AV Homes, Inc.
Form 10-K
February 27, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014.

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

001-07395
Commission File Number

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

Delaware (State or other Jurisdiction of Incorporation or Organization)	23-1739078 (I.R.S. Employer Identification No.)
8601 N. Scottsdale Rd., Suite 225, Scottsdale, Arizona (Address of Principal Executive Offices)	85253 (Zip Code)

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

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

Title of each class	Name of exchange on which registered
Common Stock, $1.00 Par Value	The NASDAQ Stock Market
Preferred Share Purchase Rights	The NASDAQ Stock Market

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

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NONE

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

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 o No x

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 x No o

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 x No o

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. o

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $184,858,348 as of June 30, 2014.

As of February 19, 2015, there were 22,339,502 shares of common stock, $1.00 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2015 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.

Company Overview

AV Homes, Inc. was incorporated in the state of Delaware in 1970. In 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.

AV Homes, Inc. is a homebuilder engaged in the business of homebuilding and community development in Florida, Arizona, and North Carolina. Our business focuses on the development of (i) active adult communities, which are age-restricted or age-targeted to the age 55 and over active adult demographic, and (ii) primary residential communities, which serve first-time and move-up buyers, and the construction and sale of residences within these communities. As of December 31, 2014, we owned 3,505 developed residential lots, 2,853 partially developed residential lots, 9,572 undeveloped residential lots, and 7,220 acres of mixed use, commercial, and industrial land. We utilize our deep experience, strong operating platform, and land inventory to capitalize on the strengthening housing environment and favorable demographic trends within our core markets. We are publicly held and our common stock is traded on the NASDAQ Stock Market under the symbol "AVHI."

Our performance in our core segments of active adult community development and primary residential community development has improved for the year ended December 31, 2014 as compared to prior years. As the homebuilding market continues to recover from the industry downturn, we have expanded our market presence and significantly increased the number of homes we have sold. During the year ended December 31, 2014, we closed on 953 homes at an average sales price of approximately $255,000 per closed home, generating approximately $243 million of revenue, as compared to the year ended December 31, 2013, in which we closed on 481 homes at an average sales price of approximately $238,000 per closed home, generating approximately $114 million of revenue. The number of housing contracts (net of cancellations) signed in 2014 increased 115% compared to 2013, and at December 31, 2014, we had 331 homes in backlog with a sales value of approximately $85.8 million compared to 167 homes in backlog with a sales value of approximately $39.9 million at December 31, 2013.

Our Strengths

We believe we are well-positioned to execute our core business strategies as a result of the following competitive strengths:

Transformed from a land company to an efficient, process-driven homebuilder. Beginning in 2011, we implemented a strategic planning initiative to restructure our overhead costs and reposition the Company as a cost-efficient and process-driven homebuilder. Pursuant to this initiative, we re-aligned our business to capitalize on the demographic trends and homebuilding recovery in our core markets of Florida and Arizona. Specifically, our management re-evaluated all of our land holdings to identify core assets for development and homebuilding activities, as well as non-core assets to be sold in favorable market conditions. We also recruited a new team of senior and operating

management with longstanding experience in the homebuilding industry, strengthening us to take advantage of the ongoing housing recovery.

Significant expertise in our core markets. We have been engaged in the business of homebuilding, community development, and land sales since 1970, and we have significant geographic expertise in the Florida, Arizona, and North Carolina markets. In addition, as a result of our experience in developing communities for the active adult population for almost two decades, we have market expertise in serving the housing and lifestyle aspirations of the vast Baby Boomer population. Our management team has a deep understanding of the active adult and primary residential markets and the preferences of the buyers in these markets. We also supplement our expertise in our markets by utilizing a research-based approach to understanding the lifestyle preferences of these buyer markets.

Favorable demographics and real estate market recovery. In the active adult market, we believe the demographic trends and lifestyle aspirations of aging Baby Boomers provide us with a favorable environment for future business.

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Reputation for unique high-quality homes in desirable locations. We believe that our reputation for delivering high-quality homes in desirable locations, coupled with our unique amenities and home designs emphasizing lifestyle and value, drive customers to our developments. We seek to provide the highest level of customer service to our homebuyers by involving them in multiple phases of the construction process. Homebuyer involvement allows our sales staff to enhance their knowledge and relationship with our buyers. Our selling process focuses on the homes' features, benefits, quality, and design, as opposed to merely price and square footage. In order to ensure that our buyers are able to make informed decisions, we generally utilize customer-friendly design centers focused on meeting our customers' range of needs as they move through the process of purchasing a home.

Business Strategy

Our primary business is homebuilding, which includes the acquisition, development and building of active adult and primary residential home communities, in Florida, Arizona and North Carolina. Our core business strategies, which we believe give us long-term competitive advantages relative to other builders, are intended to promote our growth, drive profitability and generate cash liquidity, and are summarized below.

Serve the lifestyle and housing needs of the 55+ active adults. Millions of Baby Boomers will continue to age toward and reach retirement. This demographic supports a growing interest in lifestyle-oriented, age-qualified communities, especially throughout the Sun Belt. We serve the lifestyle and housing needs of these active adults with innovative communities uniquely tailored to their lifestyle ambitions through our existing Solivita and Vitalia communities in Florida, our existing CantaMia and future Encore communities in Arizona, and our future Creekside community in North Carolina at Bethpage.

Strategically expand our primary segments to capitalize on market recoveries. We focus on strategic development of land and communities to ensure sales of homes in high buyer-demand environments, which will allow us to obtain higher home prices and gross margins. We employ a deliberate land acquisition strategy focused on making prudent investments in high-demand markets in addition to exploring opportunities to broaden our geographic footprint. We also intend to maximize near-term value through developing communities where appropriate on our existing buildable land positions.

Active Adult. We currently operate our active adult segment in select Florida and Arizona markets. We have recently expanded into the North Carolina market, which we believe will generate attractive investment returns. We are committed to buying land that we believe can be developed profitably in the near term.

Primary Residential. We are focused on deploying capital to the improving primary residential sector. In markets that we believe will generate high return profiles and strong margins, we are actively buying land and developing primary residential communities for first-time and move-up buyers.

Maintain core focus on operational improvements to drive profitability while managing construction and labor costs. We utilize proven technologies and processes to drive profitability as well as strategies and procedures designed to streamline our homebuilding operations. With keen insight into our customers' buying habits, we are simplifying processes and employing value-engineering practices to help us deliver high-quality, well-built homes with the value our customers expect and the margins that enhance our profitability.

Exercise prudent balance sheet management to maintain ample liquidity for growth. We believe that it is critical for us to maintain a strong balance sheet with ample liquidity so that we can service our debt obligations, support on-going homebuilding operations, and take advantage of growth opportunities in our core markets as the housing market recovers. As of December 31, 2014, we had $180 million of cash and cash equivalents, an undrawn $105 million

senior secured credit facility, and $300 million of outstanding debt.

Profitably monetize non-core commercial and industrial assets and scattered lots. We continue to opportunistically sell non-core commercial and industrial assets, as well as scattered lot positions and land assets that are in excess of our needed supply in a given market. We sold $32.6 million under this plan in 2014 for a profit of $10.6 million and $16.3 million in 2013 for a profit of $8.2 million. We expect this activity to decrease in the future as our inventory of non-core land positions decreases.

Factors Affecting Our Results of Operations

Our business is significantly influenced by a number of factors that affect our revenues, costs and capital expenditures, including those described below. In managing our business and the influence of these factors, we track several key operating

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metrics described below. This discussion includes forward-looking statements that are based on our current expectations. See ‘‘Risk Factors’’ and ‘‘Forward-Looking Statements.’’

Revenue Factors

General market conditions. Demand for housing in the United States is driven by a variety of factors including, among other things, population growth, household income, mortgage rates, affordability, consumer confidence and employment levels. The supply of available housing varies from time to time based on a number of factors, including, among other things, home starts, inventories of existing homes available for sale and activities of speculative investors. While we believe that higher interest rates are inevitable and may have a moderating effect on demand and pricing, we believe this impact will be outweighed by the other factors driving increased sales activity as overall new home sales remain low compared with historical levels. We believe that any sustained rise in interest rates will be indicative of a stronger macroeconomic environment that will support a continued recovery in the homebuilding industry.

Demographic trends. Our business focuses on first-time buyers, move-up buyers, and the active adult population. Accordingly, demographic trends have an impact on our results of operations. We believe that we will benefit from the long-term growth in demand for active adult communities as a result of the Baby Boomer generation entering their retirement years.

Cost Factors

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

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

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

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

Other Factors

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

Working capital. Our business is capital intensive and requires or may require expenditures for land and infrastructure development, housing construction, funding of operating deficits, real estate taxes, HOA deficits and interest expense,

as well as potential new acquisitions of real estate and real estate–related assets. We manage our inventory levels through monitoring land development and home starts. We believe our efforts to opportunistically sell land that we have decided not to develop will help reduce and diversify land holdings and associated carrying costs.

Key Operating Metrics

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

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

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

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

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

Our Operations

Our primary business is homebuilding, which includes the acquisition, development and building of active adult and primary residential home communities in Florida, Arizona, and North Carolina. 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

A primary component of our business is the development of active adult communities and the construction and sales of residences within those communities. We intend to grow the 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 communities include:

Solivita

Solivita comprises approximately 10,387 lots on 7,193 acres in Central Florida, south of the Orlando metropolitan area. Solivita offers its residents numerous activities year round 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, bocce ball courts, six shuffleboard courts, pickleball courts, tennis courts, horseshoe pits, dog parks and an outdoor pavilion. Social activities at Solivita include its 210 clubs, including such diverse interests as photography, pickleball, softball, theatre and motorcycle riding and Veterans affairs.

Solivita commenced active sales in 2000. From inception, we have closed 3,924 of the 5,887 planned residences and approximately 7,000 individuals reside in the community as of December 31, 2014.

CantaMia

CantaMia is a 1,696 lot active adult community located on 541 acres in the Estrella Mountain Ranch master planned community in Goodyear, Arizona, west of Phoenix. Residents have exclusive use of the 30,000 square foot recreation and lifestyle facility that has, as its focal point, a ten acre man-made lake system. Amenities include an exercise facility, indoor/outdoor swimming pools, a demonstration kitchen, a library, a 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, pickleball, bocce ball, tennis and horseshoes.

Sales began in February 2010, and the grand opening of the recreation facility occurred in March 2011. A total of 318 units have closed as of December 31, 2014.

Vitalia at Tradition

Vitalia at Tradition (“Vitalia”) is a 1,144 lot, 452-acre active adult community located in St. Lucie County, Florida, 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 completed new model homes and the recreational center amenity, and have commenced development of additional roadways. A total of 305 homes have closed since 2009 as of December 31, 2014.

Encore at Eastmark

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Encore at Eastmark ("Encore") will be our latest active adult community in the Arizona market and will be located in the Southeast Valley of metropolitan Phoenix, in the City of Mesa, Arizona. Encore is a 310-acre master planned community, located within the much larger master-planned community of Eastmark, currently under development by DMB, Inc. Encore will offer four different product lines designed for the active adult demographic, encompassing 905 lots.

The sales office and model complex are scheduled to open in early 2015, with housing starts following shortly thereafter. The amenity complex is currently under construction and planned to open in 2016. Amenities will include up to 15,000 square feet of air conditioned space offering exercise, yoga, locker rooms, swim, spa, tennis, pickleball, and multi-use rooms.

Creekside at Bethpage

Creekside is our first entry into the Raleigh/Durham market. This community is part of the larger Bethpage mixed-use development, which consists of residential, retail, multifamily and commercial uses. Creekside is a 292-acre parcel with a preliminary total of 653 lots that will be age-restricted and target the active adult segment. Creekside will have four different product lines ranging from 1,200 to 2,600 square feet.

The sales center and model complex are in the development process with an estimated opening of the summer of 2015. The amenities will begin construction in the third quarter of 2015 and will consist of a 15,000 square foot clubhouse with tennis courts, pickle ball courts, bocce ball, an urban garden, and a swimming pool. The amenities are estimated to open in the spring of 2016.

Primary Residential Community Development

The primary residential market continues to improve since the housing downturn and we believe continued investment in this segment will provide us with a balanced portfolio. In the second half of 2013, we acquired five new communities in the Phoenix market and began home sales and construction on these lots in late 2014 along with current building in our existing communities in the Phoenix market. Additionally, we are expanding within our existing communities in Central Florida, and have also acquired communities and lots through the Royal Oak Homes acquisition. In addition, we are expanding into new primary markets in North Carolina and Jacksonville, Florida.

Acquisition of Royal Oak Homes

On March 13, 2014, we acquired substantially all of the assets and certain of the liabilities of Royal Oak Homes, LLC (“Royal Oak”) and certain land positions from an affiliate of Royal Oak. We also entered into an agreement to acquire additional lots in the future, and we received a right of first refusal with respect to single family residential land acquisitions and projects sold by an affiliate of Royal Oak for two years after the closing. The total purchase price paid under the acquisition agreements was approximately $65 million, paid in cash, which includes a $3 million earn-out. The actual amount of the earn-out may be more or less than the $3 million target amount based on the performance of the Royal Oak business through the end of 2015.

The acquisition complements our well-established, existing presence in the Poinciana, Florida market. With over 2,500 primary residential lots owned or controlled at the time of the acquisition, Royal Oak enhances our position in this key growth market. The purchase of Royal Oak gives us a more balanced company with broader customer segmentation focus and advances our growth strategy in the near-term in the Central Florida marketplace.

Segment Information

Our reportable segment information regarding revenues, results of operations and assets is incorporated herein by reference to Note 14 "Reportable Segments" to the Consolidated Financial Statements included in Part II.

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™, Royal Oak Homes™ and CantaMia™.

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Employees

At December 31, 2014, we employed 214 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.

Construction

Construction time for our homes depends on the availability of labor and materials, the type and size of the home, location and weather conditions. Construction of a home in our active adult communities or primary residential communities is typically completed within five months following commencement of construction.

We act as the general contractor for the construction of our communities. We typically engage subcontractors on a project-by-project basis to complete construction at a negotiated fixed price. Agreements with our subcontractors and material suppliers are generally entered into after competitive bidding. Our subcontract agreements typically require the subcontractor to meet certain insurance requirements and to indemnify us against claims related to their work. Our project managers and superintendents supervise the construction of each home, schedule and manage the activities of subcontractors and suppliers, subject their materials and work to quality control standards and assure compliance with zoning and building codes.

Purchase of Raw Materials

We engage several suppliers in each region in order to eliminate or minimize any shortages in materials or labor. To date, we have experienced no such shortages. We also have national supplier contracts for certain items such as appliances

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where economies of scale can be leveraged. We choose each of our suppliers based on price, quality, reputation, scalability and ability to meet our construction timelines. We do not maintain inventories of construction materials except for materials being utilized just-in-time for homes under construction.

Prices of materials may fluctuate due to various factors, including demand or supply shortages, which may be beyond the control of our suppliers. Although we have historically been able to offset increases in the costs of materials and labor with increases in the prices of our homes, we may not be able to do so in the future because sales of homes are frequently made in advance of construction. In the ordinary course of business, our construction budgets contain a contingency amount for price increases.

Purchase of Land

We buy improved lots and tracts of raw land or unimproved lots that require development. Although recent land purchases have been predominantly improved lots, we have historically purchased raw land and developed that land into lots ourselves. Generally, earnest money deposits on new land purchases have historically ranged from 5% up to 20% of the final purchase price. Our liability, in the event we do not perform as agreed in the terms of the option contract, is generally forfeiture of our earnest money deposit to the land seller.

Marketing and Sales

We market our homes through a variety of means, including the use of model homes, newspaper and magazine advertising and increasingly through internet exposure via our website, online and social media. We also seek to customize our marketing efforts based on location to address the needs and preferences of local homebuyers. We employ approximately 60 sales professionals who are compensated through a combination of salaries and sales commissions to encourage and reward increased sales performance. We employ a customer relationship management system to track our traffic and automate follow-up with our contact lists.

We use model homes at each community to provide home buyers the opportunity to view fully furnished and landscaped model homes. We typically use one or more model homes in each community. Additionally, in our active adult communities, we have homes that we use as Discovery Day units. These homes are used for prospective buyers to stay for short periods of time for exposure to the overall experience of the community.

In order to provide a more tailored product, our home buyers have the option of customizing their homes through our design center services. Each floor plan has available options that may be added or modified in order to suit the requirements of individual homebuyers.

We record a home as sold pursuant to a written sales contract that usually requires the homebuyer to make a cash deposit. Such sales contracts contain contingencies such as the ability to receive mortgage financing. We have preferred relationships with select providers to provide customer financing and title services. In connection with our sales process, we generally require all of our buyers to pre-qualify with a preferred mortgage financing provider.

We conduct pre-closing home orientation and post-closing surveys for the homebuyer, which we believe is an integral part of our customer service program. We conduct home orientations with homebuyers immediately before closing. Prior to these orientations, we inspect the home and create a list of unfinished construction items and address outstanding issues promptly. We believe that delivering a high-quality finished home to our homeowners enhances our reputation for quality and service. Typically, we engage an outside firm to conduct comprehensive follow-up surveys with our homeowners to determine their level of satisfaction several months after closing. These surveys provide us with valuable feedback on the quality of the homes we deliver and the services we provide.

