AV Homes, Inc.
Form 10-Q
August 06, 2012

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

Commission File Number 001-07395

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ No 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):

Large accelerated filer: o	Accelerated filer: þ	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 Exchange Act). Yes o No þ

13,022,750 shares of AV Homes' common stock ($1.00 par value) were outstanding as of August 3, 2012.

AV HOMES, INC. FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

INDEX

Index

PART I -- FINANCIAL INFORMATION

ITEM 1. Financial Statements

AV HOMES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited) (Dollars in thousands)

	June 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 115,878	$ 124,316
Restricted cash	5,520	7,872
Land and other inventories	175,888	180,067
Receivables, net	8,330	7,729
Income tax receivable	1,293	1,293
Property and equipment, net	37,602	37,976
Poinciana Parkway	8,437	8,437
Investments in unconsolidated entities	819	845
Prepaid expenses and other assets	10,502	10,443
Assets held for sale	26,078	30,078
Total Assets	$ 390,347	$ 409,056
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable	$ 3,814	$ 3,357
Accrued and other liabilities	10,223	9,996
Customer deposits and deferred revenues	1,480	1,611
Estimated development liability for sold land	33,923	34,044
Notes, mortgage notes and other debt	105,402	105,402
Total Liabilities	154,842	154,410
Stockholders' Equity		
Common Stock, par value $1 per share		
Authorized: 50,000,000 shares		
Issued: 13,154,964 shares at June 30, 2012		
14,194,776 shares at December 31, 2011	13,155	14,195
Additional paid-in capital	260,743	282,953
Retained (deficit) earnings	(35,669)	2,973
Treasury stock: at cost, 110,874 shares at June 30, 2012 and 1,252,274 shares at December 31, 2011	(3,019)	(45,924)
Total AV Homes stockholders' equity	235,210	254,197
Non-controlling interest	295	449
Total Equity	235,505	254,646
Total Liabilities and Stockholders' Equity	$ 390,347	$ 409,056

See notes to consolidated financial statements.

1

Index

AV HOMES, INC.
Consolidated Statements of Operations and Comprehensive Income (loss)
For the six and three months ended June 30, 2012 and 2011
(Unaudited)
(Dollars in thousands except per-share amounts)

	Six Months		Three Months	
	2012	2011	2012	2011
Revenues				
Real estate revenues	$45,239	$39,978	$18,920	$28,201
Interest income	63	300	32	132
Other	374	300	14	33
Total revenues	45,676	40,578	18,966	28,366
Expenses				
Real estate expenses	49,355	41,620	21,453	25,652
Impairment charges	3,580	14,097	3,428	13,800
General and administrative expenses	6,663	6,750	3,357	3,349
Loss on extinguishment of debt	-	211	-	-
Interest expense	4,353	4,793	2,116	2,362
Total expenses	63,951	67,471	30,354	45,163
(Loss) earnings from unconsolidated entities, net	(79)	15	(43)	143
Loss before income taxes	(18,354)	(26,878)	(11,431)	(16,654)
Income tax benefit	-	-	-	-
Net loss and comprehensive income (loss)	(18,354)	(26,878)	(11,431)	(16,654)
Net income (loss) and comprehensive income (loss) attributable to non-controlling interests in consolidated entities	1,442	(255)	(86)	(128)
Net loss and comprehensive income (loss) attributable to AV Homes	$(19,796)	$(26,623)	$(11,345)	$(16,526)
Basic and Diluted Loss Per Share	$(1.58)	$(2.14)	$(0.91)	$(1.33)

See notes to consolidated financial statements.

Index

AV HOMES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the six months ended June 30, 2012 and 2011
(Unaudited)
(Dollars in Thousands)

