

AV Homes, Inc.  
Form 10-K  
March 17, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
For the fiscal year ended December 31, 2013.

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  No

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$272,056,141 as of June 30, 2013.

As of February 26, 2014, there were 21,993,570 shares of common stock, \$1.00 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2014 Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

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

Company Overview

AV Homes, Inc. was incorporated in the state of Delaware in 1970. 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](http://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, community development, and land sales in Florida and Arizona, and has recently expanded into 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. Additionally, we have a portfolio of legacy land holdings that we sell in favorable market conditions. As of December 31, 2013, we owned 2,964 developed residential lots, 3,193 partially developed residential lots, 13,714 undeveloped residential lots, and 7,860 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 business segments of active adult community development and primary residential community development has improved for the year ended December 31, 2013 as compared to prior years. As the market continues to recover from the industry downturn, we have experienced the positive impact from that as well. During the year ended December 31, 2013, we closed on 481 homes at an average sales price of \$238 per closed home, generating \$114 million of home sale revenue, as compared to the year ended December 31, 2012, in which we closed on 306 homes at an average sales price of \$227 per closed home, generating \$69 million of home sale revenue. The number of housing contracts (net of cancellations) signed in 2013 increased 18% compared to 2012, and at December 31, 2013, we had 167 homes in backlog with a sales value of approximately \$39.9 million compared to 185 homes in backlog with a sales value of approximately \$43.1 million at December 31, 2012.

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 and Arizona markets. In addition, as a result of our experience in developing communities for the active adult population for over three 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 market segments and the preferences of the buyers in these segments. We also supplement our expertise in our segments by utilizing a research-based approach to understanding the lifestyle preferences of these buyer segments.

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Favorable demographics and real estate market recovery. In the active adult segment, we believe the demographic trends and lifestyle aspirations of aging Baby Boomers provide us with a favorable environment for future business. Although we have begun to see improvement in primary residential housing statistics, the active adult segment has been slower to recover. We are seeing signs of recovery in the active adult market as the broader U.S. housing market rebounds.

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 conventional 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, and our existing CantaMia and future Encore communities in Arizona. In North Carolina, we are planning the opening of our Creekside community at Bethpage.

Strategically expand our primary business 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 business 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 intend to utilize proven technologies and processes to drive profitability. In 2012, we upgraded our information technology, enabling us to manage our business more effectively. In addition to the new systems, we introduced 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, 2013, we had \$145 million of cash and cash equivalents and \$105 million of outstanding debt, mostly due in 2016.

Profitably monetize non-core commercial and industrial assets and scattered lots. We continue to execute a portfolio rationalization plan whereby we 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 \$16.3 million under this plan in 2013 for a profit of \$8.2 million and \$26.6 million in 2012 for a profit of \$8 million.

Our Operations

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

Solivita commenced active sales in 2000. From inception, we have closed 3,741 of the 5,887 planned residences and approximately 6,200 individuals reside in the community as of December 31, 2013.

#### CantaMia

CantaMia is a 1,760 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, pickle ball, bocce ball, tennis and horseshoes.

We purchased phase one of the partially developed community in September 2010, phase two in December 2011, and phase three in December 2013. We have been selling in the previously developed sections of phase one of CantaMia and have now begun development on the remaining sections of phase one. Sales officially began in February 2010, and the grand opening of the recreation facility occurred in March 2011. A total of 186 units have closed as of December 31, 2013.

#### Vitalia at Tradition

Vitalia at Tradition ("Tradition") is a 1,144 lot active adult community, comprised of 212 developed lots, 351 partially developed lots and approximately 438 undeveloped master planned lots in a 452-acre active adult community located in St. Lucie County, Florida, located between Vero Beach and West Palm Beach on Florida's east coast. We acquired this property in 2009 in its partially developed condition. We have now completed new model homes and have commenced initial development of additional roadways and the recreation center amenity. Development commenced in 2005 and a total of 143 homes have closed since 2009 as of December 31, 2013.

Encore at Eastmark

Encore at Eastmark ("Encore") will be our latest active adult community to be developed 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 renowned developer 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 planned to open in early 2015, with housing starts following shortly thereafter. The amenity complex is currently under design 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, pickle ball, and multi-use rooms.

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## 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 650 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 planning process with an estimated opening of spring/summer of 2015. The amenities are also under design and will consist of a 15,000 square foot clubhouse with tennis courts, pickle ball courts, bocce, urban garden, and 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. We acquired over 800 lots in five new communities in the second half of 2013 and expect to begin selling and building these along with the ongoing construction in our existing communities in the Phoenix, Arizona market. Additionally, we are building out our existing communities in Central Florida, and are expanding into a new market in North Carolina.

Information relating to our backlog is discussed in Item 7 of Part II of this report under the heading "Results of Operations."

The following is a breakdown of our land holdings as of December 31, 2013:

	Total Lots (1)	Closed Lots (2)	Remaining Lots			Total Remaining Lots	Total Acres (3)
			Developed	Partially Developed	Raw		
<b>Principal Communities</b>							
<b>Active Adult Communities</b>							
<b>Florida</b>							
Solivita	10,387	3,741	673	564	5,409	6,646	
Vitalia at Tradition	1,144	143	212	351	438	1,001	
	11,531	3,884	885	915	5,847	7,647	—
<b>Arizona</b>							
CantaMia	1,760	186	240	196	1,138	1,574	
Eastmark	905	—	—	—	905	905	
	2,665	186	240	196	2,043	2,479	
<b>North Carolina</b>							
Bethpage	658	—	—	—	658	658	
<b>Total Active Adult Communities</b>	<b>14,854</b>	<b>4,070</b>	<b>1,125</b>	<b>1,111</b>	<b>8,548</b>	<b>10,784</b>	<b>—</b>
<b>Primary Residential Communities</b>							
Florida	3,847	1,499	424	1,152	772	2,348	
Arizona	1,132	130	445	212	345	1,002	

North Carolina	228	—	—	228	—	228
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Total Primary Residential Communities	5,207	1,629	869	1,592	1,117	3,578	
Total Principal Communities	20,061	5,699	1,994	2,703	9,665	14,362	
Commercial & Industrial	—	—	—	—	—	—	1,682
Not Actively Building or Developing							
Platted Scattered Lots	4,812	3,473	818	490	31	1,339	
Unplatted Scattered Mixed-Use Raw Land	—	—	—	—	—	—	6,028
Total Not Actively Building or Developing	4,812	3,473	818	490	31	1,339	6,028
Land Held for Sale							
Platted Residential	4,036	84	152	—	3,800	3,952	
Multi-Family Communities	218	—	—	—	218	218	
Unplatted Residential, Commercial or Industrial	—	—	—	—	—	—	150
Total Land Held for Sale	4,254	84	152	—	4,018	4,170	150