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, that are designed, planned and developed by such homebuilders. We also compete with the resale market, including within our own communities, as well as foreclosure sales and the rental market. 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

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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 generally produce higher levels of sales contracts during the months of November through April for active adult communities in the geographic areas in which we conduct our business. This pattern typically produces increased closings in the latter half of the year.

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, recently underwent a significant downturn. Although the industry has experienced some recovery, including in our largest markets of Florida and Arizona, homebuilding remains below historic levels and the duration and ultimate speed of the ongoing 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 changes in global and local economic conditions, such as:

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

Changes in these conditions may occur on a national scale, as was the case in the recent downturn and ongoing 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 current operations are concentrated in the markets of Florida and Arizona, which were more adversely affected by the recent downturn and, as a result, the downturn had a more substantial impact on our business and financial results than some of our competitors.

The downturn in the homebuilding industry that occurred from 2006 to 2011 was one of the most severe housing downturns in U.S. history. The housing market continues to recover from the significant decline in the demand for new homes and the significant reductions in the availability of financing for homebuyers that marked the downturn. As a result of the downturn, 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. Although market conditions have been generally improving since 2012, the reversal of the recent recovery or slower than anticipated improvements nationally or in any of our markets would have a further material adverse effect on our business, liquidity and results of operations.

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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 that are 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 result in:

- 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.

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

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

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

TPG Aviator, L.P. ("TPG Aviator") owned approximately 41.7% of our common stock as of December 31, 2014, and is our largest single stockholder. In addition, so long as TPG Aviator owns at least 10% of our issued and outstanding common stock, TPG Aviator has a pre-emptive right to participate in our future equity issuances, subject to certain conditions. This concentration of ownership in one stockholder could potentially be disadvantageous to other stockholders' interests. In addition, if TPG Aviator were to sell or otherwise transfer all or a large percentage of its holdings our stock price could decline and we could find it difficult to raise capital, if needed, through the sale of additional equity securities.

The interests of TPG Aviator and its affiliates may differ from the interests of our other stockholders in material respects. For example, TPG Aviator and its affiliates may have an interest in directly or indirectly pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their other equity investments, even though such transactions might involve risks to us. TPG Aviator and its affiliates are in the business of making or advising on investments in companies, including businesses that directly or indirectly compete with certain portions of our business. They may also pursue acquisition opportunities that may be complementary to our

business, and, as a result, those acquisition opportunities may not be available to us.

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

In connection with TPG Aviator's June 2013 investment in us, we entered into a stockholders agreement with TPG Aviator, pursuant to which we granted TPG Aviator certain rights that may restrict our ability to take certain actions in the future. Under the stockholders agreement, we agreed to increase the size of our board of directors to ten members and, assuming TPG Aviator and its affiliates hold at least 80% of our common stock they held, or were deemed to hold, at closing of TPG Aviator's investment, then TPG Aviator is entitled to nominate four directors, of which all four have been designated.

TPG Aviator has the right to nominate a specified number of directors to the board and to appoint a specified number of such directors appointed to each committee of the board of directors for so long as TPG Aviator's ownership percentage of

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our common stock is equal to or greater than 5%. TPG Aviator is entitled to nominate to the board: (i) four directors if TPG Aviator's ownership percentage of our common stock is at least 30%, (ii) three directors if TPG Aviator's ownership percentage is at least 20% but less than 30%, (iii) two directors if TPG Aviator's ownership percentage is at least 15% but less than 20%, and (iv) one director if TPG Aviator's ownership percentage is at least 5% but less than 15%.

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

In addition, for so long as TPG Aviator's ownership percentage of our common stock is equal to or greater than 5%, the rights and responsibilities of the finance committee of the board will include (1) except for certain permitted issuances relating to outstanding rights to purchase or acquire our capital stock, compensation arrangements and acquisition transactions, any sale or issuance of any capital stock or other security, (2) any redemption, purchase, repurchase or other acquisition of securities by AV Homes or any subsidiary, other than in connection with equity compensation arrangements, (3) any incurrence of indebtedness or certain debt-like obligations, with limited exceptions, (4) any hiring or firing of members of senior management, (5) any land or builder acquisitions or dispositions, any acquisitions or dispositions of subsidiaries or any other acquisitions or dispositions, in each case, that are greater than $5.0 million (including total expected capital requirements and development costs), (6) any capital expenditures or land commitments over an agreed upon budget, as approved by our board of directors, or otherwise greater than $10.0 million, and (7) any entry into new markets or lines of business. During such period, the rights and responsibilities of the compensation committee will include (1) any adoption of any new, or expansion of any existing, equity incentive plan and (2) any changes to, or the adoption of, any compensation arrangements for any members of our board of directors or our senior management. During such period, our board may not approve such matters without the requisite committee approval, which in most cases will require the approval of at least one of the committee members appointed by TPG Aviator.

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

Our business is capital intensive and requires access to sufficient capital.

Our business is capital intensive and requires significant up-front expenditures to acquire land and begin development. We must make significant capital expenditures to commence development of a community and bear the costs of the development until we sell the homes. Accordingly, our ability to access capital is a key factor in our ability to cover our operating expenses, service our indebtedness, and fund our other liquidity needs. We expect to seek and raise additional capital from time to time from a variety of sources, including bank financings and/or securities offerings, to cover our liquidity needs and grow our business. Deterioration in our creditworthiness would 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. Any difficulty in obtaining sufficient capital for planned development expenditures could cause project

delays and any such delay could result in cost increases and may adversely affect our sales and future results of operations and cash flows.

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

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Our ability to make scheduled payments on or refinance our debt obligations, including the 7.5% Senior Convertible Notes due 2016, the 7.5% Senior Exchange Convertible Notes due 2016 and the 8.5% Senior Notes due 2019 (collectively, the "Notes"), depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. If we are significantly and negatively impacted by any of the foregoing, we may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the Notes as the same shall become due and payable.

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

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

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

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

Any future indebtedness may contain financial and operating restrictions that may affect our ability to operate our business.

Agreements governing any future indebtedness may contain restrictions on our ability to incur indebtedness, grant certain liens to support indebtedness, enter into certain affiliate transactions and make certain distributions. These covenants could adversely affect our ability to finance our future operations or capital needs, engage in, expand or pursue our business activities and prevent us from engaging in certain transactions that might otherwise be considered beneficial to us. In particular, any future restrictions on our ability to incur additional indebtedness may limit our ability to undertake new large scale development opportunities, and may thereby adversely affect our future growth and results of operations.

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

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

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

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- consolidate, merge or sell all or substantially all of our assets.

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

A breach of the covenants or restrictions under the indentures governing the Notes or under the credit agreement governing our revolving credit facility could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the credit agreement governing our revolving credit facility would permit the lenders under our revolving credit facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable under our revolving credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or noteholders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. As a result of these restrictions, we may be:

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

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

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

Borrowings under our revolving credit facility are at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease.

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

We may not have the funds necessary to fulfill our obligations under the 7.5% Senior Convertible Notes due 2016 and the 7.5% Senior Exchange Convertible Notes due 2016 following a “fundamental change” as defined in each indenture governing the 7.5% Senior Convertible Notes due 2016 and the 7.5% Senior Exchange Convertible Notes due 2016. Upon the occurrence of a defined fundamental change, which definition includes a change of control (whether it be voluntary or involuntary), we will be required to offer to repurchase all of the applicable outstanding notes at 100% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. Similarly, our 8.5% Senior Notes due 2019 require us to repurchase all or a portion of the outstanding notes at 101% of their principal amount, plus accrued and unpaid interest upon certain change of control transactions. However, we may not have sufficient funds at the time of any such event to make the required repurchase of the notes. Our failure to make or complete an offer to repurchase notes in connection with any such event would place us in default under each indenture governing the applicable notes.

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

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

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

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

We have a significant number of development liabilities related to our predecessor and its affiliates, most of which relate to class action settlement agreements entered into by us in 1974 and the bankruptcy of our predecessor and its affiliates in the mid-1970s (collectively, the "Orders"). Among other things, under the Orders, we are obligated to install certain utility infrastructure to lots sold by us in Rio Rico, Arizona and Poinciana, Florida prior to such Orders ("Affected Lots"). Historically, we have identified such contingent obligations with respect to the Orders as evaluated by the reports of various independent engineers. Our estimate of the liability has been accrued and is included in the Estimated Development Liability for Sold Land line item in our consolidated balance sheet as of December 31, 2014. If a significant number of the owners of the Affected Lots require AV Homes to install infrastructure in Rio Rico or Poinciana, it is possible that it would have a material impact on our liquidity.

Reductions in the availability of mortgage financing has adversely affected our business in the past and may impact our business further in the future.

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

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

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

In addition, as a result of the turbulence in the credit markets and mortgage finance industry, the federal government has taken on a significant role in supporting mortgage lending through its conservatorship of Fannie Mae and Freddie Mac, both of which purchase home mortgages and mortgage-backed securities originated by mortgage lenders, and its insurance of mortgages originated by lenders through the FHA and the VA. The availability and affordability of mortgage loans, including consumer interest rates for such loans, could be adversely affected by a curtailment or cessation of the federal government's mortgage-related programs or policies. The FHA may continue to impose stricter loan qualification standards, raise minimum down payment requirements, impose higher mortgage insurance premiums and other costs, and/or limit the number of mortgages it insures. Because the availability of Fannie Mae, Freddie Mac, FHA- and VA-backed mortgage financing is an important factor in marketing and selling many of our homes, any limitations, restrictions or changes in the availability of such government-backed financing could reduce our home sales, which could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

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

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

Declines in home prices and sales order activities in Florida, Arizona and North Carolina 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. While we have seen improvement in these markets in recent years, if these states experience further economic difficulties, such conditions may adversely affect the market for our homes in those affected areas. Because our operations are currently limited to Florida, Arizona and North Carolina, declines in home prices and sales activity in any of those states could 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. We may not be able to offset any such cost increases with higher sales prices because of 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 we may not be able to pass on any such increases to customers who have already entered into sales contracts, which may be well in advance of the construction of the home, which could cause our margins to decrease. Moreover, with inflation, our costs of capital increase, and the purchasing power of our cash resources can decline.

Price increases, 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 impacted adversely. 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 continues to recover and the demand for labor and materials increases, 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.

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

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

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

Elimination or reduction of the tax benefits associated with owning a home could dissuade 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.

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

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

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.

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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. 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. Because future market conditions are uncertain, we cannot provide assurance that we will be successful in managing our future inventory risks or avoiding future impairment charges. Any material write-downs of assets could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

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

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would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

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

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

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 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.

Our current efforts to grow and expand our operations could have a material adverse effect on our cash flows or profitability.

We recently announced the formation of a new Carolinas division and the acquisition and development of property in North Carolina and 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 the acquisition of existing homebuilders 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, if we acquire other homebuilders, such as our recent acquisition of Royal Oak Homes LLC, such acquisitions could be difficult to integrate with our operations and could require us to assume unanticipated liabilities and expenses. Acquisitions also involve numerous risks, including the risk of impairing inventory and other assets related to the acquisition, the diversion of management’s attention and resources from other business concerns, risks associated with entering markets in which we have limited or no direct experience and the potential loss of key employees of the acquired company.

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

We are subject to extensive and complex regulations that affect land development and home construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to being approved, if approved at all. Land parcels we acquire are generally undeveloped and typically do not have all (or sometimes any) of the governmental approvals necessary to develop and construct homes. If we are unable to obtain these approvals or obtain approvals that restrict our ability to use the land in ways we do not anticipate, the value of the parcel will be

negatively impacted. We are subject to determinations by these authorities as to the adequacy of water and sewage facilities, roads and other local services. 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. New housing developments may also be subject to various fees and 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 incur additional healthcare costs arising from federal healthcare reform legislation and our compliance therewith.

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

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

Since the end of our 2007 fiscal year, we have generated significant net operating losses ("NOL"), and we may generate additional NOL in 2015. 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 the NOL (and certain related tax credits) that we do not use in any particular year to reduce our taxable income in future years. 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, 2014, we had deferred tax assets, net of deferred tax liabilities, totaling $129.9 million against which we have provided a full valuation allowance. Our ability to realize our net deferred tax assets is based on the extent to which we generate sustained profits, and we cannot provide any assurances as to when and to what extent we will generate sufficient future taxable income to realize our net deferred tax assets, whether in whole or in part.

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

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

On June 19, 2013, we adopted a rights agreement (the "Rights Agreement") intended to protect our NOLs from the potential negative consequence of an ownership change as defined in Section 382. The Rights Agreement is designed to deter acquisitions of our common stock that would (i) result in a stockholder owning 4.9% or more of our outstanding shares, or (ii) increase an existing 4.9% or greater stockholder's percentage ownership of our stock as of June 19, 2013, by diluting the ownership interest of a stockholder whose ownership after the adoption of the Rights Agreement exceeds those thresholds, unless the stockholder obtains an exemption from our Board of Directors acting through its finance committee.

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

The Rights Agreement will terminate upon the earliest of (i) June 19, 2016, (ii) our Board of Directors' determination that the Rights Agreement is no longer needed for the preservation of NOLs due to the implementation of legislative changes, or

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any other reason, or (iii) certain other events described in the Rights Agreement, including our Board of Directors' determination that termination is in our best interest. Our Board of Directors could determine to extend the term of the Rights Agreement upon the expiration of its current term or adopt another Rights Agreement if it determines that it is in the best interest of our stockholders.

We may 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. 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 are not aware of any cyber-attacks to date, we consider a future cyber-attack a material concern that could have severe financial and other business implications.

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

Issuances of shares of common stock upon conversion of our 7.5% Senior Convertible Notes due 2016 and the 7.5% Senior Exchange Convertible Notes due 2016, 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,

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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.

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ITEM 1B . UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our homebuilding and corporate headquarters are located in leased office facilities at 8601 N. Scottsdale Road, Suite 225, Scottsdale, Arizona 85253. Our homebuilding divisions lease office space in the geographic locations in which they conduct their day-to-day operations.

Because of the nature of our homebuilding operations, significant amounts of property are held as inventory in the ordinary course. Such properties are not included in response to this Item.

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.

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 are elected annually to serve until they are re-appointed or their successors are elected or until their earlier resignation or removal.

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Name	Age	Office and Business Experience
Roger A. Cregg	58	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.
Michael S. Burnett	47	Mr. Burnett has served as our Executive Vice President and Chief Financial Officer since October 2013. Prior to this, Mr. Burnett served as Group Vice President, Finance, Treasury and Investor Relations for JDA Software Group, Inc., a leading global software provider offering supply chain management solutions, from November 2009 to October 2013. Previously, he served as Chief Financial Officer for American Traffic Solutions, Inc., a leading provider of technology and business solutions for traffic safety and electronic toll collection programs worldwide. He also served as Senior Vice President and Treasurer and held various financial roles for Allied Waste Industries, Inc. from 1998 to 2008. Mr. Burnett began his career as a certified public accountant with Arthur Andersen LLP, from 1990 to 1998, providing audit and business advisory services.
Joseph C. Mulac III	53	Mr. Mulac has served as our Executive Vice President since October 2010. Since April 2009, Mr. Mulac has served as Chief Executive Officer of Joseph Carl Homes, LLC (n/k/a AV Homes of Arizona, LLC), which became our wholly-owned subsidiary in October 2010. From March 2003 to April 2009, Mr. Mulac held the position of Division President and then Group President for the Engle Homes division of Technical Olympic USA. He served as Division President for Standard Pacific from 1998 to March 2003. Mr. Mulac held various manager positions with UDC Homes from 1988 to 1998.
S. Gary Shullaw	36	Mr. Shullaw has served as our Executive Vice President, General Counsel and Corporate Secretary since November 2014. From November 2009 through November 2014, he worked for ON Semiconductor Corporation, a semiconductor manufacturing company, where he served as Senior Corporate Counsel. From 2008 to 2009, Mr. Shullaw was a corporate and securities associate at the law firm of DLA Piper and from 2005 to 2008 he was a corporate associate at Quarles & Brady, LLP.

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

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". There were approximately 3,045 record holders of common stock at February 19, 2015.

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

Quarter Ended	2014		2013	
	High	Low	High	Low
March 31	$20.69	$17.44	$15.28	$12.97
June 30	$18.47	$16.35	$17.73	$12.09
September 30	$16.32	$14.60	$17.64	$15.42
December 31	$15.54	$13.28	$20.17	$17.36

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We have not declared any cash dividends on common stock since our incorporation and have no current plan to pay cash dividends. During the year ended December 31, 2014, we did not repurchase any outstanding shares of common stock.

Performance Graph

The following line graph compares for the fiscal years ended December 31, 2010, 2011, 2012, 2013, and 2014 (a) the yearly cumulative total shareholder return (i.e., the change in share price plus the cumulative amount of dividends, assuming dividend reinvestment, divided by the initial share price, expressed as a percentage) on our common shares, with (b) the cumulative total return of the NASDAQ Market Index, and with (c) the Dow Jones Home Construction Index. The Dow Jones Home Construction Index is a widely-recognized index comprised primarily of large national homebuilders.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
AMONG AV HOMES, INC., NASDAQ MARKET INDEX, AND PEER INDEX

Fiscal Year Ended December 31, 2014

	2009	2010	2011	2012	2013	2014
AV Homes	100.00	116.52	42.21	83.60	106.82	85.66
NASDAQ Market Index	100.00	112.78	112.78	127.90	165.76	184.64
Dow Jones Home Construction Index	100.00	100.44	96.54	175.41	192.56	206.71

* Assumes $100 invested on December 31, 2009, and the reinvestment of dividends.

