AV Homes, Inc.
Form 10-Q
May 08, 2013

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

o TRANSITION 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<br>(State or other Jurisdiction of Incorporation or Organization) | 23-1739078<br>(I.R.S. Employer Identification No.) |
| 8601 N. Scottsdale Rd., Suite 225, Scottsdale, Arizona<br>(Address of Principal Executive Offices) | 85253<br>(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

12,787,377 shares of AV Homes' common stock ($1.00 par value) were outstanding as of May 6, 2013.

AV HOMES, INC. AND SUBSIDIARIES

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

AV HOMES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)

| | March 31, 2013 (unaudited) | December 31, 2012 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 71,087 | $ 79,815 |
| Restricted cash | 4,727 | 4,682 |
| Land and other inventories | 180,826 | 171,044 |
| Receivables, net | 6,362 | 6,730 |
| Income tax receivable | 1,293 | 1,293 |
| Property and equipment, net | 36,395 | 36,661 |
| Investments in and notes receivable from unconsolidated entities | 1,240 | 1,220 |
| Prepaid expenses and other assets | 10,156 | 10,777 |
| Assets held for sale | 20,191 | 25,649 |
| Total Assets | $ 332,277 | $ 337,871 |
| | | |
| Liabilities and Equity | | |
| | | |
| Liabilities | | |
| Accounts payable | $ 4,719 | $ 4,656 |
| Accrued and other liabilities | 11,576 | 12,978 |
| Customer deposits and deferred revenues | 2,156 | 1,985 |
| Estimated development liability for sold land | 32,955 | 32,974 |
| Notes Payable | 105,402 | 105,402 |
| Total Liabilities | 156,808 | 157,995 |
| | | |
| Equity | | |
| Common Stock, par value $1 per share | | |
| Authorized: 50,000,000 shares | | |
| Issued: 12,898,251 shares at March 31, 2013 | | |
| 12,938,157 shares at December 31, 2012 | 12,898 | 12,938 |
| Additional paid-in capital | 262,651 | 262,363 |
| Retained (deficit) earnings | (110,869 ) | (106,110 ) |
| | 164,680 | 169,191 |
| | | |
| Treasury stock: at cost, 110,874 shares at March 31, 2013 and December 31, 2012 | (3019 ) | (3,019 ) |
| Total AV Homes stockholders' equity | 161,661 | 166,172 |
| Non-controlling interest | 13,808 | 13,704 |
| Total Equity | 175,469 | 179,876 |
| | | |
| Total Liabilities and Equity | $ 332,277 | $ 337,871 |

See notes to consolidated financial statements.

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AV HOMES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income (Loss)
For the three months ended March 31, 2013 and 2012
(unaudited)
(Dollars in thousands except per-share amounts)

| | Three Months | |
|---|---|---|
| | 2013 | 2012 |
| Revenues | | |
| Real estate revenues | | |
| Homebuilding | $ 22,548 | $ 17,438 |
| Commercial and industrial and other land sales | 2,305 | 9,058 |
| Other real estate | 257 | 144 |
| Total real estate revenues | 25,110 | 26,640 |
| Interest income | 9 | 31 |
| Other | - | 39 |
| Total revenues | 25,119 | 26,710 |
| | | |
| Expenses | | |
| Real estate expenses | | |
| Homebuilding | 22,765 | 19,881 |
| Commercial and industrial and other land sales | 865 | 5,967 |
| Other real estate | 707 | 2,054 |
| Total real estate expenses | 24,337 | 27,902 |
| Impairment charges | - | 152 |
| General and administrative expenses | 3,705 | 3,306 |
| Interest expense | 1,773 | 2,237 |
| Total expenses | 29,815 | 33,597 |
| | | |
| Loss from unconsolidated entities | (63) | (36) |
| | | |
| Loss before income taxes | (4,759) | (6,923) |
| Income tax (expense) benefit | - | - |
| | | |
| Net loss and comprehensive loss | (4,759) | (6,923) |
| | | |
| Net loss attributable to non-controlling interests in consolidated entities | - | (1,528) |
| | | |
| Net loss and comprehensive loss attributable to AV Homes stockholders | $ (4,759) | $ (8,451) |
| | | |
| Basic and Diluted Loss Per Share | $ (0.38) | $ (0.68) |

See notes to consolidated financial statements.

