Medical Leave Act; the Executive Retirement Income Security Act of 1974 (except as to claims pertaining to vested benefits under employee benefit plans maintained by the Company); the Occupational Safety and Health Act; the Worker Adjustment and Retraining Notification Act; the National Labor Relations Act; the Immigration Reform and Control Act; all applicable amendments to the foregoing acts and laws; and any common law, public policy, contract (whether oral or written, express or implied) and tort law, and any other local, state, federal or foreign law, regulation or ordinance having any bearing whatsoever on the Executive's employment relationship with, and service as an employee, officer or director of, the Company, and the termination of such relationship or service, or any other matter whatsoever; provided, however, that this Agreement shall not release any rights or entitlements of the Executive that arises under or is preserved by this Agreement.

(b) Release by the Company. The Company, on behalf of itself and the Company Parties, hereby releases, acquits and forever discharges the Executive and the Executive Parties from any and all Claims, whether known or unknown, whether now existing or hereafter arising, at law or in equity, that any Company Party may have, may have had, or may hereafter have, and that are based in whole or in part on facts, whether or not now known, existing prior to the Effective Date, regarding any matter whatsoever, other than claims based on the Executive's willful misconduct, fraud or gross neglect.

4. Restrictive Covenants.

(a) Unauthorized Disclosure. Without the prior written consent of the Company, except to the extent required by an order of a court having competent jurisdiction or under subpoena from an appropriate government agency, in which event the Executive shall use his best efforts to consult with the Company prior to responding to any such order or subpoena, the Executive shall not disclose any confidential or proprietary trade secrets, customer lists, drawings, designs, marketing plans, management organization information (including but not limited to data and other information relating to members of the Board of Directors (the "Board"), the Company, or any of its affiliates or to the management of the Company or any of its affiliates), operating policies or manuals, business plans, financial records, or other financial, commercial, business or technical information (i) relating to the Company or any of its affiliates; or (ii) that the Company or any of its affiliates may receive belonging to customers or others who do business with the Company or any of its affiliates (collectively, "Confidential Information") to any third Person (as defined below) unless such Confidential Information has been previously disclosed to the public generally or is in the public domain, in each case, other than by reason of the Executive's breach of this Section 4(a).

(b) Non-Competition. For the twelve-month period commencing on the Termination Date (the “Restriction Period”), Executive shall not, directly or indirectly, own any interest in, operate, join, control or participate as a partner, shareholder, member, director, manager, officer, or agent of, enter into the employment of, act as a consultant to, or perform any services for any entity that is in competition with the business of the Company or any of its affiliates within 100 miles of any jurisdiction in which the Company or any of its affiliates is engaged, or in which any of the foregoing has documented plans to become engaged of which Executive has knowledge as of the Termination Date; provided, however, that it shall not be a violation of this Section 4(b) if the Executive owns less than 5% (as a passive investment) in any public company.

(c) Non-Solicitation of Employees. During the Restriction Period, the Executive shall not, directly or indirectly, for the Executive’s own account or for the account of any other natural person, partnership, limited liability company, association, corporation, company, trust, business trust, governmental authority or other entity (each, a “Person”) in any jurisdiction in which the Company or any of its affiliates has commenced or has made plans to commence operations during the Term (as defined in the Employment Agreement), (i) solicit for employment, employ or otherwise interfere with the relationship of the Company or any of its affiliates with any natural person throughout the world who is or was employed by or otherwise engaged to perform services for the Company or any of its affiliates at any time during the Term; or (ii) induce any employee of the Company or any of its affiliates to engage in any activity which the Executive is prohibited from engaging in under any of this Section 4 or to terminate such employee’s employment with the Company or such affiliate.

(d) Non-Solicitation of Business Relationships. During the Restriction Period, the Executive shall not, directly or indirectly, for the Executive’s own account or for the account of any other Person, in any jurisdiction in which the Company or any of its affiliates has commenced or made plans to commence operations, solicit, interfere with, or otherwise attempt to establish any business relationship of a nature that is competitive with the business or relationship of the Company or any of its affiliates with any Person throughout the world which is or was a customer, client, distributor, supplier or vendor of the Company or any of its affiliates at any time during the Term.

(e) Non-Disparagement. The Executive agrees that he shall not, directly or indirectly, engage in any conduct or make any statement disparaging or criticizing in any way the Company or any of its affiliates or any of their personnel, nor shall he, directly or indirectly, engage in any other conduct or make any other statement that could be reasonably expected to impair the goodwill of the Company or any of its affiliates, or the reputation of the Company or any of its affiliates, in either case except to the extent required by law, and then only after consultation with the Company to the extent possible, or to enforce the terms of this Agreement.