ITEM 6. SELECTED FINANCIAL DATA

Set forth below is selected consolidated financial data for each of the past five fiscal years. The selected financial data should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and Notes thereto included elsewhere in this report.

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

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	Years ended December 31				
	2014	2013	2012	2011	2010
Operating Data					
Revenues	$285,913	$143,700	$107,487	$88,982	$59,138
Loss from operations before income taxes	(1,649)	(8,272)	(87,683)	(165,704)	(36,057)
Income tax (expense) benefit	—	—	—	(473)	375
Net loss (including net loss attributable to non-controlling interests)	(1,649)	(8,272)	(87,683)	(166,177)	(35,682)
Net income (loss) attributable to non-controlling interests	329	1,205	2,552	(296)	(574)
Net loss attributable to AV Homes stockholders	$(1,978)	$(9,477)	$(90,235)	$(165,881)	$(35,108)
Basic and Diluted Earnings (Loss) Per Share Data					
Net income (loss) attributable to AV Homes Stockholders (1)	$(0.09)	$(1.34)	$(7.19)	$(13.33)	$(3.07)
Balance Sheet Data					
Cash and cash equivalents	$180,334	$144,727	$79,815	$124,316	$115,502
Inventory	383,184	240,078	171,044	180,067	248,909
Total assets	668,886	466,728	337,871	409,056	545,451
Notes payable	299,956	105,402	105,402	105,402	77,057
Stockholders' equity (2)	286,740	286,101	166,172	254,197	418,490
Shares outstanding	22,072,098	21,986,378	12,827,283	12,942,502	12,900,626
Stockholders' equity per share	$12.99	$13.01	$12.95	$19.64	$32.44

(1) The deemed dividend related to the beneficial conversion feature of $11,894 had an impact of ($.75) per share on earnings for the year ended December 31, 2013.

(2) These figures exclude cumulative non-controlling interests, which are classified in consolidated stockholders' 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 "Item 6. Selected Financial Data" and our audited consolidated financial statements and accompanying notes included elsewhere in this annual report.

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 Note 1 "Basis of

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Financial Statement Presentation and Summary of Significant Accounting Policies" to the Consolidated Financial Statements included in Part II of this report.

Overview

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

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

For the year ended December 31, 2014, we derived 46% of our revenues from active adult, 42% of our revenues from primary residential and 12% of our revenues from commercial, industrial and other land segments, respectively.

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

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

Our selling community count at December 31, 2014 includes 27 locations--18 in Florida, six in Arizona, and three in North Carolina, with additional communities in the pipeline for each state. As of December 31, 2014, we had 24 communities that were closing and delivering homes--17 in Florida, five in Arizona, and two in North Carolina, with additional communities in the pipeline for each state.

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

2014 Highlights

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

The following table provides a comparison of certain financial data related to our operations (in thousands):

For the year ended December 31

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	2014	2013	2012
Operating income (loss):			
Active adult communities:			
Revenues:			
Homebuilding	$124,372	$69,362	$36,018
Amenity	7,960	7,227	7,014
Total revenue	132,332	76,589	43,032
Expenses:			
Homebuilding (1)	98,992	55,543	31,619
Homebuilding selling, general and administrative	17,097	12,605	13,150
Amenity	7,887	8,013	7,182
Segment operating income (loss)	$8,356	$428	$(8,919)
Primary residential communities:			
Revenues:			
Homebuilding	$118,799	$45,611	$33,496
Amenity	2,127	2,451	2,440
Total revenue	120,926	48,062	35,936
Expenses:			
Homebuilding (2)	99,892	36,255	27,760
Homebuilding selling, general and administrative	17,264	6,930	5,805
Amenity	1,932	2,440	2,380
Segment operating income (loss)	$1,838	$2,437	$(9)
Land sales:			
Revenues	$32,596	$16,303	$26,595
Expenses	22,003	8,111	18,581
Segment operating income	$10,593	$8,192	$8,014
Other operations:			
Revenues	$59	$528	$598
Expenses	58	546	(33)
Segment operating income (loss)	$1	$(18)	$631
Operating income (loss)	$20,788	$11,039	$(283)
Unallocated income (expenses):			
Interest income and other	$447	$2,218	$1,326
Loss on repurchase of 4.50% Notes	—	—	(1,144)
Equity income (loss) from unconsolidated entities	(16)	(101)	259
Corporate general and administrative expenses	(15,941)	(15,975)	(16,148)
Interest expense	(5,805)	(2,830)	(7,973)
Other real estate expenses	(1,076)	(2,904)	(6,312)
Impairment of land developed or held for future development	—	281	(57,408)
Income (loss) before income taxes	$(1,603)	$(8,272)	$(87,683)

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Income tax expense	—	—	—
Net (income) loss attributable to non-controlling interests	(329)	(1,205)	(2,552)
Net loss attributable to AV Homes	$(1,932)	$(9,477)	$(90,235)

(1) Includes impairment charges for inventory of approximately $0, $32, and $1,620 for 2014, 2013, and 2012, respectively.

(2) Includes impairment charges for inventory of approximately $0, $1, and $15 for 2014, 2013, and 2012, respectively.

Data from closings for the active adult and primary residential homebuilding segments for the years ended December 31, 2014, 2013, and 2012 is summarized as follows (dollars in thousands):

Years ended December 31,	Number of Units	Revenues	Average Price Per Unit
2014			
Active adult communities	477	$124,372	$261
Primary residential	476	118,799	$250
Total	953	$243,171	$255
2013			
Active adult communities	281	$69,103	$246
Primary residential	200	45,349	$227
Total	481	$114,452	$238
2012			
Active adult communities	148	$36,012	$243
Primary residential	158	33,460	$212
Total	306	$69,472	$227

Fiscal Year 2014 Compared to Fiscal Year 2013

Consolidated Results

Overall revenue increased by $144.4 million or 102% to $285.9 million during the year ended December 31, 2014 compared to the year ended December 31, 2013. Homebuilding and amenity revenue increased by $128.6 million or 103% to $253.3 million compared to the year ended December 31, 2013. The increase in homebuilding and amenity revenue was driven by an 98% increase in units closed and a 7% increase in the average sales price for homes closed. Revenue from land sales increased by $16.3 million or 100% during the year ended December 31, 2014 compared to the year ended December 31, 2013. This increase for the year ended December 31, 2014 compared to the year ended December 31, 2013 is primarily due to the sale of a multi-family property in Arizona for $13.9 million resulting in a gain of $2.3 million in the first quarter of 2014 and the sale of a land position in Florida in the third quarter of 2014 for $11.5 million resulting in a gain of $3.3 million. Homebuilding and amenity expenses increased by $121.3 million or 100%, consistent with the increase in revenue.

Corporate general and administrative expenses decreased slightly by $0.1 million to $15.9 million for the year ended December 31, 2014 compared to the same period in 2013. As a percentage of total revenue, corporate general and administrative expenses improved to 5.6% for the year ended December 31, 2014 compared to 11.3% for the same period in 2013. The decrease as a percent of revenue was driven by the significant increase in revenue, while containing our costs.

Interest expense increased $3.0 million or 105% for the year ended December 31, 2014 compared to the same period in 2013. The increase in interest expense is primarily attributable to the $200.0 million issuance of 8.50% Notes on June 30, 2014, partially offset by an increase in capitalized interest due to an expansion of inventory under development in 2014 as

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compared to 2013. Interest costs incurred, prior to capitalization, increased from the prior year to $18.1 million for the year ended December 31, 2014 as compared to $9.3 million for the same period in 2013.

Net loss for the year ended December 31, 2014 was $1.9 million or ($0.09) per share compared to $9.5 million or ($1.34) per share for the year ended December 31, 2013. The net loss per share in 2013 includes a non-cash charge of ($0.75) per share for deemed dividends related to the recognition of a beneficial conversion feature embedded in the convertible preferred stock issued in the second quarter of 2013 and converted to common stock in the third quarter of 2013. The decrease in net loss for the year ended December 31, 2014 compared to the same period in 2013 was primarily due to leveraging our overhead cost base with a significant increase in revenues, a decrease in other real estate expenses, and an increase in the profits from the sale of assets held for sale.

Homebuilding Operations

Homebuilding revenue increased 112% from $115.0 million to $243.2 million for the year ended December 31, 2014 compared to the same period in 2013 due to a 98% increase in closings and a 7% increase in average sales price. In the active adult segment, revenues increased $55.0 million or 79% over the prior period driven by a 70% increase in units closed due to higher absorption at our three existing active adult communities, predominantly in Florida, and a 6.1% increase in the average price per unit. The primary residential revenues increased $73.2 million or 160% over the prior period due to a 138% increase in units closed due to an increase in the number of communities in which we had closings from four to 21, and a 10.1% increase in the average price per unit due to changes in the mix of homes closed.

Gross margin from combined home closings decreased by 200 basis points to 18.2% from 20.2% for the year ended December 31, 2014 compared to the same period in 2013. Gross margin from active adult homebuilding increased by 500 basis points to 20.4% from 19.9% for the year ended December 31, 2014 compared to the same period in 2013 due to improved market conditions. Gross margin from primary residential homebuilding decreased to 15.9% from 20.5% for the years ended December 31, 2014 and 2013 primarily due to the 170 basis point impact of the 2014 acquisition of Royal Oak which has lower gross margins. Capitalized interest included in cost of sales for the active adult and primary residential segments was $3.0 million and $1.6 million, respectively, for the year ended December 31, 2014 and was $1.6 million and $0.9 million, respectively, for the same period in 2013.

Combined homebuilding selling, general and administrative expenses as a percentage of homebuilding revenue decreased to 14.1% for the year ended December 31, 2014 from 17.0% for the same period in 2013, primarily driven by increasing revenue while containing our costs, partially offset by costs incurred to start up new selling communities which are not yet generating revenue. Homebuilding selling, general and administrative expenses for the active adult segment as a percentage of homebuilding revenue improved to 13.7% for the year ended December 31, 2014 compared to 18.2% for the same period in 2013 due to increased revenue, while containing our costs. Homebuilding selling, general and administrative expenses for the primary residential segment as a percentage of homebuilding revenue was 14.5% and 15.2% for the years ended December 31, 2014 and 2013, respectively. Overall improvements in cost leverage from the increased revenue were partially offset by the costs incurred to start up new selling communities which are not yet generating revenue.

Amenity net income (loss) for the year ended December 31, 2014 improved to $0.2 million from ($0.8) million for the year ended December 31, 2013.

Data from contracts signed for the active adult and primary residential homebuilding segments for the years ended December 31, 2014, 2013 and 2012 is summarized as follows (dollars in thousands):

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Years ended December 31,	Gross Number of Contracts Signed	Cancellations	Contracts Signed, Net of Cancellations	Dollar Value	Average Price Per Unit
2014					
Active adult communities	486	(52)	434	$114,671	$264
Primary residential	672	(112)	560	140,056	$250
Total	1,158	(164)	994	$254,727	$256
2013					
Active adult communities	398	(53)	345	$81,712	$237
Primary residential	192	(74)	118	28,654	$243
Total	590	(127)	463	$110,366	$238
2012					
Active adult communities	221	(55)	166	$40,522	$244
Primary residential	275	(48)	227	50,481	$222
Total	496	(103)	393	$91,003	$232

The total number of net housing contracts signed during the year ended December 31, 2014 compared to the same period in 2013 increased by 531 or 115%. The dollar value of housing contracts signed increased by $144.4 million or 131% over the same period in 2013. The increase in units and value were driven by improvements in both the active adult and primary residential segments. The number of net housing contracts signed for the active adult segment during the year ended December 31, 2014 increased by 89 or 26%, while the dollar value of housing contracts signed increased by $33.0 million or 40% compared to the same period in 2013 due to increased activity at our Vitalia and Solivita communities and an 11% increase in average sales price. The number of net housing contracts signed for the primary residential segment during the year ended December 31, 2014 increased by 442 or 375%, while the dollar value of housing contracts signed increased by $111.4 million or 389% compared to the same period in 2013. The increase reflects an increase in the number of selling communities from four to 24 as well as improved market conditions for both of our homebuilding segments.

During the year ended December 31, 2014, cancellations of previously signed contracts totaled 164 compared to 127 during the year ended December 31, 2013. As a percentage of the gross number of contracts signed, this represents 14% and 22% for the years ended December 31, 2014 and 2013, respectively. The 2013 cancellation rate was higher due to one primary residential community in Florida, which closed out in 2013, that experienced higher than normal rates.

The cancellation rate in the primary residential segment decreased to 17% in the year ended December 31, 2014 from 39% in the year ended December 31, 2013 driven by higher cancellation rates in our Florida communities in 2013 and was primarily attributable to customer mortgage qualification issues. The cancellation rate for the active adult segment decreased to 11% from 13% for the years ended December 31, 2014 and 2013, respectively.

Backlog for the active adult and primary residential homebuilding segments as of December 31, 2014, 2013 and 2012 is summarized as follows (dollars in thousands):

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As of December 31,	Number of Units	Dollar Volume	Average Price Per Unit
2014			
Active adult communities	84	$22,757	$271
Primary residential	247	62,996	$255
Total	331	$85,753	$259
2013			
Active adult communities	127	$29,362	$231
Primary residential	40	10,500	$263
Total	167	$39,862	$239
2012			
Active adult communities	63	$16,158	$256
Primary residential	122	26,906	$221
Total	185	$43,064	$233

The backlog of housing contracts as of December 31, 2014 compared to December 31, 2013 increased by 164 units or 98%, and the dollar value of backlog increased by $45.9 million or 115%. The increase in unit backlog was driven by the primary residential sector with the acquisition of Royal Oak Homes and the increase in communities in Arizona and North Carolina. The backlog of housing contracts in the active adult segment as of December 31, 2014 compared to December 31, 2013 decreased by 43 or 34%, and the dollar value decreased by $6.6 million or 22%, due to slower sales in Arizona in the third and fourth quarters of 2014, partially offset by an increase in the average price per unit of 17% . The backlog of housing contracts in the primary residential segment as of December 31, 2014 compared to December 31, 2013 increased by 207 or 518%, and the dollar value increased by $52.5 million or 500%.
As of December 31, 2014, our inventory of unsold (speculative) homes, both completed and under construction, was 258 units, as compared to 60 units as of December 31, 2013. The increase in speculative homes is due to increased community count, an expanded number of floor plans and the improved housing environment compared to the prior year. As of December 31, 2014, approximately 49% of unsold homes were completed compared to approximately 22% as of December 31, 2013.

The following is a breakdown of our land holdings in our active adult and primary residential communities as of December 31, 2014:

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			Remaining Lots			
	Total Lots (1)	Closed Lots	Developed	Partially Developed	Raw	Total Remaining Lots
Principal Communities						
Active Adult Communities						
Florida						
Solivita	10,387	3,924	515	562	5,386	6,463
Vitalia at Tradition	1,144	305	73	335	431	839
	11,531	4,229	588	897	5,817	7,302
Arizona						
CantaMia	1,696	318	304	—	1,074	1,378
Encore	905	—	—	288	617	905
	2,601	318	304	288	1,691	2,283
North Carolina						
Bethpage	653	—	—	166	487	653
Total Active Adult Communities	14,785	4,547	892	1,351	7,995	10,238
Primary Residential Communities						
Florida	5,988	1,909	1,651	1,195	1,233	4,079
Arizona	1,224	191	593	95	345	1,033
North Carolina	491	5	96	15	375	486
Total Primary Residential Communities	7,703	2,105	2,340	1,305	1,953	5,598
Total Principal Communities	22,488	6,652	3,232	2,656	9,948	15,836

(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.

The Company also has approximately 1,600 acres of commercial and industrial land, approximately 5,500 acres of unplatted scattered mixed-use land, 742 platted scattered lots, and 116 platted residential lots.

Fiscal Year 2013 Compared to Fiscal Year 2012

Consolidated Results

Overall revenue increased by $35.3 million or 33% to $141.5 million during the year ended December 31, 2013 compared to the year ended December 31, 2012. Homebuilding and amenity revenue increased by $45.7 million or 58% to $124.7 million compared to the year ended December 31, 2012. The increase in homebuilding and amenity revenue was driven by a 57% increase in units closed and a 5% increase in the average sales price for homes closed. Revenue from land sales decreased by $10.3 million or 39% during the year ended December 31, 2013 compared to

the year ended December 31, 2012. The amount and types of commercial and industrial and other non-core residential land sold vary from year to year depending

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upon demand, ensuing negotiations and the timing of the closings of these sales. Homebuilding and amenity expenses increased by $35.5 million or 41%, consistent with the increase in revenue.

Corporate general and administrative expenses decreased by $0.2 million to $16.0 million for the year ended December 31, 2013 compared to the same period in 2012. As a percentage of total revenue, general and administrative expenses improved to 11% for the year ended December 31, 2013 compared to 15% for the same period in 2012. The decrease as a percent of revenue was driven by the significant increase in revenue, while containing our costs.