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AV HOMES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (unaudited)
For the three months ended March 31, 2013 and 2012
(Dollars in thousands)

| | Three Months 2013 | 2012 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | $(4,759) | $(6,923) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 645 | 942 |
| Amortization of stock-based compensation | 282 | 420 |
| Impairment of land and other inventories | - | 152 |
| Loss from unconsolidated entities | 63 | 36 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | (45) | 851 |
| Receivables, net | 368 | (1,836) |
| Land and other inventories | (9,782) | 5,994 |
| Assets held for sale | 5,458 | 3,949 |
| Prepaid expenses and other assets | 621 | (167) |
| Accounts payable estimated development liability and accrued and other liabilities | (1,358) | (5,248) |
| Customer deposits and deferred revenues | 171 | (284) |
| NET CASH USED IN OPERATING ACTIVITIES | (8,336) | (2,114) |
| | | |
| INVESTING ACTIVITIES | | |
| Investment in property and equipment | (379) | (316) |
| Return of capital from unconsolidated entities | - | 10 |
| Investment in unconsolidated entities | (83) | (30) |
| NET CASH USED IN INVESTING ACTIVITIES | (462) | (336) |
| | | |
| FINANCING ACTIVITIES | | |
| Contributions from consolidated joint venture partner | 104 | 113 |
| Distributions to consolidated joint venture partner | - | (1,785) |
| Payment of withholding taxes related to restricted stock and units withheld | (34) | (36) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 70 | (1,708) |
| | | |
| DECREASE IN CASH AND CASH EQUIVALENTS | (8,728) | (4,158) |
| Cash and cash equivalents at beginning of period | 79,815 | 124,316 |
| | | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $71,087 | $120,158 |

See notes to consolidated financial statements.

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AV HOMES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited)
March 31, 2013
(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", "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.

The consolidated balance sheets as of March 31, 2013 and December 31, 2012, and the related consolidated statements of operations and comprehensive income (loss) for the three months ended March 31, 2013 and 2012 and the consolidated statements of cash flows for the three months ended March 31, 2013 and 2012 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 statements. 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.

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.

The consolidated balance sheet as of December 31, 2012 was derived from consolidated financial statements included in our 2012 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, 2012 consolidated financial statements included in our 2012 Annual Report on Form 10-K and the notes to the consolidated financial statements included therein.

Note B - 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 March 31, 2013, our cash and cash equivalents were invested primarily in money market accounts that invest in U.S. government securities. Due to the short maturity period of the cash equivalents, the carrying amount of these instruments approximates their fair values.

Our cash items that are restricted as to withdrawal or usage include deposits of $4,727 and $4,682 as of March 31, 2013 and December 31, 2012, respectively. The balance as of March 31, 2013 is comprised primarily of $3,615 on deposit with Citibank to collateralize letters of credit outstanding, $477 in land escrow accounts and $584 of housing deposits from customers that will become available when the housing contracts close.

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note C - 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 D - Income Tax Receivable

Income tax receivable consists of tax refunds we expect to receive within one year. As of both March 31, 2013 and December 31, 2012, we had $1,293 of income tax receivable.

Note E - Land and Other Inventories

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

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

For assets held and used, if indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the estimated future undiscounted cash flows to be generated by the asset to its carrying value. If such cash flows are less than the asset’s carrying value, the carrying value is written down to its estimated fair value. Generally, fair value is determined by discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. The discount rate used in the determination of fair value 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 three months ended March 31, 2013 and 2012, our impairment assessment resulted in impairment charges of $0 and $152, respectively, which related to homes completed or under construction. Our evaluation of land developed and/or held for future development or sale did not result in impairment charges during the three months ended March 31, 2013 or March 31, 2012.

