

STANDARD PACIFIC CORP /DE/
Form 10-K
February 22, 2013

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

FORM 10-K

(Mark One)
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

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

For the transition period from N/A to

Commission file number 1-10959

STANDARD PACIFIC CORP.
(Exact name of registrant as specified in its charter)

Delaware	33-0475989
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15360 Barranca Parkway, Irvine, California, 92618	
(Address of principal executive offices, including zip code)	

(949) 789-1600
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value (and accompanying Preferred Share Purchase Rights)	New York Stock Exchange
6¼% Senior Notes due 2014 (and related guarantees)	New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this 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.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	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 ☒

The aggregate market value of the common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was \$674,460,141.

As of February 21, 2013, there were 214,302,113 shares of the registrant's common stock outstanding.

Documents incorporated by reference:

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the registrant's 2013 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

STANDARD PACIFIC CORP.

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STANDARD PACIFIC CORP.

PART I

ITEM 1. BUSINESS

Standard Pacific Homes has been building communities for families since 1965. Our geographically diversified business spans many of the nation's largest housing markets, including major metropolitan markets in California, Florida, the Carolinas, Texas, Arizona, and Colorado. While we construct homes within a wide range of price and size, we have increased our emphasis in recent years on the move-up market. We believe that our well built and innovatively designed homes, located in desirable communities, and our focus on providing an outstanding customer experience, make Standard Pacific homes particularly attractive to the move-up homebuyer.

The percentage of our homes delivered by state and product mix for the year ended December 31, 2012 were as follows:

State	Percentage of Deliveries
California	40%
Florida	18
Carolinas	17
Texas	14
Arizona	8
Colorado	3
Nevada	
Total	100%

Product Mix	Percentage of Deliveries
Move-up / Luxury	73%
Entry-level	27
Total	100%

The average selling prices of our homes delivered by state for the year ended December 31, 2012 were as follows:

State	Average Selling Price (Dollars in thousands)
California	\$506
Florida	\$247
Carolinas	\$247
Texas	\$318
Arizona	\$213
Colorado	\$388
Nevada	\$192

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Homebuilding Operations

We have been building beautiful, high-quality homes and neighborhoods since our founding in Southern California in 1965. With a trusted reputation for quality craftsmanship, an outstanding customer experience and exceptional architectural design, we utilize our decades of land acquisition, development and homebuilding expertise to successfully navigate today's complex landscape to acquire and build desirable communities in locations that meet the high expectations of our targeted move-up homebuyers. We currently build homes in 24 markets through a total of 14 operating divisions. Our homes sizes typically range from approximately 1,500 to 3,500 square feet, although we have built homes from 1,100 to over 6,000 square feet. Sales prices generally range from approximately \$165,000 to over \$1 million. At December 31, 2012, we owned or controlled 30,767 homesites (including joint ventures) and had 156 active selling communities. For the year ended December 31, 2012, approximately 77% of our deliveries were single-family detached homes. The remainder of our deliveries were single family attached homes, generally townhomes and condominiums configured with eight or fewer units per building.

We customize our home designs to meet the specific needs of each particular market and its customers' preferences. These preferences are reflected in every aspect of our community sales and marketing, including community locations, exterior styles, and model home merchandising.

Mortgage Operations

We have a mortgage financing subsidiary that provided financing to 82% of our homebuyers who chose to finance their home purchases during 2012. Staffed by a team of professionals experienced in the new home purchase process and our sales and escrow procedures, our mortgage operations benefit our homebuyers by offering a dependable source of competitively priced financing that is seamlessly integrated into our sales and home close process. Our mortgage operations also complement our homebuilding operations by making the timing of our new home deliveries more predictable. The loans funded by our mortgage subsidiary are generally sold in the secondary mortgage market.

Strategy

During the economic downturn, as many builders chose to refocus their businesses on lower priced homes, we elected a different strategy. With significant competition at lower price points from new homebuilders and re-sale homes, including short-sales and foreclosures, we decided to leverage our nearly 50 years of experience in the move-up market to significantly expand our new home offerings at higher price points. We believe homebuyers at these higher price points ("move-up homebuyers") are more likely to value and pay for the quality construction and industry leading customer service experience that are the hallmarks of Standard Pacific Homes.

Our strategy includes the following elements:

- Acquire land in desirable locations at acceptable prices;
- Leverage our land acquisition and master plan development expertise to garner an advantage in the highly competitive market for highly sought after locations;
- Construct well built, innovatively designed, and energy efficient homes that cater to the move-up homebuyer;
 - Provide an industry leading customer experience;
- Optimize the size of our business in each of our markets to appropriately leverage operating efficiencies;
 - Maintain a cost structure that positions us for near and long-term profitability;
- Seek opportunities to enhance revenue while maintaining an appropriate sales pace; and
 - Concentrate operations and invested capital in anticipated growth markets.

Dollar Value of Backlog

The dollar value of our backlog as of December 31, 2012 was \$515.5 million, or 1,404 homes. We expect all of our backlog at December 31, 2012 to be converted to deliveries and revenues during 2013, net of cancellations.

Marketing and Sales

Our homes are marketed through a variety of channels, including through individual communities where new homes are sold by local sales teams. At the community level, home shoppers have the opportunity to experience fully-furnished and landscaped model homes which demonstrate the livability of our floorplans. Our forward-thinking architectural philosophy

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entitled, The Artistry of Home®, is a key differentiator in marketing to move-up buyers. We closely examine buyer preferences communicated to our sales team and through buyer surveys and in-home studies. This research, coupled with the skilled expertise of architects who have both domestic and international experience, affords our move-up homebuyer thoughtful solutions that cater to the way people live today through innovative ideas and practical conveniences.

Many buyers begin or supplement their buying process via online research, which allows us to engage and inform them through a robust website and a wide array of digital marketing initiatives. Brokers and real estate professionals are a viable extension of our sales team and are marketed to directly. Move-up homebuyers are understandably more savvy and experienced with the homebuying process and more commonly employ real estate professionals to aid in their purchase.

Our homes are sold pursuant to written sales contracts that usually require the homebuyer to make a cash deposit. We sell both pre-built and to-be-built homes. For the to-be-built homes sold prior to construction, homebuyers have the opportunity to purchase various optional amenities and upgrades such as prewiring and electrical options, upgraded flooring, cabinets, finished carpentry and countertops, varied interior and exterior color schemes, additional and upgraded appliances, and some alternative room configurations. Purchasers are typically permitted for a limited time to cancel their contracts if they fail to qualify for financing. In some cases, purchasers are also permitted to cancel their contract if they are unable to sell their existing homes or if certain other conditions are not met. A buyer's liability for wrongfully terminating a sales contract is typically limited to the forfeiture of the buyer's cash deposit to the Company, although some states provide for more limited remedies.