Interest expense decreased $5.1 million or 65% in 2013 as compared to 2012. The decrease in interest expense is primarily attributable to the increase in the amount of capitalized interest due to the increased land development during 2013. Interest costs incurred, prior to capitalization, increased from the prior year to $9.3 million for the year ended December 31, 2013 as compared to $9.2 million for the same period in 2012.

The net loss attributable to AV Homes for the year ended December 31, 2013, was $9.5 million or ($1.34) per basic and diluted share compared to a net loss of $90.2 million or ($7.19) per basic and diluted share for the year ended December 31, 2012. The decrease in net loss for the year ended December 31, 2013 was primarily due to significantly decreased land impairment charges, increased income from our primary residential and active adult homebuilding segments, and increased income from our commercial and industrial and other land sales.

Homebuilding Operations

Homebuilding revenue increased 65% from $69.5 million to $115.0 million for the year ended December 31, 2013 compared to the same period in 2012 due to an 57% increase in closings and a 5% increase in average sales price. In the active adult segment, revenues increased $33.3 million or 93% over the prior period driven by an 90% increase in units closed due to higher absorption at our three existing active adult communities, predominantly in Florida, and a 1.2% increase in the average price per unit. The primary residential revenues increased $12.1 million or 36% over the prior period due to a 27% increase in units closed due to an increase in the number of communities in which we had closings from four to five and a 7.1% increase in the average price per unit due to changes in the mix of homes closed.

Gross margin from combined home closings increased by 330 basis points to 17.9% from 14.6% for the year ended December 31, 2013 compared to the same period in 2012. Gross margin from active adult homebuilding increased by 620 basis points to 18.4% from 12.2% for the year ended December 31, 2013 compared to the same period in 2012 due to improved market conditions. Gross margin from primary residential homebuilding increased to 17.2% from 17.1% for the year ended December 31, 2013 and 2012. Capitalized interest included in cost of sales for the active adult and primary residential segments was $1.6 million and $0.9 million, respectively, for the year ended December 31, 2013 and was $0.5 million and $0.4 million, respectively, for the same period in 2012.

Combined homebuilding selling, general and administrative expenses as a percentage of homebuilding revenue decreased to 17.0% for the year ended December 31, 2013 from 27.3% for the same period in 2012, primarily driven by increasing revenue while containing our costs. Homebuilding selling, general and administrative expenses for the active adult segment as a percentage of homebuilding revenue improved to 18.2% for the year ended December 31, 2013 compared to 36.5% for the same period in 2012 due to increased revenue, while containing our costs. Homebuilding selling, general and administrative expenses for the primary residential segment as a percentage of homebuilding revenue improved to 15.2% for the year ended December 31, 2013 compared to 17.3% for the same period in 2012 due to increased revenue, while containing our costs.

Amenity net loss for the year ended December 31, 2013 increased to $0.8 million from $0.1 million for the year ended December 31, 2012.

The total number of net housing contracts signed during the year ended December 31, 2013 compared to the same period in 2012 increased by 70 or 18%. The dollar value of housing contracts signed increased by $19.4 million or 21% over the same period in 2012. The increase in units and value were driven by improvements in the active adult segment. The number of net housing contracts signed for the active adult segment during the year ended December 31, 2013 increased by 179 or 108%, while the dollar value of housing contracts signed increased by $41.2 million or 102% compared to the same period in 2012. The number of net housing contracts signed for the primary residential segment during the year ended December 31, 2013 decreased by 109 or 48%, while the dollar value of housing contracts signed decreased by $21.8 million or 43% compared to the same period in 2012. The decrease reflects a depletion of inventory in a significant community from 2012 to 2013.

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During the year ended December 31, 2013, cancellations of previously signed contracts totaled 127 compared to 103 during the year ended December 31, 2012. As a percentage of the gross number of contracts signed, this represents 22% and 21% for the years ended December 31, 2013 and 2012, respectively.
The cancellation rate in the primary residential segment increased to 39% in the year ended December 31, 2013 from 17% in the year ended December 31, 2012 driven by higher cancellation rates in our Florida communities in 2013 and was primarily attributable to customer mortgage qualification issues. The cancellation rate for the active adult segment decreased to 13% from 25% for the years ended December 31, 2013 and 2012, respectively.
The backlog of housing contracts as of December 31, 2013 compared to December 31, 2012 decreased by 18 or 10%, and the dollar value of backlog decreased by $3.2 million or 7%. The decrease in units of backlog were driven by the primary residential sector. The backlog of housing contracts in the active adult segment as of December 31, 2013 compared to December 31, 2012 increased by 64 or 102%, and the dollar value increased by $13.2 million or 82%. The backlog of housing contracts in the primary residential segment as of December 31, 2013 compared to December 31, 2012 decreased by 82 or 67%, and the dollar value increased by $16.4 million or 61%, driven by a depletion of inventory in a significant community from 2012 to 2013.
As of December 31, 2013, our inventory of unsold (speculative) homes, both completed and under construction, was 60 units, as compared to 62 units as of December 31, 2012. As of December 31, 2013, approximately 22% of unsold homes were completed compared to approximately 34% as of December 31, 2012.

Income Taxes

Income tax expense was provided for at an effective tax rate of 0.0% for the years ended December 31, 2014, 2013, and 2012. In accordance with Accounting Standards Codification ("ASC") 740, Income Taxes ("ASC 740"), we evaluated our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a “more likely than not” standard. During 2008, we established a valuation allowance against our deferred tax assets. Our cumulative loss position over the evaluation period and the uncertain and volatile market conditions provided significant evidence supporting the need for a valuation allowance. During the year ended December 31, 2014, we recognized a decrease of $0.4 million in the valuation allowance. During the year ended December 31, 2013, we recognized an increase of $3.7 million in the valuation allowance. As of December 31, 2014 and 2013, our deferred tax asset valuation allowance was $129.9 million and $130.2 million, respectively. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

Liquidity and Capital Resources

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

Cash Flows

As of December 31, 2014, our cash and cash equivalents totaled $180.3 million compared to $144.7 million as of December 31, 2013. As of December 31, 2014 and December 31, 2013, notes payable were $300.0 million and $105.4 million, respectively. The increase in cash and debt balances at December 31, 2014 are due to issuance of the $200.0 million 8.50% Notes in the second quarter of 2014. Additionally, as of December 31, 2014, we had $16.4 million in restricted cash, which is comprised primarily of $16.1 million on deposit as an interest reserve to comply with the terms of our Senior Secured Credit Facility, as compared to $4.0 million in restricted cash as of December 31, 2013. We had unused capacity of $105.0 million under our Senior Secured Credit Facility as of December 31, 2014.

We were in compliance with all debt covenants as of December 31, 2014 and December 31, 2013.

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

For the year ended December 31, 2014, net cash used in operating activities was $81.4 million. The operating cash outflow was primarily due to an increase in restricted cash of $12.5 million related to a covenant requirement in our credit facility and the increase in land and other inventories of $111.7 million. Using portions of the proceeds from our equity

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issuance in June 2013 and our 8.50% Notes, we purchased land and lots for the expansion of our primary residential segment and increased the number of homes under construction commensurate with the increase in our home sales. These outflows were partially offset by cash inflow of $19.8 million from assets held for sale and an increase in accounts payable, estimated development liability and accrued and other liabilities of $15.6 million as a result of the increase in the number of homes under construction. Net cash used by investing activities amounted to $68.1 million primarily due to the purchase of Royal Oak. Net cash provided by financing activities was $185.1 million primarily due to the issuance of the $200.0 million 8.50% Notes in the second quarter of 2014, partially offset by $9.2 million of debt issue costs related to the senior secured credit facility and 8.50% Notes, as well as the repayment of $5.4 million of the 4.50% Notes.

For the year ended December 31, 2013, net cash used in operating activities was $62.4 million. The operating cash outflow was primarily due to the net loss of $8.3 million and the increase in land and other inventories of $68.8 million primarily related to the increase in the number of homes under construction commensurate with the increase in our home sales. These outflows were partially offset by an increase of $6.7 million in accounts payables, estimated development liability and accrued and other liabilities as a result of the increase in the number of homes under construction. Net cash used in investing activities amounted to $1.1 million, primarily due to investments in property and equipment. Net cash provided by financing activities of $128.4 million was primarily attributable to the TPG Investment in common and preferred stock.

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, 2014, we had outstanding performance bonds of approximately $21.5 million. The amount of outstanding performance bonds could fluctuate depending on the level of development activity. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

Other

Assuming that no additional significant adverse changes in our business occur, we anticipate the aggregate cash on hand, cash flow generated through homebuilding and related operations, our senior secured credit facility, and sales of commercial and industrial and other land will provide sufficient liquidity to fund our business for 2015.

Off-balance Sheet Arrangements

When we are either deemed to hold the controlling interest in a voting interest entity or deemed to be the primary beneficiary of a variable interest entity (“VIE”) we are required to consolidate the investment. The primary beneficiary of a VIE is the entity that has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and (b) the obligation to absorb the majority of losses of the VIE or the right to receive the majority of benefits from the VIE. Investments where we do not hold the controlling interest and we are not the primary beneficiary are accounted for under the equity method.

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

We participate in entities with equity interests ranging from 20% to 58.2% for the purpose of acquiring and/or developing land in which we may or may not have a controlling interest or be the primary beneficiary. These entities, along with other arrangements, may represent variable interests, depending on the contractual terms of the arrangement. We determine the method for accounting for our investments at inception or upon a reconsideration event.

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

As of December 31, 2014, 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.

Effects of Inflation and Economic Conditions

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

Various housing indices have shown improvement in recent periods. While we believe that higher interest rates are inevitable and may have a moderating effect on demand and pricing, we believe this impact will be outweighed by the other factors driving increased sales activity as overall new home sales remain low compared with historical levels. We believe that any sustained rise in interest rates will be indicative of a stronger macroeconomic environment that will support a continued recovery in the homebuilding industry.

Contractual Obligations and Commercial Commitments

The following table reflects contractual obligations as of December 31, 2014 (in thousands):

		Payments due by period			
Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Long-Term Debt Obligations (1)	$299,956	$—	$99,956	$200,000	$—
Interest Obligations on Long-Term Debt	84,934	24,497	34,937	25,500	—
Operating Lease Obligations	3,709	1,182	1,690	822	15
Capital Lease Obligations	1,317	460	857	—	—
Purchase Obligations - Residential Development (2)	57,018	57,018	—	—	—
Other Long-Term Liabilities (3)	37,455	100	3,872	720	32,763
Total	$484,389	$83,257	$141,312	$227,042	$32,778

(1) Long-term debt obligations represent:

(i) $55,481 outstanding under the 7.50% Notes (see Note 6 in Item 8) due February 15, 2016,

(ii) $44,475 outstanding under the 7.50% Exchange Notes due February 15, 2016, and

(iii) $200,000 outstanding under the 8.50% Senior Notes due July 1, 2019.

(2) 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.

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

Critical Accounting Policies and Estimates

The accompanying consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles. When more than one accounting principle, or the method of its application, is generally accepted, we select the principle or method that is appropriate in our specific circumstances (see Note 1 "Basis of Financial Statement Presentation and Summary of Significant Accounting Policies" to our Consolidated Financial

Statements). Application of these accounting principles requires us to make estimates about the future resolution of existing uncertainties; as a result, actual results could differ from these estimates. In preparing these consolidated financial statements, we have made our best estimates and judgments of the amounts and disclosures included in the consolidated financial statements, giving due regard to materiality.

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The accounting policies that we deem most critical to us and involve the most difficult, subjective or complex judgments are as follows:

Revenue Recognition

Homebuilding revenue and related profit are generally recognized when title to and possession of the property are transferred to the buyer. If there is a loss on the sale of the property, the loss on such sale is recognized at the time of closing.

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 to its fair value. Land and Other Inventories include expenditures for land acquisition, construction, land development and direct and allocated indirect costs. Land and Other Inventories owned and constructed by us also include interest cost and real estate taxes capitalized until development and construction are substantially completed. For those communities for which construction and development activities have been idled, applicable interest and real estate taxes are expensed as incurred. Land and development costs, construction and direct and allocated indirect costs are assigned to components of Land and Other Inventories based on specific identification, relative sales value, or area allocation methods.

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

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

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, 2014, 2013, and 2012 our impairment assessment resulted in impairment charges of $0.0 million, $0.0 million, and $1.6 million, respectively, which related to homes completed or under construction, and $0.0 million, $0.7 million, and $49.7 million respectively, in impairment charges related to land developed and/or held for future development or sale.

As of December 31, 2014, we had no other Land and Other Inventories that had estimated undiscounted cash flows that were less than 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: Homebuilding activities include the development of active adult and primary residential communities and the operation of amenities. The operating results generated from active adult and primary residential communities during the years ended December 31, 2014 and 2013 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 range from small to large master-planned communities in Florida, Arizona, and North Carolina. Several of these communities are long-term projects on land we have owned for many years. In reviewing each of our communities, we determine if potential impairment indicators exist by reviewing various factors such as actual margins on homes closed in recent months, projected margins on homes in backlog, projected 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,

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indirect construction and overhead costs, and selling and marketing costs. In addition, our estimated future cash flows are also impacted by general economic and local market conditions, competition from other homebuilders, foreclosures and depressed home sales in the areas in which we build and sell homes, product desirability in our local markets and the buyers' ability to obtain mortgage financing. The build-out of our active adult residential communities generally exceeds five years. Our assumptions are based on current activity and recent trends at our active adult and primary residential communities. There are a significant number of assumptions with respect to each analysis. Many of these assumptions extend over a significant number of years. The substantial number of variables related to these assumptions could significantly affect the potential for future impairments.

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

Assets Held for Sale

We account for Assets Held for Sale in accordance with ASC 360-10. In order for an asset to be classified as held for sale, it must meet the following criteria:

- Management, having the authority to approve the action, commits to a plan to sell the asset;
- The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
- An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated;
- The sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year;
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

We continue to opportunistically sell non-core commercial and industrial assets, as well as scattered lot positions and land assets that are in excess of our needed supply in a given market. Under this plan, assets that meet the criteria above are classified as held for sale. During 2013, we changed our plans to sell certain assets, resulting in the reclassification of approximately $13.8 million of assets to Land and Other Inventories and a reversal of previously recorded impairment expense of $1.0 million. Approximately $19.8 million of assets held for sale were sold during 2014. Approximately $4.1 million of assets held for sale were sold and approximately $16.1 million of assets were added to held for sale during 2013.

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

value, the carrying value is written down to its estimated fair value less cost to sell.

Homebuilding Cost of Revenues

Homebuilding cost of revenues includes the specific construction costs of each home and all applicable land acquisition, land development and related costs, both incurred and estimated to be incurred, warranty costs, capitalized interest costs, and closing costs. The construction cost of the home includes amounts paid through the closing date of the home, plus an appropriate accrual for costs incurred but not yet paid, based on an analysis of budgeted construction costs. This accrual is reviewed for accuracy based on actual payments made after closing compared with the amount accrued, and adjustments are

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made if needed. Total community land acquisition and development costs are based on an analysis of budgeted costs compared with actual costs incurred to date and estimates to complete. The development cycles for our communities range from under one year to in excess of ten years for certain master-planned communities. Adjustments to estimated total land acquisition and development costs for the community affects the costs of the community's remaining lots.

Income taxes

We account for income taxes in accordance with ASC 740, Income Taxes. The provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of items for tax and accounting purposes. In assessing the ability to realize the value of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. Deferred tax assets are evaluated on a quarterly basis to determine if adjustments to the valuation allowance are required. The ultimate realization of deferred tax assets is primarily dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

In determining the future tax consequences of events that have been recognized in the financial statements or tax returns, judgment is required. We evaluate our uncertain tax positions quarterly based on various factors, including changes in facts or circumstances, tax laws or the status of audits by tax authorities. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on the consolidated results of operations or financial position. As of December 31, 2014, our deferred tax asset and valuation allowance was $129.9 million.

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. We estimate the costs to be incurred under these warranties and record a liability in the amount of such costs at the time product revenue is recognized. Our primary assumption in estimating the amounts we accrue for warranty costs is that historical claims experience is a strong indicator of future claims experience. Factors that affect our warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and the cost per claim. We periodically assess the adequacy of our recorded warranty liability for each geographic market in which we operate and adjust the amounts as necessary. Actual warranty costs in the future could differ from our estimates. Warranty reserves are included in Accrued and Other Liabilities in the consolidated balance sheets.

ITEM 7A . QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are 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 6 and 15 ("Debt" and "Fair Value Disclosures") to the Consolidated Financial Statements included in Part II of this report. See Item 1A. “Risk Factors” for further discussion of risks.