(f) Return of Documents. Promptly following the Termination Date, the Executive shall deliver to the Company (i) all property of the Company and any of its affiliates then in the Executive’s possession; and (ii) all documents and data of any nature and in whatever medium of the Company and any of its affiliates, and the Executive shall not take with the Executive any such property, documents or data or any reproduction thereof, or any documents containing or pertaining to any Confidential Information.

(g) Cooperation. The Executive agrees that he will cooperate in all reasonable respects with the Company and its affiliates in connection with any and all existing or future litigation, actions or proceedings (whether civil, criminal, administrative, regulatory or otherwise) brought by or against the Company or any of its affiliates, to the extent the Company reasonably deems the Executive's cooperation necessary. The Company shall reimburse the Executive for all reasonable out-of-pocket expenses incurred by the Executive as a result of such cooperation.

5. Miscellaneous.

(a) Public Announcements. The Executive and the Company shall jointly draft, and shall mutually agree on, any press release, regulatory filing, or other public statement that is made by the Company and that relates to this Agreement or to the Executive's employment with, or services for, the Company or to the termination thereof.

(b) Tax Withholding; Section 409A. The Company shall withhold from any amount or benefit payable under this Agreement any taxes that it is required to withhold by applicable law or regulation. Notwithstanding anything herein to the contrary, this Agreement is intended to be interpreted and applied so that the payment of the benefits set forth herein either shall either be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") or shall comply with the requirements of such provision. Notwithstanding anything herein to the contrary, if the Executive is a "specified employee" (within the meaning of Section 409A of the Code ("Section 409A")), any payments or arrangements due on or after the Termination Date under any arrangement that constitutes a "deferral of compensation" (within the meaning of Section 409A) and which do not otherwise qualify under the exemptions under Treas. Regs. Section 1.409A, shall be delayed and paid or provided on the earlier of (i) the date which is six months after the Executive's "separation from service" (as such term is defined in Section 409A) for any reason other than death, and (ii) the date of his death. Any amounts otherwise payable to the Executive on or after the Termination Date that are not so paid by reason of this Section 5(b) shall be paid as soon as practicable after, and in any event within thirty (30) days after, the date that is six months after the Executive's separation from service (or, if earlier, the date of his death). Each payment under this Agreement or otherwise shall be treated as a separate payment for purposes of Section 409A.

(c) Notice. Any notice or other communication required or permitted to be delivered under this Agreement shall be (i) in writing; (ii) delivered personally, by facsimile, by electronic mail, by courier service or by certified or registered mail, first class postage prepaid and return receipt requested; (iii) deemed to have been received on the date of delivery or, if so mailed, on the third business day after the mailing thereof; and (iv) addressed to the party as set forth below (or to such other address as the party entitled to notice shall hereafter designate in accordance with the terms hereof).

If to the Executive:

The last address the Company has on file.

If to the Company:

AV Homes, Inc.
8601 N. Scottsdale Rd.
Ste.225
Scottsdale AZ 85253
Attention: Chairman of the Board and General Counsel
Facsimile: (305) 441-7876

or to such other address as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(d) Amendment or Modification; Waiver. No provision of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is set forth in a writing that expressly identifies provisions being amended and that is signed by the Parties. No waiver by any person or entity of any breach of any condition or provision contained in this Agreement shall be deemed a waiver of any similar or dissimilar condition or provision at any prior or subsequent time. To be effective, a waiver must be set forth in a writing that is signed by the waiving person or entity and that expressly identifies the condition or provision breach of which is being waived.

(e) Binding Effect. This Agreement shall be binding on and inure to the benefit of the Company and its successors and assigns and the Executive and the Executive's heirs, executors, administrators and legal representatives.

(f) Entire Agreement. This Agreement constitutes the entire understanding and agreement between the Parties concerning the specific subject matter hereof and supersedes in its entirety, as of the Effective Date, any prior agreement between the Parties, including but not limited to the Employment Agreement.

(g) Effective Date. The Executive acknowledges that he has been given a period of at least twenty-one (21) calendar days to review and consider the provisions of this Agreement. The Executive further understands and acknowledges that he has seven (7) calendar days following the execution of this Agreement to revoke his acceptance of this Agreement. This Agreement will not become effective or enforceable until after the seven (7) day period to revoke this Agreement has expired without the Executive's revocation. The effective date of this Agreement (the "Effective Date") shall be the eighth (8th) day following its execution by the Executive, provided the Executive shall not have timely revoked this Agreement in accordance with the foregoing prior to such eighth (8th) day.

(h) Governing Law. This Agreement shall be governed, construed, performed and enforced in accordance with its express terms and otherwise in accordance with the laws of New York, without reference to principles of conflicts of law.

(i) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. Signatures delivered by facsimile and/or “pdf” shall be deemed effective for all purposes.

(j) Headings. The headings of the sections and sub-sections contained in this Agreement are for the convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

[Signature page follows]

IN WITNESS WHEREOF , the Parties have executed this Agreement as of the date and year first above written.