Seasonality and Longer Term Cycles

Our homebuilding operations have historically experienced seasonal fluctuations. We typically experience the highest new home order activity in the spring and summer months, although new order activity is highly dependent on the number of active selling communities and the timing of new community openings as well as other market factors. Because it typically takes us three to six months to construct a new home, we typically deliver a greater number of homes in the second half of the calendar year as spring and early summer orders are converted to home deliveries. As a result, our revenues and cash flows (exclusive of the timing of land purchases) from homebuilding operations are generally higher in the second half of the calendar year, particularly in the fourth quarter.

Our homebuilding operations are also subject to longer term business cycles, the severity, duration, beginning and ending of which are difficult to predict. At the high point of this business cycle, the demand for new homes and new home prices are at their peak. Land prices also tend to be at their peak in this phase of the cycle. At the low point in the cycle, the demand for homes is weak and land prices tend to be more favorable. While difficult to accomplish, our goal is to deliver as many homes as possible near the top of the cycle and to make significant investments in land at the bottom of the cycle.

We believe we were at or near the bottom of the current cycle for the several years prior to 2012 and, as such, have made substantial investments in land. We plan to continue to make substantial investments in land, which is likely to utilize a significant portion of our cash resources, so long as we believe that such investments will yield results that meet our investment criteria.

Competitive Conditions in the Business

The homebuilding industry is fragmented and highly competitive. We compete with numerous other residential construction companies, including large national and regional firms, for customers, land, financing, raw materials, skilled labor, and employees. We compete for customers primarily on the basis of customer satisfaction, construction

quality, home design and location, reputation, price, and the availability of mortgage financing. While we compete with other residential construction companies for customers, we also compete with the resale of existing homes and rental properties. In addition, we compete with some larger competitors who, because of their scale, may have lower costs of capital, labor, materials and overhead. Their size and favorable cost structures may provide them with an advantage as we compete for land, materials, labor and sales.

Financing

We typically use both our equity (including internally generated funds from operations and proceeds from public and private equity offerings and proceeds from the exercise of stock options) and debt financing in the form of bank debt and note offerings, to fund land acquisition and development and construction of our properties. To a lesser extent, we use seller

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financing to fund the acquisition of land and, in some markets, community facility district or other similar assessment district bond financing is used to fund community infrastructure such as roads and sewers.

We also utilize joint ventures and option arrangements with land sellers, other builders, developers and financial entities from time to time as a means of accessing lot positions, expanding our market opportunities, establishing strategic alliances, leveraging our capital base and managing the financial and market risk associated with land holdings. In addition to equity contributions made by us and our partners, our joint ventures typically will obtain secured project specific financing to fund the acquisition of land and development and construction costs. For more detailed discussion of our current joint venture arrangements please see “Off-Balance Sheet Arrangements”.

Development and Construction

We customarily acquire unimproved or improved land zoned for residential use. To control larger land parcels or gain access to highly desirable parcels, we sometimes form land development joint ventures with third parties which provide us the right to acquire a portion of the lots from the joint venture when developed. If we purchase raw land or partially developed land, we will perform development work that may include negotiating with governmental agencies and local communities to obtain any necessary zoning, environmental and other regulatory approvals and permits, and constructing, as necessary, roads, water, sewer and drainage systems and recreational facilities like parks, community centers, pools, hiking and biking trails. With our long California heritage of creating master planned communities, we have expertise and experience in handling complex development opportunities.

We act as a general contractor with our supervisory employees coordinating most of the development and construction work on a project. Independent architectural design, engineering and other consulting firms are generally engaged on a project-by-project basis to assist in project planning and home design, and subcontractors are engaged to perform all of the physical development and construction work. Although the construction time for our homes varies from project to project depending on geographic region, the time of year, the size and complexity of the homes, local labor situations, the governmental approval processes, availability of materials and supplies, and other factors, we typically complete the construction of a home in approximately three to six months, with a current average cycle time of approximately four months.

Sources and Availability of Raw Materials

We, either directly or through our subcontractors, purchase drywall, cement, steel, lumber, insulation and the other building materials necessary to construct a home. While these materials are generally widely available from a variety of sources, from time to time we experience serious material shortages on a localized basis, particularly during periods where the regions in which we operate experience natural disasters that have a significant impact on existing residential and commercial structures and during periods of robust construction activity when there is high demand for new homes. During these periods, the prices for these materials can substantially increase and our construction process can be slowed.

Government Regulation

For a discussion of the impact of government regulations on our business, including the impact of environmental regulations, please see the risk factors included under the heading “Regulatory Risks” in the Risk Factors section.

Financial Services

Customer Financing

As part of our ongoing operations, we provide mortgage loans to many of our homebuyers through our mortgage financing subsidiary, Standard Pacific Mortgage. Standard Pacific Mortgage's principal sources of revenue are fees generated from loan originations, net gains on the sale of loans and net interest income earned on loans during the period they are held prior to sale. In addition to being a source of revenues, our mortgage operations benefit our homebuyers and complement our homebuilding operations by offering a dependable source of competitively priced financing, staffed by a team of professionals experienced in the new home purchase process and our sales and escrow procedures, all of which help to make our new home deliveries more predictable.

We sell substantially all of the loans we originate in the secondary mortgage market, with servicing rights released on a non-recourse basis. These sales are generally subject to our obligation to repay gain on sale if the loan is prepaid by the borrower within a certain time period following such sale, or to repurchase the loan if, among other things, the loan

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purchaser's underwriting guidelines are not met or there is fraud in connection with the loan. As of December 31, 2012, we had incurred an aggregate of \$9.5 million in losses related to loan repurchases and make-whole payments we had been required to make on the \$7.2 billion total dollar value of the loans we originated in the 2004-2012 period. We record allowances for loan related claims when we determine it is appropriate to do so. However, if we are required to make a materially higher number of make-whole payments and/or loan repurchases than we anticipate or if losses are more severe than predicted, current allowances might prove to be inadequate and we would be required to use additional cash and take additional charges to reflect the higher level of repurchase and make-whole activity.