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 cyclical nature of the homebuilding industry and its dependence on broader economic conditions; competition for

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home buyers, properties, financing, raw materials and skilled labor; overall market supply and demand for new homes; conflicts of interest involving our largest stockholder; contractual restrictions under a stockholders agreement with our largest stockholder; our ability to access sufficient capital; our ability to generate sufficient cash to service our indebtedness and potential need for additional financing; terms of our financing documents that may restrict our operations and corporate actions; fluctuations in interest rates; our ability to purchase outstanding notes upon certain fundamental changes; contingent liabilities that may affect our liquidity; development liabilities that may impose payment obligations on us; the availability of mortgage financing for home buyers; increased regulation of the mortgage industry; changes in federal lending programs and other regulations; cancellations of home sale orders; declines in home prices in our primary regions; inflation affecting homebuilding costs; the prices and supply of building materials and skilled labor; the availability and skill of subcontractors; elimination or reduction of tax benefits associated with home ownership; warrant and construction defect claims; health and safety incidents in homebuilding activities; availability and suitability of undeveloped land and improved lots; ability to develop communities within expected timeframes; the seasonal nature of our business; impacts of weather conditions and natural disasters; resource shortages and rate fluctuations; value and costs related to our land and lot inventory; our ability to recover our costs in the event of reduced home sales; dependence on our senior management; effect of our expansion efforts on our cash flows and profitability; effects of government regulation of development and homebuilding projects; raising healthcare costs; our ability to realize our deferred income tax asset; costs of environmental compliance; impact of environmental changes; dependence on digital technologies and potential interruptions; and potential dilution related to future financing activities, all as are described in Item 1A (“Risk Factors”) of this Form 10-K. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Balance Sheets as of December 31, 2014 and 2013	42
Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2014, 2013, and 2012	43
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2014, 2013, and 2012	44
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013, and 2012	45
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AV HOMES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands except per share amounts)

	December 31, 2014	2013
Assets		
Cash and cash equivalents	$180,334	$144,727
Restricted cash	16,447	3,956
Land and other inventories	383,184	240,078
Receivables	2,906	3,893
Property and equipment, net	36,922	37,844
Investments in unconsolidated entities	17,991	1,230
Prepaid expenses and other assets	20,980	11,138
Assets held for sale	4,051	23,862
Goodwill	6,071	—
Total Assets	$668,886	$466,728
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable	$16,087	$9,757
Accrued and other liabilities	28,134	14,280
Customer deposits	4,966	2,323
Estimated development liability	33,003	33,232
Notes payable	299,956	105,402
Total Liabilities	382,146	164,994
Stockholders' Equity		
Common Stock, par value $1 per share		
Authorized: 50,000,000 shares		
Issued: 22,182,972 shares outstanding at December 31, 2014		
22,097,252 shares outstanding at December 31, 2013	22,183	22,097
Additional paid-in capital	396,989	394,504
Accumulated deficit	(129,413)	(127,481)
	289,759	289,120
Treasury stock: at cost, 110,874 shares at December 31, 2014 and December 31, 2013	(3,019)	(3,019)
Total AV Homes stockholders’ equity	286,740	286,101
Non-controlling interests	—	15,633
Total Stockholders' Equity	286,740	301,734
Total Liabilities and Stockholders' Equity	$668,886	$466,728

See notes to consolidated financial statements.

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

	For the Year Ended		
	2014	2013	2012
Revenues			
Real estate revenues			
Homebuilding and amenity	$253,258	$124,651	$78,968
Land sales	32,596	16,303	26,595
Other real estate	59	528	598
Total real estate revenues	285,913	141,482	106,161
Expenses			
Real estate expenses			
Homebuilding and amenity	243,065	121,753	86,261
Land sales	22,003	8,111	18,581
Other real estate	1,133	3,450	6,279
Total real estate expenses	266,201	133,314	111,121
Impairment charges, net	—	(248)	59,043
General and administrative expenses	15,941	15,975	16,148
Loss on extinguishment of debt	—	—	1,144
Interest income and other	(447)	(2,218)	(1,326)
Interest expense	5,805	2,830	7,973
Total expenses	287,500	149,653	194,103
Equity in earnings (loss) from unconsolidated entities	(16)	(101)	259
Loss before income taxes	(1,603)	(8,272)	(87,683)
Income tax (expense)	—	—	—
Net loss and comprehensive loss	(1,603)	(8,272)	(87,683)
Net income attributable to non-controlling interests in consolidated entities	329	1,205	2,552
Net loss and comprehensive loss attributable to AV Homes stockholders	$(1,932)	$(9,477)	$(90,235)
Reconciliation of net loss to loss attributable to common stockholders:			
Net loss	$(1,932)	$(9,477)	$(90,235)
Deemed dividend related to beneficial conversion feature of convertible preferred stock (Note 1)	—	(11,894)	—
Net loss attributable to AV Homes common stockholders	$(1,932)	$(21,371)	$(90,235)
Basic and Diluted Loss Per Share	$(0.09)	$(1.34)	$(7.19)

See notes to consolidated financial statements.

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AV HOMES, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Dollars in thousands)

	Common Stock		Additional Paid-in	Accumulated	Treasury Stock		Total AV Homes Stockholders'	Non-Controlling	Total
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity	Interest	Stockholders' Equity
Balance at January 1, 2012	14,194,776	$14,195	$282,953	$2,973	(1,252,274)	$(45,924)	$254,197	$449	$254,646
Issuance of common stock	22,834	23	177	—	—	—	200	—	$200
Issuances of restricted stock units and stock units	424,520	424	2,879	—	—	—	3,303	—	$3,303
Forfeiture of restricted stock	(501,084)	(501)	(2,802)	—	—	—	(3,303)	—	$(3,303)
Stock repurchases	(61,489)	(62)	(759)	—	—	—	(821)	—	$(821)
Share-based compensation	—	—	2,834	—	—	—	2,834	—	$2,834
Retirement of treasury stock	(1,141,400)	(1,141)	(22,919)	(18,848)	1,141,400	42,905	(3)	—	$(3)
Contributions from non controlling interests	—	—	—	—	—	—	—	10,703	$10,703
Net (loss) income	—	—	—	(90,235)	—	—	(90,235)	2,552	$(87,683)
Balance at December 31, 2012	12,938,157	$12,938	$262,363	$(106,110)	(110,874)	$(3,019)	$166,172	$13,704	$179,876
Issuance of common stock	9,215,017	9,215	118,619	—	—	—	127,834	—	$127,834
Issuances of restricted stock units and stock units	96,372	96	(96)	—	—	—	—	—	$—
Forfeiture of restricted stock	(147,833)	(148)	148	—	—	—	—	—	$—
Stock repurchases	(4,461)	(4)	(72)	—	—	—	(76)	—	$(76)
Share-based compensation	—	—	1,648	—	—	—	1,648	—	$1,648
Beneficial conversion feature	—	—	11,894	(11,894)	—	—	—	—	$—
	—	—	—	—	—	—	—	724	$724

Contributions from non-controlling interests									
Net (loss) income	—	—	—	(9,477)	—	—	(9,477)	1,205	$(8,272)
Balance at December 31, 2013	22,097,252	$22,097	$394,504	$(127,481)	(110,874)	$(3,019)	$286,101	$15,633	$301,734
Issuances of restricted stock units and stock units	127,518	128	(128)	—	—	—	—	—	$—
Forfeiture of restricted stock	(30,164)	(30)	30	—	—	—	—	—	$—
Stock repurchases	(13,179)	(14)	(213)	—	—	—	(227)	—	$(227)
Share-based compensation	—	—	2,770	—	—	—	2,770	—	$2,770
Conversion of 7.50% Exchange Notes	1,545	2	26	—	—	—	28	—	$28
Contributions from non-controlling interests	—	—	—	—	—	—	—	193	$193
Deconsolidation of non-controlling interests	—	—	—	—	—	—	—	(15,826)	$(15,826)
Net loss	—	—	—	(1,932)	—	—	(1,932)	—	$(1,932)
Balance at December 31, 2014	22,182,972	$22,183	$396,989	$(129,413)	(110,874)	$(3,019)	$286,740	$—	$286,740

See notes to consolidated financial statements.

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AV HOMES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)

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	For the Year Ended		
	2014	2013	2012
OPERATING ACTIVITIES			
Net loss (including net income or loss attributable to non-controlling interests)	$(1,932)	$(8,272)	$(87,683)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	3,267	2,804	4,405
Amortization of share-based compensation	2,770	1,648	3,034
Impairment charges, net	—	(248)	59,043
Loss on extinguishment of debt	—	—	1,144
Equity loss (income) from unconsolidated entities	16	101	(259)
Loss from disposal of assets	—	36	1,130
Changes in operating assets and liabilities:			
Restricted cash	(12,491)	726	3,190
Receivables, net	987	2,837	999
Income tax receivable	—	1,293	—
Land and other inventories	(111,667)	(68,787)	(40,576)
Assets held for sale	19,811	(1,213)	4,429
Prepaid expenses and other assets	398	(361)	(786)
Accounts payable, estimated development liability, and accrued and other liabilities	15,643	6,661	3,243
Customer deposits	1,789	338	374
NET CASH USED IN OPERATING ACTIVITIES	(81,409)	(62,437)	(48,313)
INVESTING ACTIVITIES			
Investment in property and equipment	(1,815)	(1,023)	(4,421)
Proceeds from sales of property and equipment	12	—	150
Acquisition of Royal Oak Homes	(62,684)	—	—
Return of capital from unconsolidated entities	33	—	19
Investment in unconsolidated entities	(3,644)	(111)	(135)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(68,098)	(1,134)	(4,387)
FINANCING ACTIVITIES			
Gross proceeds from issuance of 8.50% Senior Notes	200,000	—	—
Principal payments of notes	(5,446)	—	—
Issuance of common shares	—	35,805	—
Issuance of preferred shares	—	92,030	—
Debt issuance costs	(9,220)	—	(1,683)
Contributions from consolidated joint venture partner	193	731	13,779
Other financing activities, net	(413)	(83)	(3,897)
NET CASH PROVIDED BY FINANCING ACTIVITIES	185,114	128,483	8,199
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,607	64,912	(44,501)
Cash and cash equivalents at beginning of year	144,727	79,815	124,316
CASH AND CASH EQUIVALENTS AT END OF YEAR	180,334	144,727	79,815
Non-cash transactions:			
Transfer from assets held for sale to land and other inventories and property and equipment	$—	$13,767	$—
Beneficial conversion feature (deemed dividend)	$—	$11,894	$—
Common stock issued for conversion of preferred stock	$—	$92,030	$—

See notes to consolidated financial statements.

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AV HOMES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2014

Note 1 - Basis of Financial Statement Presentation and Summary of Significant Accounting Policies

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

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

TPG Investment in Company
On June 19, 2013, we entered into a Securities Purchase Agreement (the "Purchase Agreement") by and among AV Homes and TPG Aviator, L.P. ("TPG Aviator") pursuant to which TPG Aviator agreed to acquire 2,557,474 shares of AV Homes’ common stock, par value $1.00 per share (the “Common Stock"), at a purchase price of $14.65 per share, and 665,754 shares of a newly authorized series of AV Homes’ preferred stock, designated as Series A Contingent Convertible Cumulative Redeemable Preferred Stock, par value $0.10 per share (the “Series A Preferred Stock"), at a purchase price and liquidation preference of $146.50 per share, for an aggregate investment in AV Homes by TPG Aviator of $135.0 million.

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

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

In accordance with GAAP, before its conversion, the Series A Preferred Stock was classified outside of permanent equity because the redemption provisions were not solely within our control. We incurred approximately $7.2 million of transaction fees in connection with the TPG Investment, which have been offset against the proceeds received. The contingent beneficial conversion feature of the Series A Preferred Stock was recognized upon stockholder approval of the conversion and amortized at the time of conversion by treating it as a deemed dividend in retained earnings and crediting additional paid-in capital for $11.9 million, consequently resulting in no diminution in total stockholders' equity or book value per share. We have assessed the provisions of the Series A Preferred Stock and concluded that the impact of any embedded derivative features was not material.

Cash and Cash Equivalents and Restricted Cash

We consider all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. As of December 31, 2014, our cash and cash equivalents were invested primarily in money market accounts that invest primarily in U.S. government securities. Due to the short maturity period of the cash equivalents, the carrying amount of these instruments approximate their fair values.

Our cash items that are restricted as to withdrawal or usage include deposits of $16.4 million and $4.0 million as of December 31, 2014 and 2013, respectively. The balance as of December 31, 2014 is comprised primarily of $16.1 million on deposit as an interest reserve to comply with the terms of our Senior Secured Credit Facility.

Land and Other Inventories

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

Land and Other Inventories are stated at cost unless the asset is determined to be impaired, in which case the asset is written to its fair value, in accordance with ASC 360.

We evaluate our Land and Other Inventories for impairment on a quarterly basis in accordance with ASC 360 to reflect market conditions, including a consideration of supply of new and resale homes for sale in the respective market, level of foreclosure activity and competition. For assets held and used, if indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the estimated future undiscounted cash flows to be generated by the asset to its carrying value. If such cash flows are less than the asset's carrying value, the carrying value is written down to its estimated fair value. Generally, fair value is determined by discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. The discount rate used in the determination of fair value would vary, depending on the state of development. Assumptions and estimates used in the determination of the estimated future cash flows are based on expectations of future operations and economic conditions and certain factors described below. Changes to these assumptions could significantly affect the estimates of future cash flows, which could affect the potential for future impairments. Due to the uncertainties of the estimation process, actual results could differ significantly from such estimates

During the year ended December 31, 2014, our impairment assessment resulted in no impairment charges related to land and other inventories. During 2013, we recorded impairment charges of $0.7 million related to land developed and/or held for future development or sale.

In 2013, we changed our plans to sell certain assets, resulting in the reclassification of these assets to land and other inventories and a reversal of previously recorded impairment expense of $1.0 million. This reversal was the result of measuring these assets at the lower of the original carrying amount or the fair value at the date of the decision not to sell, in accordance with ASC 360-10-35-44.

Receivables

Receivables 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. Mortgage notes receivable comprise $0.4 million of the receivables balance.

Property and Equipment, net

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

Property and Equipment includes 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. For our amenities, which are located within our housing communities, indicators of potential impairment are similar to those of our housing communities, as these factors may impact our ability to generate revenues at our amenities or cause construction costs to increase. In addition, we factor in the collectability and potential delinquency of the fees due for our amenities. For the years ended December 31, 2014 and December 31, 2013, we did not identify indicators of impairments for Property and Equipment. During 2013, management changed its plans to sell certain assets, resulting in the reclassification of these assets from assets held for sale to property and equipment. There was no change in the carrying value in these assets due to this reclassification.

Assets Held for Sale

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

For assets held for sale, if indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the fair value (estimated sales price) less cost to sell the asset to its carrying value. If such fair value less cost to sell is less than the asset’s carrying value, the carrying value is written down to its estimated fair value less cost to sell.
During 2014, we sold assets held for sale with a carrying value and closing costs of $20.6 million for cash proceeds of $27.2 million for a gain of $6.6 million. Included in this was the sale of a multi-family property in Arizona to a related party for $13.9 million for a gain of $2.3 million. During 2013, we sold assets held for sale with a carrying value of $4.2 million for cash proceeds of $7.4 million for a gain of $3.2 million.

Investments in Partnerships and LLCs

When we are either deemed to hold the controlling interest in a voting interest entity or deemed to be the primary beneficiary of a variable interest entity (“VIE”) we are required to consolidate the investment. The primary beneficiary of a VIE is the entity that has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and (b) the obligation to absorb the majority of losses of the VIE or the right to receive the majority of benefits from the VIE. Investments where we don't hold the controlling interest and we are not the primary beneficiary are accounted for under the equity method.

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

We have investments in unconsolidated entities, including joint ventures, with independent third parties. The equity method of accounting is used for unconsolidated entities over which we have significant influence. Under the equity method of accounting, we recognize our proportionate share of the earnings and losses of these entities.

We evaluate our investments in unconsolidated entities for recoverability in accordance with ASC 323, “Investments – Equity Method and Joint Ventures” (“ASC 323”). If we determine that a loss in the value of the investment is other than temporary, we write down the investment to its estimated fair value. Any such losses are recorded to equity in (earnings) loss of unconsolidated entities in the Consolidated Statements of Operations. Due to uncertainties in the estimation process and the significant volatility in demand for new housing, actual results could differ significantly from such estimates.

Non-Controlling Interest

At December 31, 2013, we consolidated an investment in an LLC where AV Homes was determined to be the primary beneficiary due to a related party affiliation. Therefore, the LLC's financial statements were consolidated in our financial statements and the other partner’s equity in the LLC was recorded as non-controlling interest as a component

of consolidated equity. At December 31, 2014, we were no longer considered the primary beneficiary of this LLC due to a discontinuation of a related party affiliation, resulting in shared power between the remaining members, see Note 5.

Purchase Accounting

When acquiring a business, we allocate the purchase price of real estate to the tangible and intangible assets and liabilities acquired based on their estimated fair values. In making estimates of fair values for this purpose, we use a number of sources, including independent appraisals and information obtained about each property as a result our pre-acquisition due diligence and its marketing and housing activities.

Goodwill

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In accordance with ASC 350, Intangibles-Goodwill and Other ("ASC 350"), we evaluate goodwill for possible impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In the fourth quarter of fiscal 2014, we voluntarily changed the date of our annual goodwill impairment testing from the last day of the fiscal year to the first day of the Company's fourth fiscal quarter for all reporting units. This voluntary change is preferable under the circumstances because it will allow us more time to complete the annual goodwill impairment testing in advance of our year-end reporting. This voluntary change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

We use a three step process to assess the realizability of goodwill. The first step is a qualitative assessment that analyzes current economic indicators associated with a particular reporting unit. For example, we analyze changes in economic, market and industry conditions, business strategy, cost factors, and financial performance, among others, to determine if there would be a significant decline to the fair value of a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required.