AV HOMES, INC.

By: /s/ Joshua Nash

Name : Joshua Nash

Title : Chairman

ALLEN ANDERSON

/s/ Allen Anderson

SEPARATION AGREEMENT, INCLUDING GENERAL RELEASE

I. This Separation Agreement, Including General Release (“Agreement”), together with the additional release of all claims in the form attached as Exhibit "A" ("Additional Release") covers all understandings among Patricia K. Fletcher (“Executive”), AV Homes, Inc. f/k/a Avatar Holdings Inc. (“Company”) and Avatar Properties Inc. (“Avatar”) relating to Executive’s employment and separation from employment with Avatar.

II. Executive’s last day of employment will be October 31, 2012 (the “Termination Date”), and after that date the only payments or other things of value which Executive will be entitled to receive are those set forth in this Agreement, except that any amounts due to Executive under any retirement plans will be paid according to the terms of the plans. Executive acknowledges and agrees that Executive is not entitled to any separation pay whatsoever without entering into this Agreement and without executing and not revoking the Additional Release.

III. Effective at midnight on September 30, 2012 Executive resigns from all officer and director positions at the Company, Avatar and their affiliates *except for* the position of Executive Vice President of Avatar. Effective at midnight on October 31, 2012, Executive resigns as Executive Vice President of Avatar.

IV. Effective September 30, 2012 at midnight, (i) the Second Amended and Restated Employment Agreement dated as of September 29, 2011, among Company, Avatar and Executive shall be of no further force and effect and (ii) the Stock Award Agreement between Company and Executive dated as of September 29, 2012 shall be of no further force or effect.

V. In consideration of the agreements set forth herein and conditioned upon Executive executing and not revoking the Agreement and Additional Release, Company and Avatar agree that:

- A. Effective as of the Termination Date, pursuant to the Company’s Amended and Restated 2005 Executive Incentive Plan (2011 Restatement), Company shall grant Executive 9,000 unrestricted shares in Company;
- B. Effective as of the Termination Date, Avatar agrees to pay Executive a Performance Bonus for 2012 in the amount of \$243,750. Payment will be made on the next payday after Avatar’s (i) receipt of the executed and unrevoked Agreement and the expiration of the seven (7)-day revocation period contained in Paragraph XXI of the Agreement and (ii) the receipt of the executed and unrevoked Additional Release and the expiration of the seven (7)-day revocation period contained in Paragraph VIII of the Additional Release; and
- C. In considerations of Executive’s outstanding efforts on behalf of the Company since she began her employment in 2007, her willingness to continue to perform all of her duties after her tender of resignation through September 30, 2012 and her agreement to assist with transition issues through the Termination Date, Avatar agrees to pay Executive a Special Bonus Award in the amount of \$300,000. Payment will be made on the next payday after Avatar’s (i) receipt of the executed and unrevoked Agreement and the expiration of the seven (7)-day revocation period contained in Paragraph XXI of the Agreement and (ii) the receipt of the executed and unrevoked Additional Release and the expiration of the seven (7)-day revocation period contained in Paragraph VIII of the Additional Release; and

- D. For avoidance of doubt, it is understood that (i) in order for Executive to receive the payments and/or benefits set forth in Sections V.B.-C. hereof, this Agreement and Additional Release must become irrevocable no later than November 30, 2012; and (ii) in addition to the timing of payment provisions of Sections V.B.-C. hereof, the payments and/or benefits due to Executive under Sections V.B.-C. shall be made no later than December 31, 2012.

VI. Subsequent to the Termination Date, Executive will be eligible to elect to continue coverage under the group health plan under COBRA, in accordance with normal COBRA rules. Information about Executive's COBRA rights will be mailed to Executive's most recent address on file with Avatar in the near future.

VII. In exchange for the promises which Avatar makes in this Agreement, Executive agrees:

A. To release and forever discharge Company and Avatar, its past and present directors, shareholders, officers, members, principals, employees, contractors, agents, subsidiaries, divisions, predecessors, parents, insurers, affiliated entities, successors, transferees and assigns, and their personal representatives, heirs, and attorneys (collectively referred to as the "Released Parties") from any and all claims, demands or liabilities whatsoever, whether known or unknown, which Executive ever had or may now have against the Released Parties, from the beginning of time to the date of this Agreement. This Agreement includes, without limitation, any claims, demands or liabilities relating to or arising out of Executive's employment with Avatar or separation of employment with Avatar pursuant to any federal, state, or local employment laws, regulations, ordinances, or executive orders prohibiting, among other things, age, race, color, sex, national origin, religion, marital status, familial status, sexual orientation, and disability discrimination.