We manage the interest rate risk associated with making loan commitments to our customers and holding loans for sale by preselling loans. Preselling loans consists of obtaining commitments (subject to certain conditions) from third party investors to purchase the mortgage loans while concurrently extending interest rate locks to loan applicants. Before completing the sale to these investors, Standard Pacific Mortgage finances these loans under its mortgage credit facilities for a short period of time (typically for 30 to 45 days), while the investors complete their administrative review of the applicable loan documents. While preselling these loans reduces our risk, we remain subject to risk relating to purchaser non-performance, particularly during periods of significant market turmoil.

Title Services

In Texas, we act as a title insurance agent performing title examination services for our Texas homebuyers through our title service subsidiary, SPH Title, Inc.

Employees

At December 31, 2012, we had approximately 820 employees, up from approximately 750 employees at the prior year end. Of our employees at the end of 2012, approximately 235 were executive, administrative and clerical personnel, 280 were sales and marketing personnel, 195 were involved in construction and project management, 50 were involved in new home warranty, and 60 worked in the mortgage operations. None of our employees are covered by collective bargaining agreements, although employees of some of the subcontractors that we use are represented by labor unions and may be subject to collective bargaining agreements. We believe that our relations with our employees and subcontractors are good.

Business Segment Financial Data

For business segment financial data, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as Note 3 to our consolidated financial statements.

Availability of Reports

This annual report on Form 10-K and each of our subsequent quarterly reports on Form 10-Q and current reports on Form 8-K, including any amendments, are available free of charge on our website, www.standardpacifichomes.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). The information contained on our website is not incorporated by reference into this report and should not be considered part of this report. In addition, the SEC website contains reports, proxy and information statements, and other information about us at www.sec.gov.

Company Information

Standard Pacific Corp. was incorporated in the State of Delaware in 1991. Through our predecessors, we commenced our homebuilding operations in 1965. Our principal executive offices are located at 15360 Barranca Parkway, Irvine,

California 92618. Unless the context otherwise requires, the terms “we,” “us,” “our” and “the Company” refer to Standard Pacific Corp. and its predecessors and subsidiaries.

ITEM 1A. RISK FACTORS

The discussion of our business and operations included in this annual report on Form 10-K should be read together with the risk factors set forth below. They describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties, as well as other risks which we cannot foresee at this time, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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Risks related to us and our business

Market and Economic Risks

Adverse economic conditions negatively impact the demand for homes and the pace and scope of the current recovery of the United States economy is uncertain. A negative change in the pace or scope of the current recovery could have adverse effects on our operating results and financial condition.

The homebuilding industry is sensitive to changes in economic conditions such as the level of employment, consumer confidence, consumer income, availability of financing and interest rate levels. The national recessions, credit market disruption, high unemployment levels, the absence of home price stability, and the decreased availability of mortgage financing have, among other factors, adversely impacted the homebuilding industry and our operations and financial condition over the last several years. Although the housing market appears to be recovering in most of the geographies in which we operate, we cannot predict the pace or scope of the recovery. If market conditions deteriorate or do not improve as anticipated, our results of operations and financial condition could be adversely impacted.

The market value and availability of land may fluctuate significantly, which could decrease the value of our developed and undeveloped land holdings and limit our ability to develop new communities.

The risk of owning developed and undeveloped land can be substantial for us. Our current strategy calls for us to continue to invest a substantial portion of our cash in land over the next several years. Our execution of this strategy has significantly increased the amount of land we hold. The market value of the undeveloped land, buildable lots and housing inventories we hold can fluctuate significantly as a result of changing economic and market conditions. During the recent housing downturn, we experienced negative economic and market conditions that resulted in the impairment of a significant number of our land positions and write-offs of some of our land option deposits. If economic or market conditions deteriorate in the future, we may have to impair our land holdings and projects, write down our investments in unconsolidated joint ventures, write off option deposits, sell homes or land at a loss, and/or hold land or homes in inventory longer than planned. In addition, inventory carrying costs (such as property taxes and interest) can be significant, particularly if inventory must be held for longer than planned, which can trigger asset impairments in a poorly performing project or market. As we increase the amount of land we hold, we also materially increase our exposure to the risks associated with owning land, which means that if economic and market conditions were to deteriorate, it could have a significantly greater adverse impact on our financial condition.

Our long-term success also depends in part upon the continued availability of suitable land at acceptable prices. The availability of land for purchase at acceptable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding of land prices and restrictive governmental regulation. If a sufficient amount of suitable land opportunities do not become available, it could limit our ability to develop new communities, increase land costs and negatively impact our sales and earnings.

We depend on the California market. If conditions in California deteriorate, our sales and earnings may be negatively impacted.

We generate over 50% of our revenue and a significant amount of our profits from, and hold over 55% of the dollar value of our real estate inventory in, California. During the recent housing downturn, land values, the demand for new homes and home prices declined substantially in California, negatively impacting our profitability and financial position. In addition, the state of California is experiencing severe budget shortfalls and has raised taxes and increased fees to offset its deficit. Our profitability and financial position could be adversely impacted if conditions in California deteriorate.

Customers may be unwilling or unable to purchase our homes at times when mortgage-financing costs are high or when credit is difficult to obtain.

The majority of our homebuyers finance their purchases through Standard Pacific Mortgage or third-party lenders. In general, housing demand is adversely affected by increases in interest rates and by decreases in the availability of mortgage financing. While interest rates are at or near historic lows, many lenders have significantly tightened their underwriting standards, are requiring higher credit scores, substantial down payments, increased cash reserves, and have eliminated or significantly limited many subprime and other alternative mortgage products, including “jumbo” loan products, which are important to sales in many of our markets, particularly California. The availability of mortgage financing is also affected by changes in liquidity in the secondary mortgage market and the market for mortgage-backed securities, which are directly impacted by the federal government’s decisions regarding its financial support of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, the entities that provide liquidity to the secondary market. As a result of these trends, the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes has

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been adversely affected, which has adversely affected our operating results and profitability. These conditions may continue or worsen.

The homebuilding industry is highly competitive and, with more limited resources than some of our competitors, we may not be able to compete effectively.

The homebuilding industry is fragmented and highly competitive. We compete with numerous other residential construction companies, including large national and regional firms, for customers, land, financing, raw materials, skilled labor and employees. We compete for customers primarily on the basis of customer satisfaction, construction quality, home design and location, reputation, price and the availability of mortgage financing. We also compete with the resale of existing homes, rental properties, the “short-sale” of almost new homes and foreclosures. In addition, we compete with some larger competitors who, because of their scale, may have lower costs of capital, labor, materials and overhead. Their size and favorable cost structures may provide them with an advantage as we compete for land, materials, labor and sales.