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note E - Land and Other Inventories – continued

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 three months ended March 31, 2013 and 2012 include operating expenses relating to the operation of the amenities in our communities as well as divisional overhead allocated among several communities.

Our active adult and primary residential communities are generally large master-planned communities in Florida and in Arizona. Several of these communities are long term projects on land we have owned for many years. In reviewing each of our communities, we determine if potential impairment indicators exist by reviewing various factors such as 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 recently 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 current 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.

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note E - Land and Other Inventories – continued

Land and Other Inventories consist of the following:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Land developed and in process of development | $ 93,642 | $ 86,931 |
| Land held for future development or sale | 53,857 | 53,526 |
| Homes completed or under construction | 33,303 | 30,563 |
| Other | 24 | 24 |
| | $ 180,826 | $ 171,044 |

See “Note U - Business Segments” below.

Note F - 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.

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 three months ended March 31, 2013 and March 31, 2012, we did not identify indicators of impairments for Property and Equipment.

Note G - Poinciana Parkway

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

In October of 2012, Osceola County, Polk County, the Osceola County Expressway Authority (the "Expressway Authority") and Avatar Properties Inc. ("API"), one of our wholly owned subsidiaries, entered in to an Agreement for Development (the "Development Agreement") of the Poinciana Parkway.

Pursuant to the Development Agreement, API has assigned to the Expressway Authority all of API's current plans for the Poinciana Parkway. The Expressway Authority is in the process of selecting a general contractor to design the final configuration the Poinciana Parkway and to construct the roadway once bond financing is obtained. Construction is contingent on bond financing obtained by Osceola County and cash contributions by Polk and Osceola Counties which may be funded by grant monies or other sources to be determined. If all required funds are obtained and the Development Agreement is closed, API will (i) assign at no cost its current permits for the Poinciana Parkway to the Expressway Authority and (ii) donate to Polk County or Osceola County, as applicable, certain rights of way for the Poinciana Parkway and certain additional rights of way that will accommodate both the arterial and southern connector facilities to Osceola and Polk Counties. The Expressway Authority shall be responsible for construction of the Poinciana Parkway at no cost to API. The toll portion of the Poinciana Parkway shall be operated and maintained by the Expressway Authority and all excess toll revenues shall be used to fund transportation facilities in the Poinciana area. Other portions of the Poinciana Parkway will be owned by Polk County or Osceola County, as applicable.

If funding and construction of the Poinciana Parkway cannot be achieved as contemplated by the Development Agreement, the counties have no right to obtain damages or seek specific performance for API's failure to perform under prior agreements with Polk and Osceola Counties regarding its obligation to fund and construct the Poinciana Parkway. If the Development Agreement is terminated because funding of the Poinciana Parkway construction does not occur, API shall be entitled to a one year extension of certain of its prior agreements with Osceola County. If during such extension, API cannot obtain financing and begin construction of the Poinciana Parkway: (i) a portion of API's land in Osceola County will become subject to Osceola traffic concurrency requirements applicable generally to other home builders in the county and (ii) API will be required to contribute approximately $1,900 towards the construction cost of certain traffic improvements in Osceola County that we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway.

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We reviewed the recoverability of the carrying value of the Poinciana Parkway on a quarterly basis in accordance with authoritative accounting guidance. In the fourth quarter of 2012, we determined that the probability of public funding to occur is high, and as a result, we recorded a non-cash charge of $7,659 related to our expected transfer of mitigation credits carried on our books and the carrying value of contributed right-of-way parcels. The remaining mitigation credits' book value of $749 was reclassified to Prepaid Expenses and Other Assets on our balance sheet as of December 31, 2012.

Note H - Notes Payable

4.50% Convertible Senior Notes due 2024

On March 30, 2004, we issued $120,000 aggregate principal amount of our 4.50% Convertible Senior Notes due 2024 (the “4.50% Notes”) in a private offering. The 4.50% Notes mature on April 1, 2024 unless earlier converted, redeemed or repurchased.