1. This release includes, but is not limited to, any and all actions claims and demands under:

the Age Discrimination Employment Act (the "ADEA") as amended, and the Older Workers Benefit Protection Act ("OWBPA") 29 U.S.C. Section 623, et seq .;
Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 2000e, et seq . as amended;
the Americans with Disabilities Act 42 U.S.C. Section 12101, et seq . (the "ADA"), as amended;
the Equal Pay Act of 1963, 29 U.S.C. Section 206(d);
the Family and Medical Leave Act, as amended, 29 U.S.C. Section 2601, et seq . (the "FMLA");
COBRA, as amended, 29 U.S.C. Section 1161, et seq .;
the Worker Adjustment and Retraining Notification Act, 29 U.S.C. Section 2101, et. seq . ("WARN");
Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1514A; et seq .
42 U.S.C. Sections 1981 through 1988;
the National Labor Relations Act, 29 U.S.C. Section 151, et seq .,
the Immigration Reform and Control Act;
the Uniform Services Employment and Reemployment Rights Act of 1994;
the Employee Retirement Income Security Act of 1974 ("ERISA") as amended, 29 U.S.C. Section 1001, et seq . (excluding any vested benefits under any Employee Retirement Plan);

the Fair Credit Reporting Act;
the Rehabilitation Act of 1973;
the Genetic Information Nondiscrimination Act of 2008;
the Florida and Federal Constitutions;
the Florida Human Rights Act of 1977 and the Florida Civil Rights Act of 1992 as amended, Chapter 760 Florida Statutes;
the Florida Whistleblower's Act, Fla. Stat. Section 448.101, et seq .;
Florida Workers' Compensation Retaliation Statute, Fla. Stat. Section 440.205;
Florida's Wage Payment laws, Fla. Stat. Section 448.07;
the Florida Minimum Wage Act, Fla. Stat. Section 448.110;
the Florida Wage Discrimination Law, Fla. Stat. Section 448.07;
the Florida Equal Pay Law;
the Florida AIDS Act, Fla. Stat. Sections 10.1125, 381.00 and 760.50;
Florida Discrimination on Basis of Sickle Cell Trait Law, Fla. Stat. Section 448.075; and
any other federal, state or local statute, executive order regulation or ordinance relating to or dealing with unpaid wages, employment, employment discrimination, retaliation, conspiracy, tortious or wrongful discharge.

2. This release also includes, but is not limited to: (i) any and all actions, claims and demands for wrongful discharge, future wage loss, employee benefits, bonuses, stock options, attorneys' fees and costs, penalties and damages of all types, including, but not limited to, punitive and compensatory damages; emotional distress damages; breach of any employment contract (whether express or implied) among Executive, Company and Avatar; and (ii) any and all actions, claims and demands for tort damages (whether intentional or negligent) and/or personal injury as a result of Executive's employment or Executive's termination of employment by Avatar, such as defamation, fraud, misrepresentation, assault, battery, negligence, negligent supervision, hiring, or retention, detrimental reliance, intentional or negligent infliction of emotional distress, breach of a covenant of good faith and fair dealing, and any other offense. The foregoing list is meant to be illustrative rather than exhaustive.

B. That no rights or claims after the date this Agreement is signed are waived, including, but not limited to rights or claims arising under the ADEA.

C. In exchange for the promises which Executive make in this Agreement, the Released Parties agree to release and forever discharge Executive and Executive's personal representatives, heirs and attorneys, from any and all claims demands or liabilities, whatsoever, whether known or unknown which Released Parties ever had or may now have against Executive and/or Executive's personal representatives, heirs and attorneys, from the beginning of time to the date of this Agreement. This Agreement includes, without limitation, any claims, demands or liabilities relating to or arising out of Executive's employment with Avatar or separation of employment with Avatar pursuant to any federal, state, or local employment laws, regulations, ordinances, or executive orders.

D. Executive shall not sue any or all of the Released Parties, except in the event that the Company or Avatar breaches this Agreement or where Executive challenges the validity of this Agreement under the Older Workers Benefit Protection Act. Nothing, however, herein precludes Executive from participating in or filing a charge or complaint with any federal, state, or local government agency. However, with respect to such claims Executive is waiving, not only Executive's right to recover money or other legal not equitable relief in any action that Executive might institute, but Executive also is waiving Executive's right to recover money or other legal not equitable relief in any action that might be brought on Executive's behalf by any other person or entity including, but not limited to, the State of Florida, the United States Equal Employment Opportunity Commission ("EEOC"), the Department of Labor ("DOL"), or any other (U.S. or foreign) federal, state, or local agency or department.

E. That Executive has been paid and/or received all of Executive's past wages including overtime, compensation, bonuses, commissions, leave payments and/or and benefits due as of the date of this Agreement and that no such additional amounts are due Executive.

F. That Executive reported all hours worked as of the date Executive signed the Agreement and has not filed any claims, complaints, charges, lawsuits or other proceedings against any of the Released Parties with any governmental agency, arbitrator, or any court. Executive also represents that Executive does not intend to bring any claims on Executive's own behalf or on behalf of any other person or entity against Released Parties. Executive further represent that Executive has not assigned or transferred, or purported to have assigned or transferred, to any entity or person any dispute released by Executive in this Agreement.