High cancellation rates may negatively impact our business.

In connection with the sale of a home we collect a deposit from the homebuyer that is a small percentage of the total purchase price. The deposit may, in certain circumstances, be fully or partially refundable to our homebuyer prior to closing, depending on, among other things, the rules of the state in which the home is located. If the prices for our homes in a given community decline, competitors increase sales incentives, interest rates increase, the availability of mortgage financing tightens or a buyer experiences a change in their personal finances, they may have an incentive to cancel their home purchase contracts with us, even where they might be entitled to no refund or only a partial refund of this deposit. Significant cancellations could have a material adverse effect on our business.

Operational Risks

Our longer-term land acquisition strategy poses significant risks.

From time-to-time, we purchase land parcels with longer-term time horizons when we believe market conditions provide an opportunity to purchase this land at acceptable prices. Our current strategy reflects our plan to continue to invest a substantial portion of our cash in land, including in larger land parcels with longer holding periods that will require significant development operations. This strategy is subject to a number of risks. It is difficult to accurately forecast development costs and sales prices the longer the time horizon for a project and, with a longer time horizon, there is a greater chance that unanticipated development cost increases, changes in general market conditions and other adverse unanticipated changes could negatively impact the profitability of a project. In addition, larger land parcels are generally undeveloped and typically do not have all (or sometimes any) of the governmental approvals necessary to develop and construct homes. If we are unable to obtain these approvals or obtain approvals that restrict our ability to use the land in ways we do not anticipate, the value of the parcel will be negatively impacted. In addition, the acquisition of land with a longer term development horizon historically has not been a significant focus of our business in many of our markets outside California and may therefore be subject to greater execution risk.

Labor and material shortages and price fluctuations could delay or increase the cost of home construction and reduce our sales and earnings.

The residential construction industry experiences serious labor and material shortages from time to time, including shortages in qualified tradespeople, and supplies of insulation, drywall, cement, steel and lumber. These labor and material shortages can be more severe during periods of strong demand for housing or during periods where the regions in which we operate experience natural disasters that have a significant impact on existing residential and

commercial structures. The cost of material may also be adversely affected during periods of shortage or high inflation. The cost of labor may be adversely affected by shortages of qualified tradespeople such as carpenters, roofers, electricians and plumbers, changes in laws relating to union activity and changes in immigration laws and trends in labor migration. During the recent housing downturn, a large number of qualified tradespeople went out of business or otherwise exited our markets. The reduction in available tradespeople is currently exacerbating labor shortages as demand for new housing has increased. From time to time, we have experienced volatile price swings in the cost of labor and materials, including in particular the cost of lumber, cement, steel and drywall. Shortages and price increases could cause delays in and increase our costs of home construction, which in turn could harm our operating results and profitability.

We may be unable to obtain suitable bonding for the development of our communities.

We are often required to provide bonds to governmental authorities and others to ensure the completion of our projects. If we are unable to obtain the required surety or performance bonds for our projects, our business operations and revenues

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could be adversely affected. As a result of market conditions, surety providers have been reluctant to issue new bonds and some providers are requesting credit enhancements (such as cash deposits or letters of credit) in order to maintain existing bonds or to issue new bonds. If we are unable to obtain required bonds in the future, or are required to provide credit enhancements with respect to our current or future bonds, our liquidity could be negatively impacted.

Severe weather and other natural conditions or disasters may disrupt or delay construction.

Severe weather and other natural conditions or disasters, such as earthquakes, landslides, hurricanes, tornadoes, droughts, floods, heavy or prolonged rain or snow, and wildfires can negatively affect our operations by requiring us to delay or halt construction or to perform potentially costly repairs to our projects under construction and to unsold homes. Some scientists believe that the rising level of carbon dioxide in the atmosphere is leading to climate change and that climate change is increasing the frequency and severity of weather related disasters. If true, we may experience increasing negative weather related impacts to our operations in the future.

We are subject to product liability and warranty claims arising in the ordinary course of business, which can be costly.

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of business. These claims are common in the homebuilding industry and can be costly. While we maintain product liability insurance and generally seek to require our subcontractors and design professionals to indemnify us for some portion of the liabilities arising from their work, there can be no assurance that these insurance rights and indemnities will be collectable or adequate to cover any or all construction defect and warranty claims for which we may be liable. For example, contractual indemnities can be difficult to enforce, we are often responsible for applicable self-insured retentions (particularly in markets where we include our subcontractors on our general liability insurance and our ability to seek indemnity for insured claims is significantly limited), certain claims may not be covered by insurance or may exceed applicable coverage limits, and one or more of our insurance carriers could become insolvent. Additionally, the coverage offered by and availability of product liability insurance for construction defects is limited and costly. There can be no assurance that coverage will not be further restricted, become more costly or even unavailable.

In addition, we conduct a material portion of our business in California, one of the most highly regulated and litigious jurisdictions in the United States, which imposes a ten year, strict liability tail on most construction liability claims. As a result, our potential losses and expenses due to litigation, new laws and regulations may be greater than our competitors who have smaller California operations.

We rely on subcontractors to construct our homes and, in many cases, to obtain, building materials. The failure of our subcontractors to properly construct our homes, or to obtain suitable building materials, may be costly.

We engage subcontractors to perform the actual construction of our homes, and in many cases, to obtain the necessary building materials. Despite our quality control efforts, we may discover that our subcontractors were engaging in improper construction practices or installing defective materials in our homes. When we discover these issues we repair the homes in accordance with our new home warranty standards and as required by law. The cost of satisfying our warranty and other legal obligations in these instances may be significant and we may be unable to recover the cost of repair from subcontractors, suppliers and insurers.

Our mortgage subsidiary may become obligated to repurchase loans it has sold in the secondary mortgage market or may become subject to borrower lawsuits.

While our mortgage subsidiary generally sells the loans it originates within a short period of time in the secondary mortgage market on a non-recourse basis, this sale is subject to an obligation to repurchase the loan if, among other

things, the purchaser's underwriting guidelines are not met or there is fraud in connection with the loan. As of December 31, 2012, our mortgage subsidiary had incurred an aggregate of \$9.5 million in losses related to loan repurchases and make-whole payments it had been required to make on the \$7.2 billion total dollar value of the loans it originated from the beginning of 2004 through the end of 2012. It is possible that our mortgage subsidiary will be required to make a materially higher number of make-whole payments and/or repurchases in the future as the holders of defaulted loans scrutinize loan files to seek reasons to require us to make make-whole payments or repurchases. Further, such make-whole payments could have a higher severity than previously experienced. In such cases our current allowances might prove to be inadequate and we would be required to use additional cash and take additional charges to reflect the higher level of repurchase and make-whole activity, which could harm our financial condition and results of operations.