	2012	2011
OPERATING ACTIVITIES		
Net loss (including net loss attributable to non-controlling interests)	$ (18,354)	$ (26,878)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,189	1,915
Amortization of stock-based compensation	845	643
Impairment of land and other inventories	3,580	14,097
Change in fair value of contingent consideration	-	(1,022)
Distribution (return) of earnings from unconsolidated entities	-	3,248
Equity loss (earnings) from unconsolidated entities	79	(15)
Changes in operating assets and liabilities:		
Restricted cash	2,352	42
Receivables, net	(601)	802
Land and other inventories	1,898	(49)
Assets held for sale	4,000	-
Prepaid expenses and other assets	(958)	1,922
Accounts payable and accrued and other liabilities	684	1,908
Customer deposits and deferred revenues	(131)	(159)
NET CASH USED IN OPERATING ACTIVITIES	(4,417)	(3,546)
INVESTING ACTIVITIES		
Investment in property and equipment	(2,336)	(35)
Return of capital from unconsolidated entities	13	-
Investment in unconsolidated entities	(66)	-
NET CASH USED IN INVESTING ACTIVITIES	(2,389)	(35)
FINANCING ACTIVITIES		
Proceeds from issuance of 7.50% Convertible Notes	-	100,000
Principal payments of real estate borrowings	-	(1,856)
Repurchase 4.50% Convertible Notes	-	(59,402)
Debt issuance costs	-	(4,627)
Payment of withholding taxes related to restricted stock and units withheld	(36)	-
Contributions from consolidated joint venture partner	189	-
Distributions to consolidated joint venture partner	(1,785)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,632)	34,115
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,438)	30,534
Cash and cash equivalents at beginning of period	124,316	115,502
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 115,878	$ 146,036

See notes to consolidated financial statements.

3

AV HOMES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2012
(Dollars in thousands except share and per share data)

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

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

The consolidated balance sheets as of June 30, 2012 and December 31, 2011, and the related consolidated statements of operations and comprehensive income (loss) for the six and three months ended June 30, 2012 and 2011 and the consolidated statements of cash flows for the six months ended June 30, 2012 and 2011 have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statement presentation. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year.

Reclassification

The Company has corrected the classification of $113 of contributions received from a consolidated joint venture partner and $1,785 of distributions paid to the consolidated joint venture partner from cash used in investing activities as reflected in the Company's Statement of Cash Flows for the quarter ended March 31, 2012, to cash used in financing activities in the accompanying Statement of Cash Flows for six months ended June 30, 2012.

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

The consolidated balance sheet as of December 31, 2011 was derived from audited consolidated financial statements included in our 2011 Annual Report on Form 10-K but does not include all disclosures required by GAAP. These consolidated financial statements should be read in conjunction with our December 31, 2011 audited consolidated financial statements included in our 2011 Annual Report on Form 10-K and the notes to the consolidated financial statements included therein.

Note B – Recently Issued Accounting Pronouncements

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

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

Note C - Cash and Cash Equivalents

We consider all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. As of June 30, 2012, our cash and cash equivalents were invested primarily in money market accounts that invest in U.S. government securities. Due to the short maturity period of the cash equivalents, the carrying amount of these instruments approximates their fair values.

Our cash items that are restricted as to withdrawal or usage include deposits of $5,520 and $7,872 as of June 30, 2012 and December 31, 2011, respectively. The balance as of June 30, 2012 is comprised primarily of $3,607 on deposit to collateralize letters of credit outstanding, $1,834 in land escrow accounts and $79 of housing deposits from customers that will become available when the housing contracts close.

Index

Note D - Receivables, net

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

Note E - Income Tax Receivable

Income tax receivable consists of tax refunds we expect to receive within one year. As of June 30, 2012 and December 31, 2011, we had $1,293 of income tax receivable.

Note F - Land and Other Inventories

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

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

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

We evaluate our Land and Other Inventories for impairment on a quarterly basis to reflect market conditions including a significant oversupply of homes available for sale, higher foreclosure activity and significant competition. During the six and three months ended June 30, 2012, our impairment assessment resulted in impairment charges of $733 and $581, respectively, which related to homes completed or under construction, and $2,847 in impairment charges related to land developed and/or held for future development or sale. During the six and three months ended June 30, 2011, our impairment assessment resulted in impairment charges of $14,097 and $13,800, respectively, which included $997 and $700, respectively, in impairment charges related to homes completed or under construction and approximately $13,100 in impairment charges for land developed and/or held for future development or sale. As of June 30, 2012, other than the Land and Other Inventories that we determined to be impaired and accordingly wrote down to their fair value, and excluding homes completed or under construction, we had no long-lived assets that had estimated undiscounted cash flows within 25% of their carrying values.