G. Executive affirms that Executive has not been retaliated against for reporting any allegations of wrongdoing by Released Parties.

H. Executive affirms that all of the Released Parties' decisions regarding Executive's pay and benefits through the date of Executive's execution of this Agreement were not discriminatory based on age, disability, race, color, sex, religion, national origin or any other classification protected by law.

VIII. Prior to the Termination Date, Executive will return to Avatar all Avatar non-public information and property whether on paper, stored electronically, or otherwise including, but not limited to, confidential, proprietary and/or trade secret materials, documents, reports, files, manuals, memoranda, records, credit cards, computers, cardkey passes, door and file keys, computer access codes, computer passwords, software, data, programs, computer disks, cell phones, corporate credit cards, and other information or property belonging to Avatar or which Executive received, prepared or helped prepare in connection with Executive's employment. Executive further acknowledge that Executive will not retain any copies, duplicates, reproductions, or excerpts thereof. Executive agrees that Executive will not access, or attempt to access, by any means, any of Avatar's computer systems except as permitted by the Company or Avatar. Executive agrees that, in the event Executive discovers any other property of Avatar in Executive's possession after the Termination Date, Executive will immediately return such property to Avatar. Notwithstanding the foregoing, Avatar and Executive have agreed that Executive may keep confidential materials after the Termination Date as outside counsel on the Poinciana Parkway and any other matters designated by the Company or Avatar prior to the Termination Date.

IX. Executive affirms that Executive has been granted any leave to which Executive was entitled under the Family and Medical Leave Act or related state or local leave or disability accommodation laws. Executive also agree Executive has no known unreported workplace injuries or occupational diseases.

X. Executive further agrees that Executive will not ever personally, or on behalf of any other firm, corporation, person or persons, divulge or use any trade secrets, confidential, proprietary or competitive business information that Executive may have acquired or developed during Executive's employment relationship with Avatar. Such protected non-public information includes, but is not limited to, financial data, investment data, sales data, employee data, business plans, business manuals, handbooks, methods of doing business, marketing and promotion methods, trade secrets, technical information or manuals, information of a proprietary nature, customer information derived from the customers, customer lists, contracts, lead slips, invoices, or any other confidential or proprietary information obtained by Executive through Executive's employment with Avatar.

XI. Executive acknowledges and agrees that the covenants and undertakings contained in Paragraph X of this Agreement relates to matters that are of a special, unique and extraordinary character and that a violation or breach of any term of Paragraph X of this Agreement will cause irreparable injury to Company and Avatar, the amount of which will be impossible to estimate or determine and which cannot be adequately compensated. Therefore, Executive agrees that Avatar shall be entitled, as a matter of course, to an injunction, restraining order, writ of mandamus or other equitable relief from any court of competent jurisdiction, restraining any actual or threatened violation of any covenant in Paragraph X of this Agreement by Executive and such other persons as the court shall order.

XII. Nothing in Paragraph XI shall be construed to limit or prohibit Avatar from seeking any other remedies, including, but not limited to damages, attorneys' fees and costs, available to Avatar for the actual or threatened violation of any covenant contained in Paragraph X of this Agreement. Executive further agree that the covenants contained in Paragraph X of this Agreement shall be construed as agreements independent of any other provision of this Agreement, and the existence of any claim or cause of action by Executive against Avatar, whether based on this Agreement or otherwise, shall not constitute a defense to the enforcement of any the covenants in Paragraph X.

XIII. Executive agrees that Executive will not engage in any harassing or disparaging conduct toward the Released Parties and that Executive will refrain from making any negative or derogatory statements concerning Released Parties. Company and Avatar agree that they will not engage in any harassing or disparaging conduct toward Executive and that the Company and Avatar will refrain from making any negative or derogatory statements concerning Executive.

XIV. Executive agrees to cooperate with Avatar in regard to the transition of the business matters Executive handled on behalf of Avatar. Executive agrees to reasonably cooperate with Avatar and its counsel in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Avatar which relate in any way to events or occurrences that transpired while Executive were employed by Avatar. Executive's cooperation in connection with such claims or actions will include, but not limited to, being available to meet with Avatar's counsel to prepare for discovery or any legal proceeding, and to act as a witness on behalf of Avatar at mutually convenient times. Avatar will reimburse Executive for all reasonable, pre-approved out-of-pocket costs and expenses Executive incurs in connection with Executive's obligations under this paragraph of the Agreement and pay Executive the hourly rate mutually agreed between Avatar and Executive. Without limiting the foregoing, Executive has agreed to continue to represent Avatar as outside counsel with respect to the Poinciana Parkway and other matters designated by the Company or Avatar on terms mutually agreed upon from time to time so long as Company desires such representation.