In addition, a number of homebuyers have initiated lawsuits against builders and lenders claiming, among other things, that builders pressured the homebuyers to make inaccurate statements on loan applications, that the lenders failed to correctly explain the terms of adjustable rate and interest-only loans, and/or that the lender financed home purchases for unsuitable

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buyers resulting indirectly in a diminution in value of homes purchased by more appropriately qualified buyers. While we have experienced only a small number of such lawsuits to date, it is possible that we could become subject to additional lawsuits and/or regulatory investigations. If our mortgage subsidiary becomes the subject of significant borrower lawsuits or regulatory authority action our financial results may be negatively impacted.

We are dependent on the services of key employees and the loss of any substantial number of these individuals or an inability to hire additional personnel could adversely affect us.

Our success is dependent upon our ability to attract and retain skilled employees, including personnel with significant management and leadership skills. Competition for the services of these individuals in many of our operating markets can be intense and has increased as market conditions have improved. If we are unable to attract and retain skilled employees, we may be unable to accomplish the objectives set forth in our business plan.

We may not be able to successfully identify, complete and integrate acquisitions, which could harm our profitability and divert management resources.

We may from time to time acquire other homebuilders or related businesses. Successful acquisitions require us to correctly identify appropriate acquisition candidates and to integrate acquired operations and management with our own. Should we make an error in judgment when identifying an acquisition candidate, should the acquired operations not perform as anticipated, or should we fail to successfully integrate acquired operations and management, we will likely fail to realize the benefits we intended to derive from the acquisition and may suffer other adverse consequences. Acquisitions involve a number of other risks, including the diversion of the attention of our management and corporate staff from operating our existing business, potential charges to earnings in the event of any write-down or write-off of goodwill and other assets recorded in connection with acquisitions and exposure to the acquired company's pre-existing liabilities. We can give no assurance that we will be able to successfully identify, complete and integrate acquisitions.

Our failure to maintain the security of our electronic and other confidential information could expose us to liability and materially adversely affect our financial condition and results of operations.

Privacy, security, and compliance concerns have continued to increase as technology has evolved. As part of our normal business activities, we collect and store certain confidential information, including personal information of homebuyers/borrowers and information about employees, vendors and suppliers. This information is entitled to protection under a number of regulatory regimes. We may share some of this information with vendors who assist us with certain aspects of our business, particularly our mortgage and title businesses. Our failure to maintain the security of the data which we are required to protect, including via the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in customers confidence in us and other competitive disadvantages, and thus could have a material adverse impact on our financial condition and results of operations.

Regulatory Risks

We are subject to extensive government regulation, which can increase costs and reduce profitability.

Our homebuilding operations, including land development activities, are subject to extensive federal, state and local regulation, including environmental, building, employment and worker health and safety, zoning and land use regulation. This regulation affects all aspects of the homebuilding process and can substantially delay or increase the costs of homebuilding activities, even on land for which we already have approvals. During the development process,

we must obtain the approval of numerous governmental authorities that regulate matters such as:

- permitted land uses, levels of density and architectural designs;
- the level of energy efficiency and greenhouse gas emissions our homes are required to achieve;
 - the installation of utility services, such as water and waste disposal;
- the dedication of acreage for open space, parks, schools and other community services; and
- the preservation of habitat for endangered species and wetlands, storm water control and other environmental matters.

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The approval process can be lengthy, can be opposed by consumer or environmental groups, and can cause significant delays or permanently halt the development process. Delays or a permanent halt in the development process can cause substantial increases to development costs or cause us to abandon the project and to sell the affected land at a potential loss, which in turn could harm our operating results.

In addition, new housing developments are often subject to various assessments or impact fees for schools, parks, streets, highways and other public improvements. The costs of these assessments are subject to substantial change and can cause increases in the effective prices of our homes, which in turn could reduce our sales and/or profitability.

There is a variety of energy related legislation being considered for enactment around the world. For instance, the federal congress considered an array of energy related initiatives, from carbon “cap and trade” to a federal energy efficiency building code that would increase energy efficiency requirements for new homes between 30 and 50 percent. If all or part of this proposed legislation, or similar legislation, were to be enacted, the cost of home construction could increase significantly, which in turn could reduce our sales and/or profitability.

Much of this proposed legislation is in response to concerns about climate change. As climate change concerns grow, legislation and regulatory activity of this nature is expected to continue and become more onerous. Similarly, energy related initiatives will impact a wide variety of companies throughout the world and because our operations are heavily dependent on significant amounts of raw materials, such as lumber, steel, and concrete, these initiatives could have an indirect adverse effect on our operations and profitability to the extent the suppliers of our materials are burdened with expensive cap and trade and similar energy related regulations.

Our mortgage operations are also subject to federal, state, and local regulation, including eligibility requirements for participation in federal loan programs and various consumer protection laws. Our title insurance agency operations are subject to applicable insurance and other laws and regulations. Failure to comply with these requirements can lead to administrative enforcement actions, the loss of required licenses and other required approvals, claims for monetary damages or demands for loan repurchase from investors, and rescission or voiding of the loan by the consumer.

Increased regulation of the mortgage industry could harm our future sales and earnings.

The mortgage industry remains under intense scrutiny and continues to face increasing regulation at the federal, state and local level. Changes in regulation have negatively impacted the full spectrum of mortgage related activity. Potential changes to federal laws and regulations could have the effect of limiting the activities of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, the entities that provide liquidity to the secondary mortgage market, which could lead to increases in mortgage interest rates. At the same time, recent changes and proposed changes to the Federal Housing Administration’s rules to require increased Borrower FICO scores, increased down payment amounts, and limiting the amount of permitted seller concessions, lessen the number of buyers able to finance a new home. All of these regulatory activities reduce the number of potential buyers who qualify for the financing necessary to purchase our homes, which could harm our future sales and earnings.

Changes to tax laws could make homeownership more expensive.

Current tax laws generally permit significant expenses associated with owning a home, primarily mortgage interest expense and real estate taxes, to be deducted for the purpose of calculating an individual’s federal, and in many cases, state, taxable income. If the federal or state governments were to change applicable tax law to eliminate or reduce these benefits for all or certain classes of taxpayers, the after-tax cost of owning a home could increase significantly. This would harm our future sales and earnings.