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

Housing communities: Activities include the development of active adult and primary residential communities and the operation of amenities. The operating results and losses generated from active adult and primary residential communities during the six and three months ended June 30, 2012 and 2011 include operating expenses relating to the operation of the amenities in our communities as well as divisional overhead allocated among several communities.

Index

Our active adult and primary residential communities are generally large master-planned communities in Florida and Arizona. Several of these communities are long term projects on land we have owned for many years. In reviewing each of our communities, we determine if potential impairment indicators exist by reviewing actual contribution margins on homes closed in recent months, projected contribution margins on homes in backlog, projected contribution margins on speculative homes, average selling prices, sales activities and local market conditions. If indicators are present, the asset is reviewed for impairment. In determining estimated future cash flows for purposes of the impairment test, the estimated future cash flows are significantly impacted by specific community factors such as: (i) sales absorption rates; (ii) estimated sales prices and sales incentives; and (iii) estimated cost of home construction, estimated land development costs, interest costs, indirect construction and overhead costs, and selling and marketing costs. In addition, our estimated future cash flows are also impacted by general economic and local market conditions, competition from other homebuilders, foreclosures and depressed home sales in the areas in which we build and sell homes, product desirability in our local markets and the buyers' ability to obtain mortgage financing. Except for those primary residential communities acquired in conjunction with a portfolio of real estate assets in Arizona and Florida in October 2010 (the "JEN Transaction"), build-out of our active adult and primary residential communities generally exceeds five years. Our assumptions are based on current activity and recent trends at our active adult and primary residential communities. There are a significant number of assumptions with respect to each analysis. Many of these assumptions extend over a significant number of years. The substantial number of variables to these assumptions could significantly affect the potential for future impairments.

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

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

Land and Other Inventories consist of the following:

	June 30, 2012	December 31, 2011
Land developed and in process of development	$ 89,154	$ 91,964
Land held for future development or sale	62,389	64,773
Homes completed or under construction	24,345	23,134
Other	-	196
	$ 175,888	$ 180,067

See “Note V - Business Segments” below.

Note G - Property and Equipment

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

Index

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

Each reporting period, we review our Property and Equipment for indicators of impairment in accordance with ASC 360-10. For our amenities, which are located within our housing communities, indicators of potential impairment are similar to those of our housing communities (described above) as these factors may impact our ability to generate revenues at our amenities or cause construction costs to increase. In addition, we factor in the collectability and potential delinquency of the fees due for our amenities. For the six and three months ended June 30, 2012 and June 30, 2011, no impairments existed for Property and Equipment.

Note H - Poinciana Parkway

In December 2006, we entered into agreements with Osceola County, Florida and Polk County, Florida for us to develop and construct at our cost a 9.66 mile four-lane road in Osceola and Polk Counties to be known as the Poinciana Parkway (the “Poinciana Parkway”). The Poinciana Parkway is to include a 4.15 mile segment to be operated as a toll road. We have acquired right-of-way and federal and state environmental permits necessary to construct the Poinciana Parkway. One additional permit is required for an interchange between the Poinciana Parkway and U.S. 17/92 in Polk County which must be accomplished prior to completing construction on the road.

On July 16, 2012, the Osceola County Commission approved an agreement that is expected to facilitate the development of the Poinciana Parkway by Osceola County and its Expressway Authority. The agreement imposes a December 31, 2012 deadline for the negotiation and execution of a new public-private Development Agreement among one of our wholly owned subsidiaries, Avatar Properties Inc. (“API”), Osceola County, Polk County and the newly formed Osceola County Expressway Authority for construction and operation of the Poinciana Parkway as an Osceola County-owned toll road. The terms of that Development Agreement are yet to be finalized. If the Development Agreement is not finalized by the December 31, 2012 deadline, the Company shall have until February 14, 2014 to secure other governmental or private funding for the construction of the Poinciana Parkway.

In the event construction of the Poinciana Parkway is not financed and commenced by the Company, a governmental entity or a private investor by February 14, 2014 : (i) a portion of AV Homes’ land in Osceola County will become subject to Osceola traffic concurrency requirements applicable generally to other home builders in the County and (ii) AV Homes will be required to contribute approximately $1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway. Polk County’s sole remedy under its agreement with AV Homes is to cancel its agreement with AV Homes.