XV. Executive understands that this Agreement does not waive any claims that Executive may have: (i) for compensation for illness or injury or medical expenses under any workers' compensation statute; (ii) under any law or any policy or plan currently maintained by Avatar that provides health insurance continuation or conversion rights; or (iii) any claim that by law cannot be waived or released.

XVI. Executive acknowledges and agrees that: (i) Executive has had reasonable and sufficient time to review this Agreement and to consult with an attorney regarding this Agreement; (ii) Executive has been advised to consult with legal counsel regarding this Agreement and is encouraged by Avatar to consult with legal counsel with regard to this Agreement; (iii) Executive is entering into this Agreement freely and voluntarily and not as a result of any coercion, duress or undue influence; (iv) Executive is not relying upon any oral representations made regarding the subject matter of this Agreement; (v) in exchange for Executive waiving Executive's rights and claims, Executive is receiving consideration in addition to that which Executive was already entitled; and (vi) Executive has received all information Executive requires from Company and Avatar in order to make a knowing and voluntary release and waiver of all claims against Released Parties, including claims under ADEA. Avatar and Executive further acknowledge that this Agreement and the release contained herein satisfy all the requirements for an effective release by Executive of all age discrimination claims under ADEA.

XVII. Pursuant to the provisions of the Older Workers Benefit Protection Act ("OWBPA"), which applies to Executive's waiver of rights under the ADEA, Executive acknowledge that:

A. Executive has been given twenty-one (21) days within which to consider whether to execute this Agreement; Also pursuant to the OWBPA, Executive have seven (7) days from the date Executive signs this Agreement within which to revoke this Agreement, by providing written notice via U.S. mail, overnight mail or hand delivery to Avatar, Attention: Allen Anderson, 8601 N. Scottsdale Rd, Suite 225, Scottsdale, AZ 85253.

B. Executive's written revocation must be received no later than 5:00 pm on the seventh day;

C. Executive understands that this Agreement shall not become effective until the seven-day revocation period has expired. Executive will not be entitled to any benefits of this Agreement if Executive revokes either this Agreement or the Additional Release. If Executive decides to revoke either this Agreement or the Additional Release, it will not change the fact that Executive's employment with Avatar ends on the Termination Date; and

D. Executive understands that Executive may sign this Agreement prior to the end of the twenty-one (21)-day period. If Executive does so, Executive agrees that it was done knowingly and voluntarily, without any improper inducement by Avatar.

E. Executive acknowledges that Executive received this Agreement on September 24, 2012.

F. Executive agrees that any modifications, material or otherwise, made to this Agreement, do not restart or affect in any manner the original up to twenty-one (21) calendar day consideration period.

XVIII. Executive, Company and Avatar acknowledge that the cash payments provided under this Agreement are taxable compensation and will be reported on Executive's Form W-2 for the year of payment. In addition, Company, Executive and Avatar acknowledge that all other payments and benefits provided under this Agreement that are required pursuant to the Internal Revenue Code to be treated as taxable compensation also will be reported on Executive's Form W-2 for the year the payment or benefit is provided.

XIX. Executive, Company and Avatar acknowledge that if any provision of this Agreement is invalidated by a court of competent jurisdiction, (except the releases in **Paragraph VII**) then all of the remaining provisions of this Agreement shall remain in full force and effect, provided that both parties may still effectively realize the complete benefit of the promises and considerations conferred hereby.

XX. Executive, Company and Avatar acknowledge that this Agreement, together with the Additional Release, constitutes the entire agreement between the parties with respect to the matters set forth in this Agreement and supersedes in its entirety any and all agreements or communications, whether written or oral, previously made in connection with the matter herein.

XXI. This Agreement does not constitute an admission of a violation of any law, order, regulation, or enactment, or of wrongdoing of any kind by Executive, Company or Avatar.

XXII. Any agreement to amend or modify the terms and conditions of this Agreement must be in writing and signed by each of the parties. For Company and Avatar by: Allen Anderson, CEO.

XXIII. Each party represents that it has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. No party has relied upon any representations or statements made by the other party hereto which are not specifically set forth in this Agreement.

XXIV. Executive, Company and Avatar agree to pay their respective attorneys' fees and costs in connection with this Agreement, and will not try to obtain any additional fees or costs from each other. However, both Executive and Avatar reserve any and all rights to enforce the terms of this Agreement. If any lawsuit is brought to enforce or interpret the terms of this Agreement, the prevailing party in such action or proceeding shall be entitled to recover its costs, and all reasonable attorneys' fees at all trial and appellate levels, in addition to any other relief to which such prevailing party may be entitled. **Notwithstanding anything in this Paragraph to the contrary, the prevailing party in any action at law or in equity under the ADEA or to enforce or interpret the validity of any release of an ADEA claim will not be entitled to recover attorneys' fees and costs as specifically authorized under federal law.**

XXV. The waiver by any party of any breach of any provision of this Agreement shall not be construed to be a waiver of any succeeding breach of such provision or a waiver by such party of any breach of any other provision.