States, cities and counties in which we operate may adopt slow growth initiatives reducing our ability or increasing our costs to build in these areas, which could harm our future sales and earnings.

Several states, cities and counties in which we operate have in the past approved, or approved for inclusion on their ballot, various “slow growth” or “no growth” initiatives and other ballot measures that could negatively impact the land we own as well as the availability of additional land and building opportunities within those localities. Approval of slow or no growth measures would increase the cost of land and reduce our ability to open new home communities and to build and sell homes in the affected markets and would create additional costs and administrative requirements, which in turn could harm our future sales and earnings.

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Financing Risks

We may need additional funds, and if we are unable to obtain these funds, we may not be able to operate our business as planned.

Our operations require significant amounts of cash. Our requirements for additional capital, whether to finance operations or to service or refinance our existing indebtedness, fluctuate as market conditions and our financial performance and operations change. We cannot assure you that we will maintain cash reserves and generate sufficient cash flow from operations in an amount to enable us to service our debt or to fund other liquidity needs. Additionally, while we have a \$350 million unsecured revolving credit facility designed to provide us with an additional source of liquidity to meet short-term cash needs, our ability to borrow under the facility is limited by our ability to meet the covenants required to allow us to borrow under the facility.

The availability of additional capital, whether from private capital sources (including banks) or the public capital markets, fluctuates as our financial condition and market conditions in general change. There may be times when the private capital markets and the public debt or equity markets lack sufficient liquidity or when our securities cannot be sold at attractive prices, in which case we would not be able to access capital from these sources. In addition, a weakening of our financial condition or deterioration in our credit ratings could adversely affect our ability to obtain necessary funds. Even if available, additional financing could be costly or have adverse consequences. If additional funds are raised through the issuance of stock, dilution to stockholders could result. If additional funds are raised through the incurrence of debt, we will incur increased debt servicing costs and may become subject to additional restrictive financial and other covenants. We can give no assurance as to the terms or availability of additional capital. If we are not successful in obtaining or refinancing capital when needed, it could adversely impact our ability to operate our business effectively, which could reduce our sales and earnings, and adversely impact our financial position.

We may be unable to meet the conditions contained in our debt instruments that must be satisfied to incur additional indebtedness and make restricted payments.

Our debt instruments impose restrictions on our operations, financing, investments and other activities. For example, our outstanding 2016 notes prohibit us from incurring additional debt, except for limited categories of indebtedness (including up to \$1.1 billion in bank credit facility debt), if we do not satisfy either a maximum leverage ratio or a minimum interest coverage ratio. The 2016 notes also limit our ability to make restricted payments (including dividends, distributions on stock and contributions to joint ventures), prohibiting such payments unless we satisfy one of the ratio requirements for the incurrence of additional debt and comply with a basket limitation. As of December 31, 2012, we were able to satisfy the conditions necessary to incur additional debt and to make restricted payments. However, we have in the past been unable to satisfy these conditions and there can be no assurance that we will be able to satisfy these conditions in the future. If we are unable to satisfy these conditions in the future, we will be precluded from incurring additional borrowings, subject to certain exceptions, and will be precluded from making restricted payments, other than through funds available from our unrestricted subsidiaries.

We have substantial debt and may incur additional debt; leverage may impair our financial condition and restrict our operations and prevent us from fulfilling our obligations under our debt instruments.

We currently have a substantial amount of debt. As of December 31, 2012, the principal amount of our homebuilding debt outstanding was approximately \$1,554.3 million, \$4.8 million of which matures in 2013, \$321.5 million of which matures between 2014 and 2016 and \$1,228.0 million of which matures between 2017 and 2032. In addition, the instruments governing our debt permit us to incur significant additional debt. Our existing debt and any additional debt we incur could:

- make it more difficult for us to satisfy our obligations under our existing debt instruments;
 - increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to obtain additional financing to fund capital expenditures and acquisitions, particularly when the availability of financing in the capital markets is limited;
- require a substantial portion of our cash flows from operations for the payment of interest on our debt, reducing our ability to use our cash flows to fund working capital, land acquisitions and land development, acquisitions of other homebuilders and related businesses and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
 - place us at a competitive disadvantage to less leveraged competitors.

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Servicing our debt will require a significant amount of cash, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to make payments on and refinance our debt and to fund planned capital expenditures depends on our ability to generate cash flow in the future. To some extent, this is subject to general economic, financial, competitive, legislative and regulatory factors and other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations in an amount sufficient to enable us to pay our debt or to fund other liquidity needs. As a result, we may need to refinance all or a portion of our debt on or before maturity. We cannot assure you that we will be able to refinance any of our debt on favorable terms, if at all. Any inability to generate sufficient cash flow or refinance our debt on favorable terms could have a material adverse effect on our financial condition.

In addition, our 1¼% Convertible Senior Notes due 2032 (the “Convertible Notes”) entitle holders to require us to repurchase their notes at a price of 100% of the principal amount, plus accrued and unpaid interest, on August 1, 2017, 2022 or 2027, or in the event of a fundamental change (as defined in the indenture governing the Convertible Notes). If we do not have sufficient funds to repurchase notes when we are required to do so, or if instruments governing debt we have incurred prohibit us from using cash or other assets for that purpose, we might be unable to meet our obligations. Our failure to repurchase the Convertible Notes at a time when their repurchase is required by the indenture would constitute a default under the indenture. A default under the Convertible Notes indenture, or the fundamental change itself, could also lead to a default under other debt securities we have issued or could cause borrowings we have incurred to become due. If the repayment of a substantial amount of indebtedness were to be accelerated after any applicable notice or grace period, we might not have sufficient funds to repay the indebtedness and repurchase the notes.

We currently have significant amounts invested in unconsolidated joint ventures with independent third parties in which we have less than a controlling interest. These investments are highly illiquid and have significant risks.

We participate in unconsolidated homebuilding and land development joint ventures with independent third parties in which we have less than a controlling interest. At December 31, 2012, we had an aggregate of \$52.4 million invested in these joint ventures, which had no project specific financing outstanding.