As part of our negotiations on the Development Agreement, we are considering various designs and layouts for the Poinciana Parkway; accordingly, no assurance of the ultimate costs can be given until the Development Agreement is executed. As of June 30, 2012, approximately $48,301 has been expended. In prior years, we recorded impairment charges of $38,336 associated with the Poinciana Parkway.

The carrying value of the Poinciana Parkway represents the present value of mitigation credits that we own and can be sold to other developers, or that we can use to offset our own development costs in Central Florida, and the value of certain right-of-way parcels. Indicators of impairment are general economic conditions, rate of population growth and estimated change in traffic levels. 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 the estimated cash flows are less than the asset’s carrying value, the carrying value is written down to its estimated fair value. In determining estimated future cash flows for purposes of the impairment test, we incorporate current market assumptions based on general economic conditions such as estimated revenues and estimated costs. These assumptions can significantly affect our estimates of future cash flows.

We review the recoverability of the carrying value of the Poinciana Parkway on a quarterly basis in accordance with authoritative accounting guidance. Our negotiations on the Development Agreement are ongoing. Should the negotiations not result in the execution of the Development Agreement and we do not secure other funding for the Poinciana Parkway, we may be required to record further impairment charges. No impairment losses were recorded during the six and three months ended June 30, 2012.

Non-capitalizable expenditures of $649 and $255 related to the Poinciana Parkway were expensed during the six and three months ended June 30, 2012, respectively. Non-capitalizable expenditures of $46 and $20 related to the Poinciana Parkway were expensed during the six and three months ended June 30, 2011, respectively. At June 30, 2012 and June 30, 2011, the carrying value of the Poinciana Parkway was $8,437.

Index

Note I - Notes, Mortgage Notes and Other Debt

7.50% Senior Convertible Notes

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

On February 4, 2011, we completed the sale of the 7.50% Notes in accordance with the terms of the Underwriting Agreement. The sale of the 7.50% Notes is registered pursuant to a Registration Statement on Form S-3 (No. 333-161498), filed by AV Homes with the Securities and Exchange Commission (the "SEC") on August 21, 2009, (the "Registration Statement"). Our proceeds from the sale were approximately $95,373 after deducting the underwriting fees of 4.25% and expenses of approximately $377. We used the proceeds from the sale of the 7.50% Notes for general corporate purposes, including, without limitation, the repayment of debt, including our 4.50% Convertible Senior Notes due 2024 (the "4.50% Notes"), and potential new acquisitions of real estate and real estate-related assets. We recognized $771 and $386 in non-cash charges related to the amortization of the underwriting fees and expenses during the six and three months ended June 30, 2012, and $704 and $390 during the same periods in 2011, respectively.

The Underwriting Agreement includes customary representations, warranties, conditions to closing, and covenants. The Underwriting Agreement also provides for customary indemnification by each of AV Homes, API and the Underwriter against certain liabilities. The 7.50% Notes are governed by a base indenture (the "Base Indenture") and first supplemental indenture (the "Supplemental Indenture," and together with the Base Indenture, the "Indenture"), both dated as of February 4, 2011, between AV Homes and Wilmington Trust FSB, as trustee, and include the following terms:

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

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

Financial covenants : The Indenture includes the following financial covenants

- until February 15, 2014, AV Homes will maintain, at all times, cash and cash equivalents of not less than $20,000;

- until the second anniversary of the original issuance date of the 7.50% Notes, AV Homes' total consolidated indebtedness (as "indebtedness" is defined in the Indenture) may not exceed $150,000 at any time;

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

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

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

Index

7.50% Senior Exchange Convertible Notes Due 2016

Subsequent to June 30, 2012, the Company entered into exchange agreements under which it retired $37.5 million in aggregate principal amount of the Company's 7.50% Notes, in exchange for its issuance of $37.5 million in aggregate principal of new 7.50% Senior Exchange Convertible Notes due 2016 ("7.50% Exchange Notes"). Following these transactions, $62.5 million in aggregate principal amount of the 7.50% Notes remained outstanding.