XXVI. Company and Avatar represent and warrant that the person signing this Agreement has the authority to act on behalf of Company and Avatar and to bind Company and Avatar and all who may claim through it to the terms and conditions of this Agreement. Executive represents and warrants that Executive has the capacity to act on Executive's own behalf and on behalf of all who might claim through Executive to bind them to the terms and conditions of this Agreement. Executive, Company and Avatar each warrant and represent that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released by this Agreement.

XXVII. This Agreement shall be construed as though all parties contributed equally to its content.

XXVIII. In the event of any dispute or claim relating to or arising out of this Agreement, the parties' employment relationship, or the termination of that relationship for any reason (including, but not limited to, any claims of breach of contract, wrongful termination, fraud, retaliation, discrimination or harassment), the parties agree that the proper venue for any and all disputes/claims between them shall be venued in and brought in a court of competent jurisdiction in Polk County, Florida and tried before the court in a bench trial, as the parties expressly waive their right to a jury trial. Notwithstanding the foregoing, in the event of any such dispute/claim, the parties may agree to mediate or arbitrate the dispute/claim on such terms and conditions as may be agreed to in writing by the parties.

XXIX. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Florida, substantive, procedural and remedial, notwithstanding any conflict of laws analysis to the contrary. The parties further agree that the proper venue for any dispute is Polk County, Florida.

XXX. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

XXXI. Further, Executive shall be indemnified and held harmless (including advancement of attorney's fees) to the fullest extent permitted by the Company's bylaws and or other applicable plan, program, agreement or arrangement of the Company for Executive's actions on behalf of the Company and its affiliates prior to the Termination Date. The rights under this paragraph shall continue as to Executive after the Termination Date and inure to the benefit of Executive's heirs, executors and administrators.

XXXII.

A. It is the intention of both the Company, Avatar (collectively the "Employer Parties") and Executive that the benefits and rights to which Executive is entitled pursuant to this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), to the extent that the requirements of Code Section 409A are applicable thereto, and the provisions of this Agreement shall be construed in a manner consistent with that intention. If Executive or the Employer Parties believe, at any time, that any such benefit or right that is subject to Code Section 409A does not so comply, it shall promptly advise the other and shall negotiate reasonably and in good faith to amend the terms of such benefits and rights such that they comply with Code Section 409A (with the most limited possible economic effect on Executive and on the Employer Parties). The preceding provisions shall not be construed as a guarantee by the Employer Parties of any particular tax effect to Executive of the payments and other benefits under this Agreement;

B. In the event that Executive is a "specified employee" (as described in Code Section 409A), and any payment or benefit payable pursuant to this Agreement constitutes deferred compensation under Code Section 409A, then the Employer Parties and Executive shall cooperate in good faith to undertake any actions that would cause such payment or benefit not to constitute deferred compensation under Code Section 409A. In the event that, following such efforts, the Employer Parties determine (after consultation with its counsel) that such payment or benefit is still subject to the six-month delay requirement described in Code Section 409A(2)(b) in order for such payment or benefit to comply with the requirements of Code Section 409A, then no such payment or benefit shall be made before the date that is six months after Executive's "separation from service" (as described in Code Section 409A) (or, if earlier, the date of the Executive's death). Any payment or benefit delayed by reason of the prior sentence shall be paid out or provided in a single lump sum at the end of such required delay period in order to catch up to the original payment schedule; and

C. For purposes of applying the provisions of Code Section 409A to this Agreement, each separately identified amount to which Executive is entitled under this Agreement shall be treated as a separate payment.

**EXECUTIVE IS ADVISED TO CONSULT AN ATTORNEY
BEFORE SIGNING THIS AGREEMENT AS EXECUTIVE IS WAIVING IMPORTANT RIGHTS (INCLUDING THOSE UNDER
THE ADEA) AND TO
READ THIS AGREEMENT CAREFULLY**

I have read the foregoing Separation Agreement, Including General Release, and I accept and agree to the provisions contained in this Separation Agreement, Including General Release.

/s/ Patricia K. Fletcher
Patricia K. Fletcher

9/24/12
Date

AV HOMES, INC..

By: /s/ Allen J. Anderson

Allen J. Anderson
Print Name

9/25/12
Date

Its: CEO
Title

AVATAR PROPERTIES INC.

By: /s/ Allen J. Anderson

Allen J. Anderson
Print Name

9/25/12
Date

Its: CEO
Title

AV HOMES, INC.

September 4, 2012 Dave Gomez

Re : Conditional Offer of Employment

Dear Mr. Gomez:

We are extremely pleased to extend to you a conditional offer of employment as General Counsel for Avatar Properties Inc. d/b/a AV Homes beginning October 1, 2012.