While these joint ventures provide us with a means of accessing larger and/or more desirable land parcels and lot positions, they are subject to a number of risks, including the following:

- **Restricted Payment Risk.** Certain of our public note indentures prohibit us from making restricted payments, including investments in joint ventures, when we are unable to meet either a leverage condition or an interest coverage condition and when making such a payment will cause us to exceed a basket limitation. As a result, when we are unable to meet these conditions, payments to satisfy our joint venture obligations must be made through funds available from our unrestricted subsidiaries. If we become unable to fund our joint venture obligations this could result in, among other things, defaults under our joint venture operating agreements, loan agreements, and credit enhancements.
- **Entitlement Risk.** Certain of our joint ventures acquire parcels of unentitled raw land. If the joint venture is unable to timely obtain entitlements at a reasonable cost, project delay or even project termination may occur resulting in an impairment of the value of our investment.
- **Development Risk.** The projects we build through joint ventures are often larger and have a longer time horizon than the typical project developed by our wholly-owned homebuilding operations. Time delays associated with obtaining entitlements, unforeseen development issues, unanticipated labor and material cost increases, higher carrying costs, and general market deterioration and other changes are more likely to impact larger, long-term

projects, all of which may negatively impact the profitability of these ventures and our proportionate share of income.

- **Financing Risk.** There are generally a limited number of sources willing to provide acquisition, development and construction financing to land development and homebuilding joint ventures. During difficult market conditions, it may be difficult or impossible to obtain financing for our joint ventures on commercially reasonable terms, or to refinance existing borrowings as such borrowings mature. As a result, we may be required to contribute our corporate funds to the joint venture to finance acquisition and development and/or construction costs following termination or step-down of joint venture financing that the joint venture is unable to restructure, extend, or refinance with another third party lender. In addition, our ability to contribute our funds to or for the joint venture may be limited if we do not meet the restricted payment condition discussed above.
- **Contribution Risk.** Under credit enhancements that we typically provide with respect to joint venture borrowings, we and our partners could be required to make additional unanticipated investments in these joint ventures, either in

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the form of capital contributions or loan repayments, to reduce such outstanding borrowings. We may have to make additional contributions that exceed our proportional share of capital if our partners fail to contribute any or all of their share. While in most instances we would be able to exercise remedies available under the applicable joint venture documentation if a partner fails to contribute its proportional share of capital, our partner's financial condition may preclude any meaningful cash recovery on the obligation.

- **Completion Risk.** We often sign a completion agreement in connection with obtaining financing for our joint ventures. Under such agreements, we may be compelled to complete a project even if we no longer have an economic interest in the property.
- **Illiquid Investment Risk.** We lack a controlling interest in our joint ventures and therefore are generally unable to compel our joint ventures to sell assets, return invested capital, require additional capital contributions or take any other action without the vote of at least one or more of our venture partners. This means that, absent partner agreement, we may not be able to liquidate our joint venture investments to generate cash.
- **Partner Dispute.** If we have a dispute with one of our joint venture partners and are unable to resolve it, a buy-sell provision in the applicable joint venture agreement could be triggered or we may otherwise pursue a negotiated settlement involving the unwinding of the venture and it is possible that litigation between us and our partner(s) could result. In such cases, we may sell our interest to our partner or purchase our partner's interest. If we sell our interest, we will forgo the profit we would have otherwise earned with respect to the joint venture project and may be required to forfeit our invested capital and/or pay our partner to release us from our joint venture obligations. If we are required to purchase our partner's interest, we will be required to fund this purchase, as well as the completion of the project, with corporate level capital and to consolidate the joint venture project onto our balance sheet, which could, among other things, adversely impact our liquidity, our leverage and other financial conditions or covenants.
- **Consolidation Risk.** The accounting rules for joint ventures are complex and the decision as to whether it is proper to consolidate a joint venture onto our balance sheet is fact intensive. If the facts concerning an unconsolidated joint venture were to change and a triggering event under applicable accounting rules were to occur, we might be required to consolidate previously unconsolidated joint ventures onto our balance sheet which could adversely impact our leverage and other financial conditions or covenants.

At times, such as now, when we are pursuing a longer-term land acquisition strategy, we become directly subject to some of these risks in varying degrees, including those discussed above related to entitlement, development, financing, completion and illiquid investment. Increasing our direct exposure to these types of risks could have a material adverse effect on our financial position or results or operations.

Other Risks

Our principal stockholder has the ability to exercise significant influence over the composition of our Board of Directors and matters requiring stockholder approval.

As of December 31, 2012, MP CA Homes LLC held 49% of the voting power of our voting stock. Pursuant to the stockholders' agreement that we entered into with MP CA Homes LLC on June 27, 2008, MP CA Homes LLC is entitled to designate a number of directors to serve on our Board of Directors as is proportionate to the total voting power of its voting stock (up to one less than a majority), and is entitled to designate at least one MP CA Homes LLC designated director to each committee of the board (subject to limited exceptions), giving MP CA Homes LLC the ability to exercise significant influence on the composition and actions of our Board of Directors and its committees. In addition, this large voting block may have a significant or decisive effect on the approval or

disapproval of matters requiring approval of our stockholders, including any amendment to our certificate of incorporation, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. The interests of MP CA Homes LLC in these other matters may not always coincide with the interests of our other stockholders. In addition, the ownership of such a large block of our voting power and the right to designate directors by MP CA Homes LLC may discourage someone from making a significant equity investment in us, even if we needed the investment to operate our business, or could be a significant factor in delaying or preventing a change of control transaction that other stockholders may deem to be in their best interests.

Our charter, bylaws stockholders' rights agreement and debt covenants could prevent a third party from acquiring us or limit the price that investors might be willing to pay for shares of our common stock.

Provisions of the Delaware General Corporation Law, our certificate of incorporation and our bylaws could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire,

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control of us. These provisions could delay or prevent a change in control of and could limit the price that investors might be willing to pay in the future for shares of our common stock.

Our certificate of incorporation also authorizes our Board of Directors to issue new series of common stock and preferred stock without stockholder approval. Depending on the rights and terms of any new series created, and the reaction of the market to the series, your rights or the value of your notes or the common stock issuable upon conversion of the notes could be negatively affected. For example, subject to applicable law, our Board of Directors could create a series of common stock or preferred stock with preferential rights to dividends or assets upon liquidation, or with superior voting rights to our existing common stock. The ability of our Board of Directors to issue these new series of common stock and preferred stock could also prevent or delay a third party from acquiring us, even if doing so would be beneficial to our noteholders and stockholders.

We are also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibits Delaware corporations from engaging in business combinations specified in the statute with an interested stockholder, as defined in the statute, for a period of three years after the date of the transaction in which the person first becomes an interested stockholder, unless the business combination is approved in advance by a majority of the independent directors or by the holders of at least two-thirds of the outstanding disinterested shares. The application of Section 203 of the Delaware General Corporation Law could also have the effect of delaying or preventing a change of control of us.