The 7.50% Exchange Notes mature on February 15, 2016 and will pay interest semiannually at a rate of 7.50% per year, beginning on February 15, 2013. The 7.50% Exchange Notes have an initial conversion rate of 55.5555 shares of common stock per $1,000 original principal amount of notes (equivalent to a conversion price of approximately $18.00 per share), subject to adjustment in certain events. Unlike the 7.50% Notes, the 7.50% Exchange Notes do not provide that the holder may require the Company to repurchase them on February 15, 2014. The cancellation of the existing put right extends the effective maturity date of the 7.50% Exchange Notes to February 15, 2016.

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

4.50% Convertible Senior Notes

On March 30, 2004, we issued $120,000 aggregate principal amount of 4.50% Convertible Senior Notes due 2024 (the 4.50% Notes) in a private offering. Interest is payable semiannually on April 1 and October 1. The 4.50% Notes are senior, unsecured obligations and rank equal in right of payment to all of our existing and future unsecured and senior indebtedness. However, the 4.50% Notes are effectively subordinated to all of our existing and future secured debt to the extent of the collateral securing such indebtedness, and to all existing and future liabilities of our subsidiaries.

Each $1 in principal amount of the 4.50% Notes is convertible, at the option of the holder, at a conversion price of $52.63, or 19.0006 shares of our common stock, upon the satisfaction of one of the following conditions: a) during any calendar quarter (but only during such calendar quarter) commencing after June 30, 2004 if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 120% of the conversion price per share of common stock on such last day; or b) during the five business day period after any five-consecutive-trading-day period in which the trading price per $1 principal amount of the 4.50% Notes for each day of that period was less than 98% of the product of the closing sale price for our common stock for each day of that period and the number of shares of common stock issuable upon conversion of $1 principal amount of the 4.50% Notes, provided that if on the date of any such conversion that is on or after April 1, 2019, the closing sale price of AV Homes' common stock is greater than the conversion price, then holders will receive, in lieu of common stock based on the conversion price, cash or common stock or a combination thereof, at our option, with a value equal to the principal amount of the 4.50% Notes plus accrued and unpaid interest, as of the conversion date. During the first, second and third quarters of 2007, the 4.50% Notes were convertible; and $200 principal amount were converted into 3,800 shares of AV Homes' common stock. During 2007, AV Homes repurchased $5,000 principal amount of the 4.50% Notes; during 2008, we repurchased $35,920 principal amount; during 2009, we repurchased $14,076 principal amount On February 4, 2011, we repurchased $17,765 principal amount of the 4.50% Notes in conjunction with the issuance of our 7.50% Notes, which was treated as an extinguishment of debt; and in April 2011, holders of $41,637 in principal amount exercised their right to put the debt. As of June 30, 2012, $5,402 principal remained outstanding.

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

Index

Financial Accounting Standards Board ("FASB") ASC Subtopic 470-20, Debt with Conversion Options – Cash Conversion ("ASC 470-20"), requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. ASC 470-20 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The excess of the principal amount of the liability component over its carrying amount and the debt issuance costs are amortized to interest cost using the interest method over the expected life of a similar liability that does not have an associated equity component. ASC 470-20 applies to the 4.50% Notes, however bifurcation of the 7.50% Notes (described below) is not required since the instrument does not have a cash settlement option upon conversion.

The discount on the liability component of the 4.50% Notes was amortized thru April 1, 2011 using the effective interest method based on an effective rate of 7.5%, which was the estimated market interest rate for similar debt without a conversion option on the issuance date. The discount was amortized from the issuance date in 2004 through April 1, 2011, the first date that holders of the 4.50% Notes could require us to repurchase the 4.50% Notes. We recognized $293 and $0 in non-cash interest changes related to the amortization of the discount during the six and three months ended June 30, 2011, respectively.

JEN Transaction Notes

In conjunction with the JEN Transaction, we entered into two separate note payable agreements with JEN. Each note was for $6,000 bearing interest at 6%. Both notes were paid in full before their maturity, with final payments made in the fourth quarter of 2011.

Real Estate

On October 25, 2010, we entered into an agreement with Mutual of Omaha Bank whereby AV Homes became the Substitute Guarantor under a $3,000 construction loan facility made by Mutual of Omaha to Joseph Carl Homes, LLC (now known as Avatar Properties of Arizona, LLC) and JCH Group, LLC. This construction loan facility was paid in full in July 2011.