Outlined below are the terms and conditions of employment that we are extending:

Terms of Employment

You will receive a base salary of \$240,000.00 per year, payable bi-weekly per AV Homes' policies and procedures. In addition, you will be eligible for a discretionary bonus up to 50% of your base salary. The bonus for 2012 and will be guaranteed at \$60,000 for this period of time. Future bonuses will be based on performance criteria that are approved by our Compensation Committee. Each bonus is paid annually and you must be employed by AV Homes at the time the payment is made.

AV Homes is in the process of seeking approval by its Compensation Committee of an Incentive Compensation Plan which includes the issuance of restricted stock awards. The draft plan contemplates that all employees participating in the plan will be required to hold any stock issued to such employees in the amount of one (1) year salary. If the plan as drafted is approved, you may be entitled to stock equal to 50% of base salary (prorated) for 2012. It is possible that the final plan may differ from the draft plan; however if a plan is approved, you are expected to be a participant.

Our employment relationship will be terminable at will, either you or AV Homes, from a sole discretion standpoint, may terminate your employment at any time for any reason whatsoever.

In addition to the compensation outlined above, as a full-time employee, you are eligible to participate in our benefits program. Some of the benefits will begin as early as the first of the month following one month of completed service.

As a condition of employment, all job applicants must voluntarily submit to a urinalysis test screening within 72 hours of an offer having been made for the presence of illegal drugs and alcohol, which may indicate a potential impaired or unsafe job performance.

8601 N Scottsdale Rd. Suite 225 | Scottsdale AZ 85253

Additionally, this offer is conditional upon AV Homes completing its standard background, reference checks and obtaining Compensation Committee and Chairman of the Board approval.

Should you accept this conditional offer of employment, we will be expecting you to start on or before, September 21, 2012, unless a different arrangement is determined and agreed in writing.

Please sign and return a copy of this letter to our HR Department via email at hr@avhomesinc.com or via fax at 847-904-1251. At that time we will send the appropriate paperwork needed for the additional background check and drug testing.

If you should have any questions, please do not hesitate to call me 480-703-1299.

Sincerely yours,

/s/ Allen Anderson

Allen Anderson
CEO

Acceptance is hereby acknowledged:

Signature: /s/ Dave M. Gomez

Date: 9/20/2012

8601 N Scottsdale Rd. Suite 225 | Scottsdale AZ 85253

Significant Subsidiaries:

<u>Name</u>	<u>Jurisdiction</u>
Avatar Properties Inc.	Florida
Avatar Properties of Arizona, LLC (f/k/a Joseph Carl Homes, LLC)	Arizona
Avatar Seasons, LLC	Florida
JEN Florida II, LLC	Delaware
Rio Rico Properties Inc.	Arizona
TerraLargo Land, LLC	Delaware
Tortosa Arizona, LLC	Arizona

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-63278) pertaining to the Avatar Holdings Inc. Amended and Restated 1997 Incentive and Capital Accumulation Plan;
- (2) Registration Statement (Form S-8 No. 333-125555) pertaining to the Avatar Holdings Inc. Amended and Restated 1997 Incentive and Capital Accumulation Plan;
- (3) Registration Statement (Form S-8 No. 333-147263) pertaining to the Avatar Holdings Inc. Amended and Restated 1997 Incentive and Capital Accumulation Plan; and
- (4) Registration Statement (Form S-8 No. 333-175066) pertaining to the Avatar Holdings Inc. Amended and Restated 1997 Incentive and Capital Accumulation Plan.

of our reports dated March 15, 2013, with respect to the consolidated financial statements and schedule of AV Homes, Inc. and subsidiaries, and the effectiveness of internal control over financial reporting of AV Homes, Inc. and subsidiaries, included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Phoenix, Arizona
March 15, 2013

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Roger A. Cregg, certify that:

1. I have reviewed this annual report on Form 10-K of AV Homes, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2013

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

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tina M. Johnston, certify that:

1. I have reviewed this annual report on Form 10-K of AV Homes, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2013

/s/ Tina M. Johnston

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

Certification Required by 18 U.S.C. Section 1350
(as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

I, Roger A. Cregg, as President and Chief Executive Officer of AV Homes, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to my knowledge:

- (1) the accompanying Report on Form 10-K of the Company for the year ended December 31, 2012 (the "Report"), filed with the U.S. Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2013

/s/ Roger A. Cregg

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

Certification Required by 18 U.S.C. Section 1350
(as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

I, Tina M. Johnston, as Vice President, Principal Financial Officer and Principal Accounting Officer of AV Homes, Inc. (the “Company”), certify, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to my knowledge:

- (1) the accompanying Report on Form 10-K of the Company for the year ended December 31, 2012 (the “Report”), filed with the U.S. Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2013

/s/ Tina M. Johnston

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