If a qualitative assessment indicates that a significant decline to fair value of a reporting unit is more likely than not, or if a reporting unit's fair value has historically been closer to its carrying value, we will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future probability-weighted cash flows. If this step indicates that the carrying value of a reporting unit is in excess of its fair value, we will proceed to the third step where the fair value of the reporting unit will be allocated to assets and liabilities as they would in a business combination. Impairment occurs when the carrying amount of goodwill exceeds its estimated fair value calculated in the third step.

Based on our analysis, we have concluded that, as of December 31, 2014, our goodwill was not impaired.

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 buyer's initial and continuing investment is adequate, any financing is considered collectible and there is no significant continuing involvement. Sales incentives are included in Real Estate Revenue-Homebuilding in the accompanying consolidated statements of operations and comprehensive income (loss).

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2014, 2013 and 2012, advertising costs totaled $3.1 million, $2.4 million and $2.9 million, respectively. Advertising costs, sales commissions and closing costs are included in Real Estate Expenses--Homebuilding in the accompanying consolidated statements of operations and comprehensive income (loss).

Warranty Costs

Warranty reserves for houses are established to cover estimated costs for materials and labor with regard to warranty-type claims to be incurred subsequent to the closing of a house. Reserves are determined based on historical data and other relevant factors. We have, and require our subcontractors to have, general liability, property, errors and omissions, workers compensation, and other business insurance. These insurance policies protect us against a portion of our risk of loss from claims, subject to certain self-insured per occurrence and aggregate retentions, deductibles,

and available policy limits. We may have recourse against subcontractors for certain claims relating to workmanship and materials. Warranty reserves are included in Accrued and Other Liabilities in the consolidated balance sheets.

During the years ended December 31, 2014, 2013 and 2012, changes in the warranty reserve consist of the following (in thousands):

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	2014	2013	2012
Accrued warranty reserve, beginning of period	$638	$549	$537
Reserve provided	1,495	578	774
Payments	(605)	(489)	(762)
Accrued warranty reserve, end of period	$1,528	$638	$549

Income Taxes

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

We evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. Our cumulative loss position over the evaluation period and the uncertain and volatile market conditions provided significant evidence supporting the need for a valuation allowance. During 2014, we recognized a decrease of $0.4 million in the valuation allowance. During 2013, we recognized an increase of $3.7 million in the valuation allowance. As of December 31, 2014, our deferred tax asset valuation allowance was $129.9 million. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

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

Share-Based Compensation

The Amended and Restated 1997 Incentive and Capital Accumulation Plan (2005 Restatement), as amended, (the "Incentive Plan") provides for the grant of stock options, stock appreciation rights, stock awards, performance awards, and stock units to officers, employees and directors of AV Homes. The exercise prices of stock options may not be less than the stock exchange closing price of our common stock on the date of grant. Stock option awards under the Incentive Plan generally expire 10 years after the date of grant.

As of December 31, 2014, an aggregate of 1,018,980 shares of our common stock, subject to certain adjustments, were reserved for issuance under the Incentive Plan, including an aggregate of 743,047 options, restricted stock units and stock units granted. There were 275,933 shares available for grant at December 31, 2014.

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, 2014, 2013 and 2012.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to AV Homes stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted

into common stock or resulted in the issuance of common stock that then shared in the earnings of AV Homes. The computation of diluted loss per share for the year ended December 31, 2014, 2013 and 2012 did not assume the effect of restricted stock units, employee stock options, the 4.50% Notes, the 7.50% Notes, or the 7.50% Exchange Notes because the effects were antidilutive.

The weighted average number of shares outstanding in calculating basic earnings per share includes the issuance of 67,274 shares in 2014, 9,272,795 shares in 2013, and 122,388 shares in 2012, due to the conversion of restricted stock units each year, and stock issued in connection with the 2013 TPG Investment as described above. Excluded from the weighted average number of shares outstanding are 127,078 shares for 2014, 100,898 shares for 2013, and 209,270 shares for 2012 that

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are subject to vesting and performance requirements (see Note 10). In accordance with ASC 260 Earnings Per Share, nonvested shares are not included in basic earnings per share until the vesting and performance requirements are met.

In accordance with ASC 470-20 Debt, an embedded beneficial conversion feature present in a convertible instrument shall be recognized separately by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in-capital. Intrinsic value shall be calculated at the commitment date (preferred stock issuance) as the difference between the conversion price and the fair value of the common stock into which the security is convertible. The most favorable conversion price shall be used to measure the intrinsic value. The intrinsic value of the contingent beneficial conversion feature was recognized upon resolution of the contingency (shareholder approval of conversion) as a deemed dividend on the convertible preferred stock, and is added to net loss to arrive at loss attributable to common stockholders in the loss per share calculation. The deemed dividend had a ($.75) per share effect on earnings for the year ended December 31, 2013.

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, 2014, 2013 and 2012 (in thousands):

	For the Year Ended		
	2014	2013	2012
Numerator:			
Basic and diluted loss per share – net loss	$(1,932)	$(9,477)	$(90,235)
Deemed dividend related to the beneficial conversion feature	—	(11,894)	—
Loss attributable to common stockholders	$(1,932)	$(21,371)	$(90,235)
Denominator:			
Basic and diluted weighted average shares outstanding	21,945,491	15,935,701	12,557,416

Comprehensive Income (Loss)

Net loss and comprehensive loss are the same for the years ended December 31, 2014, 2013 and 2012.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification Topic No. 605, “Revenue Recognition,” most industry-specific guidance throughout the industry topics of the accounting standards codification, and some cost guidance related to construction-type and production-type contracts. ASU 2014-09 is effective for public entities for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, “Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” (“ASU 2014-12”). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718, as it relates to awards with

performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We believe the adoption of this guidance will not have a material effect on our consolidated financial statements.

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In August 2014, the FASB issued Accounting Standards Update No. 2014-15, “Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”), which requires management to evaluate, in connection with preparing financial statements for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and provide related disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. We believe the adoption of this guidance will not have a material effect on our consolidated financial statements.

Note 2 - Royal Oak Homes Acquisition

On March 13, 2014, we acquired substantially all of the assets and certain of the liabilities of Royal Oak Homes, LLC (“Royal Oak”) and certain land positions from an affiliate of Royal Oak. Royal Oak and its affiliate acquire and develop raw land and construct single family homes in the Central Florida area. The transaction will expand our presence in Central Florida and our existing presence in the Poinciana market. With over 2,500 primary residential lots owned or controlled at the time of acquisition, Royal Oak enhances our position in a key growth market. The total purchase price paid under the acquisition agreements was approximately $65.0 million in cash, which includes a potential $3.0 million payment related to an earn-out covering the financial results for 2014 and 2015. The earn-out has a fair value of $2.4 million as of December 31, 2014. The actual amount of the earn-out may be more or less than the $3.0 million target amount based on the performance of the Royal Oak business through the end of 2015. We will not pay any earn-out amounts unless the Royal Oak business achieves at least 50% of the target amount of financial performance. The results of Royal Oak are included in the Company's consolidated financial statements from the acquisition date of March 13, 2014.

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

We acquired substantially all of the assets of Royal Oak, including all of its real estate, land acquisition agreements and permits, and certain of its leases, contracts, commitments and purchase orders. We also assumed certain liabilities of Royal Oak, including the liabilities and obligations relating to the acquired contracts but excluding certain home warranty obligations relating to homes sold by Royal Oak prior to the acquisition. We will, however, provide warranty administrative services of up to $0.2 million with respect to these home warranty obligations for the two years following the closing of the acquisition.

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

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Calculation of purchase price consideration	
Cash paid for Royal Oak net assets	$25,848
Cash paid for bulk land purchase	28,009
Contingent consideration (earn-out)	2,500
Debt repaid at closing	8,827
Total consideration	$65,184
Assets acquired and liabilities assumed	
Assets	
Prepaids and other current assets	$582
Land and other inventories	60,217
Property, plant and equipment	366
Trade name	614
Goodwill	6,071
Total assets acquired	67,850
Liabilities	
Accounts payable	1,343
Accrued and other liabilities	469
Customer deposits	854
Total liabilities assumed	2,666
Total net assets acquired	$65,184

Fair value

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

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

The fair values for acquired intangible assets were determined based on valuations performed by independent valuation specialists. The $0.6 million of acquired intangible assets relates to trade names that will be amortized over three years. Amortization expense for these assets totaled $0.2 million for the year ended December 31, 2014, which is included in the consolidated statements of operations within homebuilding expense.

The Company has substantially completed its business combination accounting as of December 31, 2014. For the year ended December 31, 2014, goodwill increased by a net $0.1 million due to a revision of the valuation of acquired inventory, partially offset by a post-closing purchase price adjustment. The Company has not completed its final review of certain other assets and liabilities. Final determinations of the values of assets acquired and liabilities assumed may result in adjustments to the values presented above and a corresponding adjustment to goodwill.

Transaction and integration costs

Transaction and integration costs directly related to the Royal Oak acquisition, including legal, accounting and broker fees, totaled $1.1 million for the year ended December 31, 2014, the majority of which are included in the consolidated

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statements of operations within corporate general and administrative expenses. Such costs were expensed as incurred in accordance with ASC 805.

Goodwill

As of the acquisition date, goodwill includes the expected economic value attributable to Royal Oak's assembled workforce. The acquisition provides increased scale and presence in an existing market with immediate revenue opportunities through an established backlog. We expect $3.7 million of goodwill to be deductible for tax purposes as of December 31, 2014.

Supplemental pro forma information

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

	For the Year Ended	
	2014	2013
Revenue	$299,049	$201,534
Net income (loss)	$141	$(3,283)
Income (loss) per common share - basic and diluted	$0.01	$(0.95)

Certain adjustments, including those related to conforming accounting policies and adjusting acquired inventory to fair value, have not been reflected in the supplemental pro forma operating results due to the impracticability of estimating such impacts. These results may not be indicative of future operating results.

The amount of revenue and net income of Royal Oak since the acquisition date included in the consolidated income statement for 2014 is $67.3 million and $2.1 million, respectively.

Note 3 - Land and Other Inventories

Land and Other Inventories consist of the following (in thousands):

	December 31	
	2014	2013
Active Adult		
Land developed and in process of development	$93,285	$57,138
Land held for future development or sale	20,844	58,423
Homes completed or under construction	34,519	25,478
Total Active Adult	148,648	141,039
Primary Residential		
Land developed and in process of development	166,120	77,983
Homes completed or under construction	58,057	11,013
Total Primary Residential	224,177	88,996
Land developed and in process of development-Other	10,359	10,043
	$383,184	$240,078

We capitalize interest to inventories during the period of development in accordance with ASC 835, Interest ("ASC 835"). Homebuilding interest capitalized as cost of inventories is included in cost of sales as related units or lots are sold. To the extent our homebuilding debt exceeds our qualified assets, as defined in ASC 835, we expense a portion of interest incurred. Qualified homebuilding assets consist of land, lots and homes, excluding finished unsold homes or finished models, that are under development or construction.

The following table represents interest incurred, interest capitalized, and interest expense for 2014, 2013 and 2012 (in thousands):

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	For the Year Ended		
	2014	2013	2012
Interest incurred	$18,107	$9,296	$9,236
Interest capitalized	(12,302)	(6,466)	(1,263)
Interest expense	$5,805	$2,830	$7,973

Note 4 - Property and Equipment, net

As of December 31, 2014 and 2013, Property and Equipment, net balance consisted of the following (in thousands):

	December 31	
	2014	2013
Land Improvements	$21,816	$21,734
Building	39,050	38,700
Equipment	6,698	5,434
Motor Vehicles	603	603
Furniture and Fixtures	4,017	3,344
Capitalized Software	1,962	1,928
Gross property and equipment	74,146	71,743
Less Accumulated Depreciation	(37,224)	(33,899)
Property and equipment, net	$36,922	$37,844

As of December 31, 2014 we had $2.0 million of Equipment with $0.9 million of accumulated depreciation that were financed with capital leases.

Note 5 - Investments in Partnerships and LLCs

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

In May 2012, we entered into an agreement with JEN Arizona 4, LLC to form a limited liability company, EM 646, LLC (“EM 646”). We hold a 58% interest in the venture, which was organized for the purpose of acquiring, entitling, developing, and distributing specific sections of real property located in Mesa, Arizona. The property was acquired in November 2012 and is distributed to the partners at cost, once certain entitlements and development activities are completed.
On May 14, 2014, EM 646 distributed $7.1 million of developed land to AV Homes.

During 2014, we were no longer considered the primary beneficiary of this LLC due to a discontinuation of a related party affiliation, resulting in shared power between the remaining members. As we no longer have the power on a stand-alone basis to direct the activities of the LLC that most significantly impact the LLC’s economic performance, we deconsolidated this LLC, in accordance with ASC 810, Consolidation and ASC 360. As this transaction involves the deconsolidation of in-substance real estate, we have accounted for the deconsolidation under ASC 360-20, Real Estate Sales. In determining whether a gain should be recognized as part of this transaction, ASC 360-20-40-10, Real Estate Sales, requires that a sufficient amount of cash be received in order to recognize a gain on transactions within the scope of ASC 360. As we did not receive any proceeds from this transaction and as there was not a culmination of an earning process, we recognized our investment in the venture at our carry over cost basis and, therefore, no gain or

loss was recognized. We will reflect future earnings, contributions and distributions on an equity method basis. At December 31, 2014 and December 31, 2013, non-controlling interest was $0.0 million and $15.6 million, respectively.

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As of December 31, 2013, our consolidated balance sheet included $34.0 million of land and other inventories owned by EM 646. As of December 31, 2014, our consolidated balance sheet included $16.8 million in investments in unconsolidated entities related to the EM 646 joint venture.

We and our equity partners make capital contributions to the entity on a pro rata basis. The obligation to make such capital contributions is governed by the entity's operating agreement. As of December 31, 2014, this entity was financed by partner equity and does not have third-party debt. In addition, we have not provided any guarantees to the entity or our equity partner. The assets of our investee can only be used to settle obligations of the investee.

We share in the profits and losses of unconsolidated entities generally in accordance with our ownership interests. We and our equity partners make initial and ongoing capital contributions to these unconsolidated entities on a pro rata basis. The obligation to make capital contributions is governed by each unconsolidated entity's respective operating agreement. We made contributions totaling $3.6 million, $0.1 million, and $0.1 million to our unconsolidated entities during 2014, 2013, and 2012, respectively. The balance of our investments in unconsolidated entities was $18.0 million and $1.2 million at December 31, 2014 and December 31, 2013, respectively. The increase is due to the Company no longer being considered the primary beneficiary, resulting in the EM 646 entity being unconsolidated at December 31, 2014.

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 $2.7 million 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 60.0%
share of this income, $1.6 million, on our consolidated statements of operations and comprehensive income (loss) as a component of net income (loss) attributable to non-controlling interests in consolidated entities for the year ended December 31, 2012.

Note 6 - Debt

Notes payable are summarized as follows:

	December 31	
	2014	2013
7.50% Convertible Notes, due 2016	$55,481	$55,500
7.50% Exchange Notes, due 2016	44,475	44,500
4.50% Convertible Senior Notes, due 2024 (a)	—	5,402
8.50% Senior Notes due 2019	200,000	—
Senior Secured Credit Facility	—	—
Total	$299,956	$105,402

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

7.50% Senior Convertible Notes due 2016

On February 4, 2011, we completed an underwritten public offering for $100.0 million aggregate principal amount of our 7.50% Senior Convertible Notes due 2016 (the "7.50% Notes"). The 7.50% Notes mature on February 15, 2016 unless earlier converted, redeemed or repurchased. The 7.50% Notes are governed by the Indenture and the First Supplemental Indenture, each dated February 4, 2011 (collectively, the "First Supplemental Indenture"), between us and the trustee named therein. Interest on the 7.50% Notes is payable semi-annually in arrears in cash on February 15 and August 15 of each year. As of December 31, 2014, $55.5 million aggregate principal amount of the 7.50% Notes remain outstanding. The other $44.5 million of original principal balance was exchanged for other convertible notes as

discussed below.

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

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Repurchase Right: Holders of the 7.50% Notes had the right to require us to repurchase the 7.50% Notes on February 15, 2014 or upon the occurrence of a "fundamental change" (as defined in the First Supplemental Indenture), in each case at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. Holders put $19 thousand of the 7.5% Notes to us on February 15, 2014.

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

7.50% Senior Exchange Convertible Notes due 2016

In July 2012, we entered into exchange agreements under which we retired $44.5 million in aggregate principal amount of our 7.50% Notes, in exchange for the issuance of $44.5 million in aggregate principal of new 7.50% Senior Exchange Convertible Notes due 2016 ("7.50% Exchange Notes"). The 7.50% Exchange Notes mature on February 15, 2016 unless earlier converted, redeemed or repurchased. The 7.50% Exchange Notes are governed by the Indenture dated February 4, 2011 and the Second Supplemental Indenture dated July 25, 2012 between us and the trustee named therein (collectively, the "Second Supplemental Indenture"). Interest on the 7.50% Exchange Notes is payable semi-annually in arrears in cash on February 15 and August 15 of each year, commencing February 15, 2013. In conjunction with the issuance of the 7.50% Exchange Notes, we wrote off $1.1 million of deferred costs associated with the 7.50% Notes.