Interest: Interest on the 4.50% Notes is 4.50% per year, payable semi-annually in arrears in cash on April 1 and October 1 of each year, commencing October 1, 2004.

Conversion: The 4.50% Notes are convertible into our common stock upon the occurrence of certain triggers described in the Indenture dated March 30, 2004 between us and the trustee named therein (the “4.50% Indenture”). Shares of our common stock, into which the 4.50% Notes are convertible, have been reserved for issuance.

Repurchase Right/Redemption Right: Holders of the 4.50% Notes had the right to require us to repurchase the 4.50% Notes for cash on April 1, 2011 and have the right to require us to repurchase the 4.50% Notes for cash on April 1, 2014 and April 1, 2019 or upon the occurrence of a “fundamental change” (as defined in the 4.50% Indenture) or a “termination of trading” (as defined in the 4.50% Indenture). We may, at any time, at our option, redeem for cash all or any portion of the outstanding 4.50% Notes. In the case of a repurchase or redemption, we will pay a repurchase or redemption price, as applicable, equal to 100% of the principal amount, plus accrued and unpaid interest, if any.

On February 4, 2011, we repurchased $17,765 principal amount of the 4.50% Notes for approximately $18,171 using proceeds from the issuance of our 7.50% Notes discussed below. On April 1, 2011, holders of $41,637 principal amount of the 4.50% Notes exercised their right to require us to repurchase the 4.50% Notes.

FASB ASC 470-20 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer’s nonconvertible debt borrowing rate. ASC 470-20 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The excess of the principal amount of the liability component over its carrying amount and the debt issuance costs are amortized to interest cost using the interest method over the expected life of a similar liability that does not have an associated equity component. The discount on the liability component of the 4.50% Notes is amortized using the effective interest method based on an effective rate of 7.50%, which was the estimated market interest rate for similar debt without a conversion option on the issuance date. The discount was amortized from the issuance date in 2004 through April 1, 2011, the first date that holders of the 4.50% Notes could require us to repurchase the 4.50% Notes. The discount was fully amortized in 2011.

As of March 31, 2013 and December 31, 2012, $5,402 aggregate principal amount of the 4.50% Notes remain outstanding.

7.50% Senior Convertible Notes due 2016

On February 4, 2011, we completed an underwritten public offering for $100,000 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: 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, commencing August 15, 2011.

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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.

Financial covenants: The First Supplemental Indenture includes the following financial covenants:

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

- until February 4, 2013, our total consolidated indebtedness (as "indebtedness" is defined in the First Supplemental Indenture) may not exceed $150,000;

- until February 4, 2013, our total consolidated indebtedness (as "indebtedness" is defined in the First Supplemental 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 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. The holders of the 7.50% Notes also have the right to require us to repurchase 50% of the 7.50% Notes upon the occurrence of a breach of any of the above financial covenants at a repurchase price equal to 110% of the principal amount, plus accrued and unpaid interest.

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.

As of March 31, 2013 and December 31, 2012, $55,500 aggregate principal amount of the 7.50% Notes remain outstanding.

7.50% Senior Exchange Convertible Notes due 2016

In July 2012, we entered into exchange agreements under which we retired $44,500 in aggregate principal amount of our 7.50% Notes, in exchange for the issuance of $44,500 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: Interest on the 7.50% Exchange Notes is 7.50% per year, payable semi-annually in arrears in cash on February 15 and August 15 of each year, commencing February 15, 2013.

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.

Financial covenants: The Second Supplemental Indenture includes the same financial covenants as those governing the 7.50% Notes, except that the outstanding 7.50% Exchange Notes, as well as the 7.50% Notes, are excluded from the third covenant. We may suspend the operation of these financial covenants with respect to the 7.50% Exchange Notes if the aggregate principal amount outstanding of the 7.50% Notes and the 7.50% Exchange Notes does not exceed $33,000.