The following table represents interest incurred, interest capitalized, and interest expense for the six and three months ended June 30, 2012 and 2011:

	Six Months		Three Months	
	2012	2011	2012	2011
Interest incurred	$4,683	$5,011	$2,334	$2,492
Interest capitalized	(330)	(218)	(218)	(130)
Interest expense	$4,353	$4,793	$2,116	$2,362

We made interest payments of $3,898 and $1,491 during the six months ended June 30, 2012 and 2011, respectively.

Note J - Warranty Costs

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

During the six and three months ended June 30, 2012 and 2011 changes in the warranty reserve consisted of the following:

	Six Months		Three Months	
	2012	2011	2012	2011
Accrued warranty reserve, beginning of period	$537	$477	$601	$451
Estimated warranty expense	319	171	155	97
Amounts charged against warranty reserve	(316)	(226)	(216)	(126)
Accrued warranty reserve, end of period	$540	$422	$540	$422

Index

Note K - Loss Per Share

We present loss per share in accordance with ASC 260, Earnings Per Share. Basic earnings (loss) per share is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of AV Homes. In accordance with ASC 260, the computation of diluted earnings (loss) per share for the six and three months ended June 30, 2012 and 2011 did not assume the effect of restricted stock units, employee stock options or the 7.50% Notes or 4.50% Notes because the effects were antidilutive.

The weighted average number of shares outstanding in calculating basic loss per share includes cancellation of 5,072 shares of common stock and issuance of 7,160 shares of common stock for the six and three months ended June 30, 2012 and the issuance of 57,267 shares of our common stock for the six and three months ended June 30, 2011. In accordance with ASC 260, nonvested shares are not included in basic earnings per share until the vesting requirements are met.

The following table represents the net loss and weighted average shares outstanding for the calculation of basic and diluted loss per share for the six and three months ended June 30, 2012 and 2011:

	Six Months		Three Months	
	2012	2011	2012	2011
Numerator:				
Basic and diluted loss per share – net loss attributable to AV Homes	$ (19,796)	$ (26,623)	$ (11,345)	$ (16,526)
Denominator:				
Basic and diluted weighted average shares outstanding	12,522,663	12,441,098	12,523,843	12,442,616

Note L - Repurchase of Common Stock

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

Note M - Non-controlling Interest

AV Homes has consolidated certain limited liability companies (the "LLCs"), which qualify as variable interest entities (“VIEs”) because we determined that AV Homes is the primary beneficiary. Therefore, the LLCs’ financial statements are consolidated in AV Homes' consolidated financial statements and the other partners’ equity in each of the LLCs is recorded as non-controlling interest as a component of consolidated stockholders’ equity. At June 30, 2012 and December 31, 2011, non-controlling interest was $295 and $449, respectively. The decrease in non-controlling interest is primarily due to a gain from the sale of assets of one of the consolidated LLCs, offset by the cash distribution to the unaffiliated partners as that entity winds down.

Note N - Comprehensive Loss

Net loss and comprehensive loss are the same for the six and three months ended June 30, 2012 and 2011.

Note O - Share-Based Payments and Other Executive Compensation

On June 2, 2011, the stockholders of AV Homes 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 AV Homes 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 officers, employees and directors of AV Homes. 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.

Index

As of June 30, 2012, an aggregate of 1,240,624 shares of our Common Stock, subject to certain adjustments, were reserved for issuance under the Incentive Plan, including an aggregate of 680,355 options, restricted stock units and stock units granted. There were 560,269 shares available for grant at June 30, 2012.

Compensation expense related to the restricted stock and restricted stock unit awards during the six months ended June 30, 2012 and 2011 was $846 and $588, respectively. Compensation expense related to restricted stock and restricted stock unit awards during the three months ended June 30, 2012 and 2011, was $426 and ($53), respectively. No restricted stock unit awards or stock options were granted during the three months ended June 30, 2012 or during the three months ended June 30, 2011.

Subsequent to June 30, 2012, we accepted the resignation of an officer of AV Homes and API, who held 147,000 shares of restricted stock, 138,000 of which shares were forfeited as a result. During the quarter ended June 30, 2012, we recorded this forfeiture of restricted shares and reversed $79 of compensation expense recognized in prior periods related to these shares.