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

Repurchase Right: Unlike the 7.50% Notes, the 7.50% Exchange Notes did not provide the holders the right to require us to repurchase the 7.50% Exchange Notes on February 15, 2014. However, holders of the 7.50% Exchange Notes have the right to require us to repurchase the 7.50% Exchange Notes upon the occurrence of a "fundamental change" (as defined in the Second Supplemental Indenture).

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

We have assessed the 7.50% Exchange Notes and concluded that the impact of any embedded derivative features are not material as of December 31, 2014, subject to further review over the life of the 7.50% Exchange Notes. As of December 31, 2014, $44.5 million aggregate principal amount of the 7.50% Exchange Notes remain outstanding. We were in compliance with all covenants of the 7.50% Notes and 7.50% Exchange Notes as of December 31, 2014.

8.50% Senior Notes due 2019

On June 30, 2014, we completed an underwritten offering for $200.0 million aggregate principal amount of our 8.50% Senior Notes due 2019 (the “8.50% Notes”). The 8.50% Notes mature on July 1, 2019 unless earlier converted, redeemed or repurchased. The 8.50% Notes are governed by the indenture dated June 30, 2014 between us, the subsidiary guarantors named therein, and the trustee named therein.

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

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

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- At any time prior to July 1, 2016, we may redeem up to 35% of the original principal amount of the 8.50% Notes with the proceeds of certain equity offerings at a redemption price of 108.50% of the principal amount of the 8.50% Notes, together with accrued and unpaid interest, if any, to, but excluding, the date of redemption.

- At any time prior to July 1, 2016, we may also redeem some or all of the 8.50% Notes at a price equal to 100% of the principal amount of the notes, plus a “make-whole premium,” together with accrued and unpaid interest, if any, to, but excluding, the date of redemption.

- On or after July 1, 2016, we may, at our option, redeem the 8.50% Notes, in whole or in part, at any time and from time to time, at the following redemption prices (expressed in percentages of the principal amount thereof), plus accrued and unpaid interest, if any, to, but excluding, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date falling prior to or on the redemption date), if redeemed during the 12-month period beginning on July 1 of each year indicated below:

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

Covenants: The indenture contains covenants that limit our and certain of our subsidiaries' ability to (i) pay dividends, or make other distributions or redeem or purchase our capital stock; (ii) prepay, redeem or repurchase certain debt; (iii) incur additional and guarantee indebtedness; (iv) issue certain preferred stock or similar equity securities; (v) make loans and investments; (vi) incur liens; (vii) sell assets; (viii) enter into transactions with affiliates; (ix) enter into agreements restricting our subsidiaries' ability to pay dividends; (x) consolidate, merge or sell all or substantially all assets; and (xi) alter the business we conduct. These covenants are subject to certain exceptions and qualifications. We were in compliance with all covenants as of December 31, 2014.

If we experience specific kinds of changes in control, holders of the 8.50% Notes will be entitled to require us to purchase all or a portion of the 8.50% Notes at 101% of their principal amount, plus accrued and unpaid interest to but excluding the date of repurchase.

Exchange offer; registration rights: In connection with the issuance of the 8.50% Notes, we entered into an agreement with the initial purchasers obligating us to file a registration statement with the SEC within 360 days so that the initial purchasers can:

- exchange the notes for registered notes having substantially the same terms as the 8.50% Notes and evidencing the same indebtedness as the 8.50% Notes, and

- exchange the related 8.50% Note guarantees for registered guarantees having substantially the same terms as the original 8.50% Note guarantees.

Guarantors: Certain of our subsidiaries are guarantors of the 8.50% Notes. All of the subsidiary guarantors are 100% owned by us, and all of the guarantees are full, unconditional, and joint and several. We have no independent assets or operations, and our subsidiaries, other than the subsidiary guarantors, are minor.

We have assessed the 8.50% Notes and concluded that the impact of any embedded derivative features are not material as of December 31, 2014.

Senior Secured Credit Facility

On April 7, 2014, we entered into a $65.0 million senior secured credit facility with JPMorgan Chase Bank, N.A., as agent, a lender and a letter of credit issuer (the "Senior Secured Credit Facility"). The other original lenders and letter of credit issuers include Royal Bank of Canada and Credit Suisse AG. In August 2014, we increased the Senior Secured Credit Facility by $25.0 million with the addition of Citibank, N.A. as an additional lender. In December

2014, we increased the Senior Secured Credit Facility by $15.0 million with the addition of Deutsche Bank, A.G. as an additional lender.

The Senior Secured Credit Facility includes revolving credit and letter of credit facilities in an aggregate principal amount of up to$105.0 million, with an “accordion” feature that allows us, with the consent of the lenders, to increase the aggregate amount to $175.0 million. The Senior Secured Credit Facility also includes a swing line loan facility in an aggregate

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principal amount of up to $30.0 million. The maximum amount available under the Senior Secured Credit Facility is limited to 100% of cash maintained in a borrowing base account, to the extent it exceeds the interest reserve, escrowed deposits and funds payable to us following the sale of real property, plus the following, subject to certain limitations:

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

To be included in this borrowing base, the real property must be owned by us or one of our subsidiaries that guaranties the Senior Secured Credit Facility and it must be appraised, pledged as collateral and meet certain other criteria. At December 31, 2014, we had qualified assets in the amount of $82.4 million in the borrowing base and had no borrowings outstanding.

Interest will be payable on revolving credit borrowings at variable rates determined by the applicable LIBOR plus 3.25% or the prime rate plus 2.25%, at our election. We pay quarterly fees of 0.50% per annum on the unused portion of the Senior Secured Credit Facility to the lenders, 0.125% per annum on the aggregate undrawn amount of each letter of credit to the issuer of such letter of credit, and 3.25% per annum on the aggregate undrawn amount of all letters of credit to the lenders.

The Senior Secured Credit Facility expires in 2017. Upon expiration, all borrowings become due and payable. We may prepay the Senior Secured Credit Facility or reduce the commitments thereunder at our option, without any prepayment fee or penalty.

Certain of our subsidiaries are guarantors of the Senior Secured Credit Facility. All of the subsidiary guarantors are 100% owned by us and all of the guarantees are full, unconditional and joint and several. We have no independent assets or operations, and our subsidiaries other than the subsidiary guarantors are minor. The Senior Secured Credit Facility is secured by substantially all of our and our subsidiary guarantors' assets. We have the option to add or remove guarantors from time to time, subject to certain limitations. The Senior Secured Credit Facility is also secured by all of the capital stock of the subsidiaries owned directly by us and our subsidiary guarantors.

The Senior Secured Credit Facility contains certain restrictions and covenants, which, among other things, restrict our ability to acquire or merge with another entity, make investments, loans or guarantees, incur additional indebtedness, create liens or other encumbrances, or pay cash dividends or make other distributions.

The Senior Secured Credit Facility also requires that we comply with the following financial covenants as of the end of each fiscal quarter beginning June 30, 2014:

- our leverage ratio may not exceed 60%;
- if our interest coverage ratio is less than 1.50 to 1.00, we must deposit to an interest reserve account an amount equal to the interest we have incurred on all indebtedness during the prior 12 months; and
- our consolidated tangible net worth, excluding the tangible net worth of our subsidiaries that do not guaranty the Senior Secured Credit Facility, must be at least $228.9 million plus 50% of our cumulative consolidated net income since December 31, 2013 plus 50% of the net proceeds of any equity offerings.

We were in compliance with all financial covenants at December 31, 2014.

Maturities of notes payable at December 31, 2014 are as follows (in thousands):

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	Total
2015	$—
2016	99,956
2017	—
2018	—
2019	200,000
Thereafter	—
	$299,956

We made interest payments of $7.6 million in 2014, $7.9 million in 2013, and $7.6 million in 2012.

Note 7 - Lease Commitments

We lease the majority of our administration and sales offices under operating leases that expire at varying times through 2019. Rental expense was $0.5 million in 2014, $0.5 million in 2013, and $0.4 million in 2012. The following table reflects lease commitments as of December 31, 2014 (in thousands):

	Payments Due By Period						
Lease Commitment	Total	2015	2016	2017	2018	2019	2020 and after
Noncancelable Operating Leases	$2,955	$715	$715	$714	$537	$260	$14
Capital Lease Obligations	1,317	460	495	362	—		
Leased Model Homes	222	220	2	—	—		
Total	$4,494	$1,395	$1,212	$1,076	$537	$260	$14

Note 8 - Accrued and Other Liabilities

Accrued and other liabilities are summarized as follows (in thousands):

	December 31	
	2014	2013
Accrued Interest	$11,312	$2,873
Accrued compensation	4,052	3,080
Warranty reserve	1,528	638
Infrastructure obligations	4,671	5,073
Contingent consideration	2,404	—
Other	4,167	2,616
	$28,134	$14,280

Note 9 - 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, in most cases prior to 1980, and is summarized as follows (in thousands):

	December 31	
	2014	2013
Gross estimated unexpended costs	$35,888	$36,117
Less costs relating to unsold home sites	(2,885)	(2,885)
Estimated development liability for sold land	$33,003	$33,232

The estimated development liability is reduced by actual expenditures and is evaluated and adjusted, as appropriate, to reflect management's estimate of potential costs. We engage third-party engineer evaluations and adjust this liability as

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necessary to reflect changes in the estimated costs. We recorded charges associated with these obligations of $0.0 million, $0.3 million, and $0.1 million during 2014, 2013, and 2012, respectively. Cash expenditures associated with these obligations were $0.2 million, $0.1 million, and $0.1 million during 2014, 2013, and 2012, respectively. Future increases or decreases of costs for construction, material and labor, as well as other land development and utilities infrastructure costs, may have a significant effect on the estimated development liability.

Note 10 - Share-Based Payments and Other Compensation

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

As of December 31, 2014, an aggregate of 1,018,980 shares of our common stock, subject to certain adjustments, were reserved for issuance under the Incentive Plan, including an aggregate of 743,047 options, restricted stock units and stock units granted. There were 275,933 shares available for grant at December 31, 2014.

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

Compensation expense related to the stock option, restricted stock, and restricted stock unit awards during the years ended December 31, 2014, 2013, and 2012 was $2.8 million, $1.6 million, and $3.0 million, respectively. During 2014, we did not grant any stock options. During 2014, we granted 127,518 restricted stock unit awards, which have a weighted average grant date fair value of $13.59 per share.

As of December 31, 2014, there was $1.5 million of unrecognized compensation expense related to unvested restricted stock units. That expense is expected to be recognized over a weighted-average period of 1.61 years.

As of December 31, 2014, there was $3.3 million of unrecognized compensation expense related to unvested stock options. That expense is expected to be recognized over a weighted-average period of 1.7 years.

Under ASC 718 Stock Compensation ("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 that 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, 2014, 2013 and 2012 were as follows:

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	2014	2013	2012
Dividend yield	— %	— %	— %
Volatility rate	42.60%	52.37%-52.49%	47.40%-61.25%
Risk-free interest rate	0.66%	1.66%-1.86%	0.17%-0.43%
Expected life (years)	2.91	6.25	0.50-4.08
Weighted average fair value of units granted	$9.30	$8.75	$7.98

A summary of the status of the stock option activity for the years ended December 31, 2014, 2013 and 2012 is presented below:

	2014		2013		2012	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	585,036	$16.99	110,000	$25.00	110,000	$25.00
Granted	—	—	585,036	16.99	—	—
Exercised	—	—	—	—	—	—
Forfeited	(30,000)	16.80	(110,000)	—	—	—
Outstanding at end of year	555,036	$17.00	585,036	$16.99	110,000	$25.00
Exercisable at end of year	146,259	$16.99	—	$—	110,000	$25.00

The weighted average remaining contractual life of stock options outstanding as of December 31, 2014 was 8.8 years.

A summary of the restricted stock and stock units activity for the year ended December 31, 2014, is presented below:

	Restricted Stock and Stock Units		Weighted Average Grant Date Fair Value
Outstanding at beginning of year	120,588	(1)	$19.68
Granted	127,518		13.59
Vested	(72,590)		16.23
Expired/Forfeited/Cancelled	(30,164)		14.66
Outstanding at end of year	145,352		$16.77

(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.

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 our 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, 2014, 2013 and 2012, respectively. The outstanding balance of stock units as of December 31, 2014, 2013 and 2012 was 42,659, 36,257 and 30,929, respectively.

Note 11 - Income Taxes

Income taxes have been provided using the liability method under 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.

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The components of income tax expense (benefit) for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

	2014	2013	2012
Current			
Federal	$—	$—	$—
State	—	—	—
Total current	—	—	—
Deferred			
Federal	—	—	—
State	—	—	—
Total deferred	—	—	—
Total income tax expense (benefit)	$—	$—	$—

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, 2014 and 2013 are as follows (in thousands):

	2014	2013
Deferred income tax assets		
Tax over book basis of land inventory	$15,085	$15,699
Unrecoverable land development costs	6,222	6,728
Executive incentive compensation	1,338	1,086
Net operating loss carry forward	61,128	50,136
Impairment charges	55,529	67,453
Other	4,061	4,257
Total deferred income tax assets	143,363	145,359
Valuation allowance for deferred tax assets	(129,862)	(130,232)
Net deferred income tax assets	13,501	15,127
Deferred income tax liabilities		
State tax effect of deferred tax assets	(3,412)	(4,344)
Book over tax income recognized on sale of the Ocala Property	(7,751)	(8,870)
Tax over book on 4.50% Convertible Notes	(960)	(621)
Book over tax basis of depreciable assets	(1,378)	(1,292)
Total deferred income tax liabilities	(13,501)	(15,127)
Net deferred income tax liability	$—	$—

At December 31, 2014, our gross federal and state NOL carryforwards were approximately $142.7 million and $304.1 million, respectively. Federal NOL carryforwards may be used to offset future taxable income for 20 years and begin to expire in 2030. State NOL carryforwards may be used to offset future taxable income for a period of time ranging from 5 to 20 years, depending on the state, and begin to expire in 2015.

In accordance with ASC 740, we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a “more likely than not” standard. During 2008, we established a valuation allowance against our deferred tax assets. Our cumulative loss position over the evaluation period and the uncertain market conditions provided significant evidence supporting the need for a valuation allowance. During 2014, we

recognized a decrease of $0.4 million in the deferred tax valuation allowance against net deferred tax assets generated from the pretax loss for the year. As of December 31, 2014, our deferred tax asset valuation allowance was $129.9 million. In future periods, the allowance

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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.

No additional income tax benefits were generated from the exercise of share-based compensation during 2014, 2013 and 2012.

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, 2014, 2013 and 2012 is as follows (in thousands):

	2014	2013	2012
Income tax (benefit) expense computed at statutory rate	$(522)	$(3,317)	$(31,582)
State income tax (benefit) expense, net of federal benefit	823	(385)	(3,388)
Change in valuation allowance on deferred tax assets	(370)	3,699	35,050
Prior period adjustments charged to retained earnings	—	—	—
Other	69	3	(80)
Income tax (benefit) expense	$—	$—	$—

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. We are subject to U.S. federal income tax examination for calendar tax years ending 2011 through 2014. Additionally, we are subject to various state income tax examinations for the 2010 through 2014 calendar tax years.

We received income tax payment refunds of $0.0 million and $1.3 million in 2014 and 2013, respectively.