Repurchase Right: Unlike the 7.50% Notes, the 7.50% Exchange Notes do not provide that the holders may 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). The holders of the 7.50% Exchange Notes also have the right to require us to repurchase 50% of the 7.50% Exchange Notes upon the occurrence of a breach of any of the above financial covenants at a repurchase price equal to 110% of the principal amount, plus accrued and unpaid interest.

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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 March 31, 2013, subject to further review over the life of the 7.50% Exchange Notes. As of March 31, 2013 and December 31, 2012, $44,500 aggregate principal amount of the 7.50% Exchange Notes remain outstanding.

The following table represents interest incurred, interest capitalized, and interest expense for the three months ended March 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Interest incurred | $ 2,324 | $ 2,349 |
| Interest capitalized | (551 ) | (112 ) |
| Interest expense | $ 1,773 | $ 2,237 |

We made interest payments of $3,935 and $3,766 during the three months ended March 31, 2013 and 2012, respectively.

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note I - 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 three months ended March 31, 2013 and 2012, changes in the warranty reserve consisted of the following:

| | Three Months | |
|---|---|---|
| | 2013 | 2012 |
| Accrued warranty reserve, beginning of period | $549 | $537 |
| Estimated warranty expense | 108 | 163 |
| Amounts charged against warranty reserve | (204) | (99) |
| Accrued warranty reserve, end of period | $453 | $601 |

Note J - Loss Per Share

We present loss per share in accordance with ASC 260, Earnings Per Share (“ASC 260”). Basic earnings (loss) per share is computed by dividing earnings (loss) attributable to AV Homes stockholders 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 three months ended March 31, 2013 and 2012 did not assume the effect of restricted stock units, employee stock options, the 7.50% Notes, the 7.50% Exchange Notes, or the 4.50% Notes because the effects were antidilutive.

The weighted average number of shares outstanding in calculating basic loss per share includes the cancellation of 2,364 shares of common stock and the issuance of 6,734 shares of common stock for the three months ended March 31, 2013, and cancellation of 5,072 shares of common stock for the three months ended March 31, 2012. In accordance with ASC 260, non-vested restricted 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 three months ended March 31, 2013 and 2012:

| | Three Months | |
|---|---|---|
| | 2013 | 2012 |
| Numerator: | | |
| Basic and diluted loss per share – net loss | $(4,759) | $(8,451) |
| | | |
| Denominator: | | |
| Basic and diluted weighted average shares outstanding | 12,654,466 | 12,521,483 |

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note K - 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 March 31, 2013, the remaining authorization is $18,304.

Note L - 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 March 31, 2013 and December 31, 2012, non-controlling interest was $13,808 and $13,704, respectively.

Note M - Comprehensive Loss

Net loss and comprehensive loss are the same for the three months ended March 31, 2013 and 2012.

Note N - Share-Based Payments and Other Executive 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 March 31, 2013, an aggregate of 1,126,535 shares of our common stock, subject to certain adjustments, were reserved for issuance under the Incentive Plan, including an aggregate of 328,152 options, restricted stock units and stock units granted. There were 798,383 shares available for grant at March 31, 2013.

During the quarter, we cancelled the issuance of 114,750 restricted shares granted in 2011 to certain executives and issued additional performance-based restricted shares in exchange. 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 where by the fair value of the award is remeasured each reporting period until vesting occurs. 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.

Compensation expense related to the stock option, restricted stock, and restricted stock unit awards during the three months ended March 31, 2013 and 2012 was $282 and $420, respectively, all of which relates to restricted stock units. During the quarter, we executed amendments to the Amended and Restated Employment Agreements with two of our executives. Under the terms of these amendments, 114,750 restricted shares were cancelled and replaced with new awards. During the three months ended March 31, 2013, we granted 77,974 shares of restricted stock, which have a weighted average grant date fair value of $19.97 per share. During the three months ended March 31, 2012, we granted 377,500 shares of restricted stock, which have a weighted average grant date fair value of $7.16 per share.