As of June 30, 2012, there was $4,108 of unrecognized compensation expense related to unvested restricted stock units. That expense is expected to be recognized over a weighted-average period of 1.54 years.

Note P - Retirement of Treasury Stock

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

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

Note Q - Income Taxes

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

In accordance with ASC 740, AV Homes evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a “more likely than not” standard. During 2008, we established a valuation allowance against our deferred tax assets. Our cumulative loss position over the evaluation period and the uncertain and volatile market conditions provided significant evidence supporting the need for a valuation allowance. During the six months ended June 30, 2012 we recognized an increase of $7,626 in the valuation allowance. As of June 30, 2012, our deferred tax asset valuation allowance was $99,109. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

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

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

Index

Note R - Fair Value Disclosures

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

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

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

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

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

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

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

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

AV Homes’ assets measured at fair value as of June 30, 2012 and gains (losses) for the quarter ended June 30, 2012 on a nonrecurring basis are summarized below:

Non-financial Assets/Liabilities	Fair Value Hierarchy	Fair Value at June 30, 2012 (a)	Gains/ (Losses)
Homes completed or under construction	Level 3	$ 1,795	$ (581)
Land held for future development or sale	Level 3	$ 3,366	$ (2,847)

(a) The fair values in the table above represent only those assets whose carrying values were adjusted to fair value in the quarter ended June 30, 2012.

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.

Index

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

The carrying amounts and fair values of our financial instruments at June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes, mortgage notes and other debt:				
4.50% Notes	$ 5,402	$ 5,382	$ 5,402	$ 5,295
7.50% Notes	$ 100,000	$ 99,000	$ 100,000	$ 90,000

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

7.50% Notes and 4.50% Notes: At June 30, 2012 and December 31, 2011, the fair value of the 7.50% Notes and the 4.50% Notes is estimated, based on quoted or estimated market prices.

Note S - Variable Interest Entities

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

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

We participate in entities with equity interests ranging from 20% to 50% for the purpose of acquiring and/or developing land in which we may or may not have a controlling interest. These entities are VIEs and our investments in these entities, along with other arrangements represent variable interests, depending on the contractual terms of the arrangement. We analyze these entities when they are entered into or upon a reconsideration event.

Consolidation of Variable Interest Entities

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

We determined that these entities qualify as VIEs which require consolidation by the entity determined to be the primary beneficiary. As a result of our analyses, we hold a variable interest in the VIEs through the purchase money notes, the land option contracts and an economic interest in these LLCs. As of June 30, 2012, our consolidated balance sheets include $1,774 in land and other inventories and $1,025 in property and equipment from these LLCs. As of December 31, 2011, our consolidated balance sheets include $3,470 in land and other inventories and $1,049 in property and equipment from these LLC's.

Index

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

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

As of June 30, 2012, these consolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners.

Unconsolidated Variable Interest Entities

We participate in entities with equity interests ranging from 20% to 50% for the purpose of acquiring and/or developing land in which we do not have a controlling interest. We analyze these entities when they are entered into or upon a reconsideration event. All of such entities in which we had an equity interest at June 30, 2012 and December 31, 2011 are accounted for under the equity method.

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

Prior to 2010, we entered into various transactions with unaffiliated third parties providing for the formation of LLCs; and we subsequently sold developed and partially-developed land to each of these LLCs. We acquired a minority ownership interest in each of the LLCs and share in the management of each. AV Homes made contributions totaling $66 and $57 to its unconsolidated entities during the six months ended June 30, 2012 and 2011, respectively.

As of June 30, 2012, these unconsolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners.

The following are the consolidated condensed balance sheets of our unconsolidated entities as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Assets:		
Cash	$ 91	$ 197
Land and other inventory	6,928	6,928
Other assets	5	11
Total assets	$ 7,024	$ 7,136
Liabilities and Partners’ Capital:		
Accounts payable and accrued liabilities	$ 1,880	$ 1,900
Partners’ Capital of:		
AV Homes	819	845

Equity partners		4,325	4,391
Total liabilities and partners’ capital	$	7,024	