Note 12 - 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 $0.1 million and $0.3 million, which have been accrued in the accompanying consolidated balance sheets as of December 31, 2014 and 2013, respectively. Liabilities or costs arising out of these and other currently pending litigation is not expected to have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

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, 2014, we had outstanding performance bonds of approximately $21.5 million. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

Note 13 - Other Matters

At two of our communities in Florida, 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, water and wastewater utilities, roads, and lighting. The bonds were issued by community development districts (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 our communities, 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 we own 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 we own within the CDDs, we pay the assessments until such parcels are sold. After a sale by AV Homes, we no longer pay 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 14 - Segment Information

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

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

The following table summarizes our information for reportable segments for the years ended December 31, 2014, 2013, and 2012 (in thousands):

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	For the Year Ended		
	2014	2013	2012
Operating income (loss):			
Active adult communities:			
Revenues:			
Homebuilding	$124,372	$69,362	$36,018
Amenity	7,960	7,227	7,014
Total revenue	132,332	76,589	43,032
Expenses:			
Homebuilding	98,992	55,543	31,619
Homebuilding selling, general and administrative	17,097	12,605	13,150
Amenity	7,887	8,013	7,182
Segment operating income (loss)	$8,356	$428	$(8,919)
Primary residential communities:			
Revenues:			
Homebuilding	$118,799	$45,611	$33,496
Amenity	2,127	2,451	2,440
Total revenue	120,926	48,062	35,936
Expenses:			
Homebuilding	99,892	36,255	27,760
Homebuilding selling, general and administrative	17,264	6,930	5,805
Amenity	1,932	2,440	2,380
Segment operating income (loss)	$1,838	$2,437	$(9)
Land sales:			
Revenues	$32,596	$16,303	$26,595
Expenses	22,003	8,111	18,581
Segment operating income	$10,593	$8,192	$8,014
Other operations:			
Revenues	$59	$528	$598
Expenses	58	546	(33)
Segment operating income (loss)	$1	$(18)	$631
Operating income (loss)	$20,788	$11,039	$(283)
Unallocated income (expenses):			
Interest income and other	$447	$2,218	$1,326
Loss on repurchase of 4.50% Notes	—	—	(1,144)
Equity income (loss) from unconsolidated entities	(16)	(101)	259
Corporate general and administrative expenses	(15,941)	(15,975)	(16,148)
Interest expense	(5,805)	(2,830)	(7,973)
Other real estate expenses	(1,076)	(2,904)	(6,312)
Impairment of land developed or held for future development	—	281	(57,408)
Income (loss) before income taxes	$(1,603)	$(8,272)	$(87,683)
Income tax expense	—	—	—
Net (income) loss attributable to non-controlling interests	(329)	(1,205)	(2,552)
Net loss attributable to AV Homes	$(1,932)	$(9,477)	$(90,235)

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	December 31	
	2014	2013
Segment assets:		
Active adult communities	$197,773	$145,717
Primary residential communities	242,338	91,076
Commercial and industrial and other land	7,784	44,704
Assets held for sale	4,051	23,862
Unallocated assets	216,940	161,369
Total assets	$668,886	$466,728

a. Our businesses are 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, 2014 and 2013, respectively: cash, cash equivalents and restricted cash of $196.5 million and $148.3 million; land inventories of $4.6 million and $4.2 million; property and equipment of $2.7 million and $1.9 million; investment in and notes from unconsolidated entities of $1.2 million and $1.2 million; receivables of $2.0 million and $2.9 million; and prepaid expenses and other assets of $10.1 million and $2.8 million. 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 2014, 2013 and 2012.

f. Included in segment operating income/(loss) for 2014 is depreciation expense (including amortization of assets under capital leases) of $2.2 million, $0.4 million and $0.7 million from active adult, primary residential and unallocated G&A/other, respectively. Included in segment operating income/(loss) for 2013 is depreciation expense of $2.1 million, $0.0 million, and $0.7 million from active adult, primary residential and unallocated G&A/other, respectively. Included in segment operating income/(loss) for 2012 is depreciation expense of $2.1 million, $0.1 million and $0.5 million from active adult, primary residential and unallocated G&A/other, respectively.

g. During fiscal year 2014 there were no impairment losses recognized. During fiscal year 2013, impairment losses of approximately $0.0 million and $0.0 million reduced the carrying value of the assets of active adult and primary residential communities, respectively. During fiscal year 2012, impairment losses of approximately $1.6 million and $0.0 million reduced the carrying value of the assets of active adult and primary residential communities, respectively.

h. Goodwill of $6.1 million has been assigned to the primary residential segment.

Note 15 - Fair Value Disclosures

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

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

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

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

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

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

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

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

In 2013, we changed our plans to sell certain assets, resulting in the reclassification of these assets to land and other inventories and a reversal of previously recorded impairment expense of $1.0 million. This reversal was the result of measuring these assets at the lower of the original carrying amount or the fair value at the date of the decision not to sell, in accordance with ASC 360-10-35-44.

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

The carrying amounts and fair values of our financial instruments at December 31, 2014 and December 31, 2013 are as follows (in thousands):

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes Payable:				
4.50% Notes	$—	$—	$5,402	$5,425
7.50% Notes and 7.50% Exchange Notes	$99,956	$99,040	$100,000	$111,775
8.50% Senior Notes	$200,000	$193,000	$—	$—
Contingent consideration (earn-out)	$2,404	$2,404	$—	$—

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

8.50% Senior Notes, 7.50% Notes, 7.50% Exchange Notes, and 4.50% Notes: At December 31, 2014 and December 31, 2013, the fair value of the 8.50% Senior Notes, 7.50% Notes, 7.50% Exchange Notes, and 4.50% Notes is estimated, based on quoted or estimated market prices. These fall within Level 2 of the fair value hierarchy.

Contingent consideration ("earn-out"): This was first recognized as part of the purchase price paid for the Royal Oak acquisition in the first quarter of 2014 and falls within Level 3 of the fair value hierarchy. The carrying amount of the earn-out has decreased by $0.1 million since inception, resulting in a gain presented in interest income and other. A Monte Carlo model was used to value the earn-out by simulating earnings, applying the terms of the earn-out in each simulated path, determining the average payment in each year across all the trials of the simulation, and calculating the sum of the present values of the payments in each year. The primary inputs and key assumptions of this Monte Carlo model include the following:

- Cost of debt: 7%
- Earnings volatility: 5% for 2014 and 15% for 2015

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- Market risk premium: 6%
- Asset beta: 1.2

Given a range in the asset beta from 0.5 to 1.50 and a range in the earnings volatility from 5% to 25%, the valuation of the earn-out could vary from $2.4 million to $2.6 million.

Note 16 - Unaudited Quarterly Information

Summarized quarterly financial data for 2014 and 2013 is as follows (in thousands):

	2014 Quarter			
	First	Second	Third	Fourth
Net revenues	$43,865	$51,447	$86,641	$103,960
Expenses	45,499	53,694	85,958	102,349
Equity earnings (losses) from unconsolidated entities	1	(6)	(5)	(6)
Income (loss) before income taxes	(1,633)	(2,253)	678	1,605
Less: Net income attributable to non-controlling interests	293	36	—	—
Net income (loss) attributable to AV Homes	$(1,926)	$(2,289)	$678	$1,605
Income (loss) per share:				
Basic and Diluted	$(0.09)	$(0.10)	$0.03	$0.07

	2013 Quarter			
	First	Second	Third	Fourth
Net revenues	$25,119	$29,556	$34,999	$54,025
Expenses	29,815	34,209	35,970	51,878
Equity earnings (losses) from unconsolidated entities	(63)	(15)	(7)	(17)
Loss before income taxes	(4,759)	(4,668)	(978)	2,130
Less: Net loss attributable to non-controlling interests	—	—	899	306
Net loss attributable to AV Homes	$(4,759)	$(4,668)	$(1,877)	$1,824
Loss per share:				
Basic and Diluted	$(0.38)	$(0.36)	$(0.86)	$0.08

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. The deemed dividend related to the beneficial conversion feature had an impact of ($.75) per share on earnings for the quarter ended September 30, 2013.

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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, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), stockholders equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AV Homes, Inc.’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 27, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Phoenix, Arizona

February 27, 2015

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

Internal Control Over Financial Reporting

(a) 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 Chief 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 (2013 framework). Based on that assessment, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was effective as of December 31, 2014.

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Our management's assessment of our internal control over financial reporting excluded the acquisition of Royal Oak Homes LLC, which was acquired on March 13, 2014, which represents approximately 24% of total revenues for the year ended December 31, 2014 and 12% of total assets as of December 31, 2014.

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.

(b) 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, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (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.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Royal Oak Homes, LLC, which is included in the 2014 consolidated financial statements of AV Homes, Inc. and subsidiaries and constituted $78.5 million of total assets as of December 31, 2014 and $67.3 million of revenues for the year then ended. Our audit of internal control over financial reporting of AV Homes, Inc. and subsidiaries also did not include an evaluation of the internal control over financial reporting of Royal Oak Homes, LLC.

In our opinion, AV Homes, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31 2014, 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, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), stockholders equity, and cash flows for each of the three years in the period ended December 31, 2014 of AV Homes, Inc. and subsidiaries and our report dated February 27, 2015 expressed an unqualified opinion thereon.

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/s/ Ernst & Young LLP
Phoenix, Arizona
February 27, 2015

(c) Changes in Internal Control Over Financial Reporting

There have been no change in our internal controls over financial reporting during the quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 2015 Annual Meeting of Stockholders, which will be filed with the SEC 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

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The information required by this Item is incorporated by reference to our Proxy Statement for our 2015 Annual Meeting of Stockholders, which will be filed with the SEC 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 2015 Annual Meeting of Stockholders, which will be filed with the SEC 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 2015 Annual Meeting of Stockholders, which will be filed with the SEC 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 2015 Annual Meeting of Stockholders, which will be filed with the SEC 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:

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

(a)(2) Financial Statements Schedules:

All schedules are omitted because the required information is not present, is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the financial statements or notes thereto.

2.1	*2	Asset Purchase Agreement, dated March 13, 2014, by and among AV Homes, Inc., AVH Acquisition, LLC, Royal Oak Homes, LLC, Sam of Heathrow, LLC, William Colby Franks, Andrew J. Orosz, J. Matthew Orosz, Jody L. Orosz, as trustee of the Jody L. Orosz Family Trust dated February 18, 2004, Stephen W. Orosz, and William S. Orosz, Jr., as trustee of the William S. Orosz, Jr. Family Trust dated February 18, 2004 (filed as Exhibit 10.1 to Form 8-K dated March 13, 2014 (File No. 1-7395), and incorporated herein by reference).
2.2	*2	Hanover Agreement, dated March 13, 2014, by and between William S. Orosz, Jr, Hanover Land Company, LLC, Hanover Aldea Reserve, LLC, Hanover Avalon Reserve, LLC, Hanover Barrington Estates, LLC, Hanover Black Lake, LLC, Hanover Emerald Lake, LLC, Hanover Hammock Trails I, LLC, Hanover Marbella, LLC, Pines at Lake Apopka, LLC, Spring Ridge Estates, LLC, Blue Lake Estates, LLC, AVH Acquisition, LLC, and AV Homes, Inc. (filed as Exhibit 10.1 to Form 8-K dated March 13, 2014 (File No. 1-7395), and incorporated herein by reference).
3.1	*	Certificate of Incorporation, as amended and restated May 28, 1998 (filed as Exhibit 3(a) to Form 10-Q for the quarter ended June 30, 1998 (File No. 1-7395), and incorporated herein by reference).
3.2	*	Certificate of Amendment of Restated Certificate of Incorporation, dated May 26, 2000 (filed as Exhibit 3(a) to Form 10-Q for the quarter ended June 30, 2000 (File No. 1-7395), and incorporated herein by reference).
3.3	*	Amended and Restated By-laws, dated March 31, 2014 (filed as Exhibit 3.2 to Form 8-K filed on April 1, 2014 (File No. 1-7395), and incorporated herein by reference).
3.4	*	Certificate of Designation of Series B Junior Participating Preferred Stock of AV Homes, Inc. (filed as Exhibit 3.2 to Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
4.1	*	Indenture, dated March 30, 2004, between Avatar Holdings Inc. and JPMorgan Chase Bank, in respect of 4.50% Convertible Senior Notes due 2024 (filed as Exhibit 4.1 to Form 10-Q for the quarter ended March 31, 2004 (File No. 0-7616), and incorporated herein by reference).
4.2	*	First Supplemental Indenture, dated as of February 4, 2011, between Avatar Holdings Inc. and Wilmington Trust FSB, as Trustee, in respect of 7.50% Senior Convertible Notes due 2016 (filed as Exhibit 4.2 to Form 8-K filed on February 4, 2011 (File No. 1-7395), and incorporated herein by reference).
4.3	*	Second Supplemental Indenture, dated July 25, 2012, between AV Homes, Inc. and Wilmington Trust, National Association, as Trustee, in respect of 7.50% Senior Exchange Convertible Notes due 2016 (filed as Exhibit 4.1 to Form 8-K filed on July 20, 2012 (File No. 1-7395), and incorporated herein by reference).
4.4	*	Rights Agreement, dated as of June 19, 2013, by and between AV Homes, Inc. and Computershare Shareowner Services LLC, as Rights Agent (filed as Exhibit 4.1 to Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
4.5	*	Senior Notes Indenture, dated June 30, 2014, by and among AV Homes, Inc., certain subsidiaries of AV Homes, Inc., and Wilmington Trust, National Association, as Trustee, in respect of 8.500% Senior Notes Due 2019 (filed as Exhibit 4.1 to Form 8-K filed July 1, 2014 (File No.

		1-7395), and incorporated herein by reference).
4.6	*	Registration Rights Agreement, dated June 30, 2014, by and among AV Homes, Inc., certain subsidiaries of AV Homes, Inc., and J.P. Morgan Securities LLC (filed as Exhibit 4.2 to Form 8-K filed July 1, 2014 (File No. 1-7395), 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 filed on May 31, 2005 (File No. 1-7395), and incorporated herein by reference).
10.2	*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 filed on June 4, 2007 (File No. 1-7395), and incorporated herein by reference).
10.3	*1	Amended and Restated 1997 Incentive and Capital Accumulation Plan (2011 Restatement) (filed as Exhibit 10.1 to Form 8-K filed on June 7, 2011 (File No. 1-7395), and incorporated herein by reference).
10.4	*1	Amended and Restated 2005 Executive Incentive Compensation Plan (2011 Restatement) (filed as Exhibit 10.2 to Form 8-K filed on June 7, 2011 (File No. 1-7395), and incorporated herein by reference).

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10.5	*1	Form of Deferred Compensation Agreement for Non-Employee Director's Fees (filed as Exhibit 10.1 to Form 8-K filed on June 17, 2005 (File No. 1-7395), and incorporated herein by reference).
10.6	*1	Amended and Restated Form of Deferred Compensation Agreement for Non-Employee Director's Fees (filed as Exhibit 10.97 to Form 10-K for the year ended December 31, 2008 (File No. 1-7395), and incorporated herein by reference).
10.7	*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. 1-7395), and incorporated by reference).
10.8	*1	Form of performance-based Stock Award Agreement for executive officers (filed as Exhibit 10.1 to Form 10-Q/A for the quarter ended March 31, 2013 (File No. 1-7395), and incorporated herein by reference).
10.9	*1	Employment Agreement, dated as of February 5, 2014, by and among AV Homes, Inc. and Roger Cregg (filed as Exhibit 10.40 to Form 10-K filed on March 17, 2014 (File No. 1-7395), and incorporated herein by reference).
10.10	1	Form of Employment Agreement for non-CEO executive officers.
10.11	1	Form of Restricted Share Award Agreement for executive officers.
10.12	1	Form of Performance Share Award Agreement for executive officers.
10.13	*	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. 1-7395), incorporated herein by reference).
10.14	*	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. 1-7395), incorporated herein by reference).
10.15	*	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 filed on July 29, 2008 (File No. 1-7395), and incorporated herein by reference).
10.16	*	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 filed on August 11, 2008 (File No. 1-7395), and incorporated herein by reference).
10.17	*	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 filed on July 29, 2008 (File No. 1-7395), and incorporated herein by reference).
10.18	*	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 filed on July 29, 2008 (File No. 1-7395), and incorporated herein by reference).
10.19	*	Agreement for Development of Poinciana Parkway, dated as of October 15, 2012, by and between Osceola County, Florida, Polk County, Florida, Avatar Properties Inc. and Osceola County Expressway Authority (filed as Exhibit 10.47 to Form 10-K/A for the year ended December 31, 2012 (File No. 1-7395), and incorporated herein by reference).
10.20	*	Earnout 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. 1-7395), and incorporated herein by reference).
10.21	*	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. 1-7395), and incorporated herein by reference).
10.22	*	First Amendment, dated April 5, 2013, to Registration Rights Agreement, dated October 25, 2010 (filed as Exhibit 10.1 to Form 8-K filed on April 5, 2013 (File No. 1-7395), and incorporated herein by reference).

10.23	*	Securities Purchase Agreement, dated June 19, 2013, by and between AV Homes, Inc. and TPG Aviator, L.P. (filed as Exhibit 10.1 to Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
10.24	*	Stockholders Agreement, dated June 20, 2013, by and between AV Homes, Inc. and TPG Aviator, L.P. (filed as Exhibit 10.2 to Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
10.25	*	Management Services Agreement, dated June 20, 2013, by and between AV Homes, Inc., Avatar Properties Inc. and TPG VI Management, LLC (filed as Exhibit 10.3 to Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
10.26	*	Form of Indemnification Agreement for Directors and Officers (filed as Exhibit 10.4 to Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).

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10.27	*	Letter Agreement, dated June 19, 2013, by and between AV Homes, Inc. and TPG Aviator, L.P. (filed as Exhibit 10.5 to Form 8-K filed on June 20, 2013 (File No. 1-7395), and incorporated herein by reference).
10.28	*	Credit Agreement, dated April 7, 2014, by and among AV Homes, Inc., JPMorgan Chase Bank, N.A., as Lender, Administrative Agent and Collateral Agent, and the Lenders thereto (filed as Exhibit 10.1 to Form 8-K filed April 11, 2014 (File No. 1-7345), and incorporated herein by reference).
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.

1) Management contract or compensatory plan or arrangement

2) Excludes exhibits and schedules, which the registrant agrees to furnish supplementally to the Securities and Exchange Commission upon request.

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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: February 27, 2015

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 (including a majority of the Board of Directors) on behalf of the registrant and in the capacities and on the dates indicated.

Dated: February 27, 2015

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

Dated: February 27, 2015

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

Dated: February 27, 2015

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

Dated: February 27, 2015

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

Dated: February 27, 2015

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

Dated: February 27, 2015

By: /s/ Paul Hackwell
Paul Hackwell, Director

Dated: February 27, 2015

By: /s/ Jonathan Pertchik
Jonathan Pertchik, Director

Dated: February 27, 2015

By: /s/ Michael F. Profenius
Michael F. Profenius, Director

Dated: February 27, 2015

By: /s/ Aaron Ratner
Aaron Ratner, Director

Dated: February 27, 2015

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

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