As of March 31, 2013, there was $2,342 of unrecognized compensation expense related to unvested restricted stock units. That expense is expected to be recognized over a weighted-average period of 1.96 years.

Note O - Retirement of Treasury Stock

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 of $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.

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note P - 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 three months ended March 31, 2013 we recognized an increase of $1,900 in the deferred tax valuation allowance against net deferred tax assets generated from the pretax loss for the quarter. As of March 31, 2013, our deferred tax asset valuation allowance was $128,433. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

On October 25, 2010, we received notification from the Internal Revenue Service (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 March 31, 2013 and December 31, 2012 consists of $1,293 in anticipated 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.

Note Q - 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.

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.

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note Q - Fair Value Disclosures – continued

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

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

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

AV Homes did not have any assets measured at fair value as of March 31, 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.

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.

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note Q - Fair Value Disclosures – continued

The carrying amounts and fair values of our financial instruments at March 31, 2013 and December 31, 2012 are as follows:

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Notes, mortgage notes and other debt: | | | | |
| 4.50% Notes | $5,402 | $5,336 | $5,402 | $5,343 |
| 7.50% Notes and 7.50% Exchange Notes | $100,000 | $101,790 | $100,000 | $101,500 |

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

7.50% Notes, 7.50% Exchange Notes, and 4.50% Notes: At March 31, 2013 and December 31, 2012, the fair value of the 7.50% Notes, 7.50% Exchange Notes, and the 4.50% Notes is estimated, based on quoted or estimated market prices. These fall within Level 2 of the fair value hierarchy.

Note R - Variable Interest Entities

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

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

We participate in entities with equity interests ranging from 20% to 58.2% 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.

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note R - Variable Interest Entities - continued

Consolidation of Variable Interest Entities

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

In May 2012, we entered into an agreement with JEN Arizona 4, LLC to form a limited liability company, EM 646, LLC (“EM 646”). We hold a 58.2% interest in the venture, which was organized for the purpose of acquiring, entitling, developing, and distributing specific sections of real property located in Mesa, Arizona. The property was acquired in November 2012, and will be distributed to the partners at cost, once certain entitlements and development activities are completed.

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 March 31, 2013, our consolidated balance sheets include $32,972 in Land and Other Inventories from these LLCs. As of December 31, 2012, our consolidated balance sheets include $32,659 in Land and Other Inventories from these LLCs.

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

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 March 31, 2013, these consolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners. The assets of our VIEs can only be used to settle obligations of the VIEs.

Unconsolidated Variable Interest Entities

We participate in entities with equity interests ranging from 20% to 50% for the purpose of acquiring and/or developing land in which we do not have a controlling interest. We analyze these entities when they are entered into or upon a reconsideration event. All of such entities in which we had an equity interest at March 31, 2013 and December 31, 2012 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 $83 and $30 to its unconsolidated entities during the three months ended March 31, 2013 and 2012, respectively.

As of March 31, 2013, 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.

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Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) – continued

Note R - Variable Interest Entities - continued

The following are the consolidated condensed balance sheets of our unconsolidated entities as of March 31, 2013 and December 31, 2012:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Assets: | | |
| Cash | $147 | $ 53 |
| Land and other inventory | 6,126 | 6,126 |
| Other assets | 6 | 6 |
| Total assets | $6,279 | $ 6,185 |
| | | |
| Liabilities and Partners’ Capital: | | |
| Accounts payable and accrued liabilities | $82 | $ 83 |
| Partners’ Capital of: | | |
| AV Homes | 1,240 | 1,220 |
| Equity partners | 4,957 | 4,882 |
| Total liabilities and partners’ capital | $6,279 | $ 6,185 |

The following are the consolidated condensed statements of operations of our unconsolidated entities for the three months ended March 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Revenues | $- | $- |
| Costs and expenses | 138 | 91 |
| Net loss from unconsolidated entities | | |