We also have a stockholders' rights agreement that could make it difficult to acquire us without the approval of our Board of Directors. Our stockholders' rights agreement has been filed with and is publicly available at or from the SEC; see Part IV, Item 15.

In addition, some of our debt covenants contained in the indentures for our outstanding public notes and our revolving credit facility may delay or prevent a change in control. Our outstanding notes contain change of control provisions that give the holders of our outstanding notes the right to require us to purchase the notes upon a change in control at a purchase price equal to 101% of the principal amount of the notes plus accrued and unpaid interest.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2.

PROPERTIES

We lease office facilities for our homebuilding and mortgage operations. We lease our corporate headquarters, which is located in Irvine, California. The lease on this facility, which also includes offices for our Orange County division and our mortgage operations, consists of approximately 39,000 square feet and expires in August 2016. We lease approximately 16 other properties for our other division offices and design centers. For information about land owned or controlled by us for use in our homebuilding activities, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 18.

ITEM 3.

LEGAL PROCEEDINGS

Various claims and actions that we consider normal to our business have been asserted and are pending against us. We do not believe that any of such claims and actions will have a material adverse effect upon our results of operations or financial position.

ITEM 4.

MINE SAFETY DISCLOSURES

None.

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Executive Officers of the Registrant

Our executive officers' ages, positions and brief accounts of their business experience as of February 21, 2013, are set forth below.

Name	Age	Position
Scott D. Stowell	55	Chief Executive Officer and President
Jeff J. McCall	41	Executive Vice President and Chief Financial Officer
John P. Babel	41	Executive Vice President, General Counsel and Secretary
Wendy L. Marlett	49	Chief Marketing Officer and Executive Vice President

Scott D. Stowell has served as Chief Executive Officer since January 2012 and President since March 2011. From May 2007 to March 2011, Mr. Stowell served as Chief Operating Officer. From September 2002 to May 2007, Mr. Stowell served as President of our Southern California Region. From April 1996 until September 2002, Mr. Stowell served as President of our Orange County division. Mr. Stowell joined the Company in 1986 as a project manager.

Jeff J. McCall has served as Executive Vice President and Chief Financial Officer since June 2011. Prior to joining the Company, Mr. McCall was Chief Financial Officer – Americas at Regus plc, the world's largest provider of serviced offices, from August 2004 to May 2011. From December 2003 to August 2004 Mr. McCall served as Chief Financial Officer and Executive Vice President of HQ Global Workplaces, Inc., which was acquired by Regus plc in August 2004. From 1998 to 2003, Mr. McCall was Principal at Casas, Benjamin & White LLC, a leading boutique advisory services firm specializing in middle market mergers, acquisitions, divestitures, restructuring, and private equity investments.

John P. Babel has served as Executive Vice President, General Counsel and Secretary since February 2012. Prior to that, Mr. Babel was our Senior Vice President, General Counsel and Secretary from February 2009 until February 2012. Mr. Babel served as our Senior Vice President and Associate General Counsel from October 2008 until February 2009 and as our Vice President and Associate General Counsel from February 2005 to October 2008. Mr. Babel joined the Company as Associate General Counsel in October 2002. Prior to joining the Company, Mr. Babel was a corporate lawyer with the international law firm of Gibson, Dunn & Crutcher LLP.

Wendy L. Marlett has served as Chief Marketing Officer and Executive Vice President since September 2010. Ms. Marlett leads all of the Company's sales, marketing, communications and architecture functions across our operations. Prior to joining the Company, Ms. Marlett was Senior Vice President of sales, marketing and communications at KB Home, where she held progressive roles since 1995 and was a recognized innovator in marketing and brand management.

PART II

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

Our shares of common stock are listed on the New York Stock Exchange under the symbol "SPF." The following table sets forth, for the fiscal quarters indicated, the reported high and low intra-day sales prices per share of our common stock as reported on the New York Stock Exchange Composite Tape and the common dividends paid per share.

2012			Year Ended December 31, 2011		
High	Low	Dividend	High	Low	Dividend

Quarter Ended

March 31	\$	4.85	\$	3.05	\$	4.98	\$	3.50	\$
June 30		6.29		4.13		4.09		3.17	
September 30		7.92		5.53		3.65		2.08	
December 31		7.91		5.71		3.73		2.17	

For further information on our dividend policy, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

As of February 21, 2013, the number of record holders of our common stock was 1,312.

We did not repurchase any shares of our common stock during the three months ended December 31, 2012.

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We do not intend to declare cash dividends in the foreseeable future. We plan to retain our earnings to finance the continuing development of the business. Future cash dividends, if any, will depend upon our financial condition, results of operations, capital requirements, compliance with certain restrictive debt covenants, as well as other factors considered relevant by our Board of Directors. Our senior note indentures (other than our convertible senior note indenture) contain restrictions on the payment of cash dividends. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” and Note 6.b. of the accompanying consolidated financial statements.

The following graph shows a five-year comparison of cumulative total returns to stockholders of the Company, as compared with the Standard & Poor’s 500 Composite Stock Index and the Dow Jones Industry Group-U.S. Home Construction Index. The graph assumes reinvestment of all dividends.

Comparison of Five-Year Cumulative Total Stockholders’ Return
Among Standard Pacific Corp., The Standard & Poor’s 500 Composite Stock Index and
the Dow Jones Industry Group-U.S. Home Construction Index

The above graph is based upon common stock and index prices calculated as of year-end for each of the last five calendar years. The Company’s common stock closing price on December 31, 2012 was \$7.35 per share. The stock price performance of the Company’s common stock depicted in the graph above represents past performance only and is not necessarily indicative of future performance.

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ITEM 6.

SELECTED FINANCIAL DATA

The following should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Form 10-K.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in thousands, except per share amounts)				
Revenues:					
Homebuilding (1)	\$1,236,958	\$882,993	\$912,418	\$1,166,397	\$1,535,616
Financial Services	21,300	10,907	12,456	13,145	13,587
Total revenues from continuing operations	\$1,258,258	\$893,900	\$924,874	\$1,179,542	\$1,549,203
Pretax income (loss):					
Homebuilding (1)(2)	\$67,645	\$(18,156)	\$(14,001)	\$(111,068)	\$(1,237,840)
Financial Services	10,542	1,683	1,720	1,586	1,016
Pretax income (loss) from continuing operations	\$78,187	\$(16,473)	\$(12,281)	\$(109,482)	\$(1,236,824)
Net income (loss):					
Income (loss) from continuing operations (3)	\$531,421	\$(16,417)	\$(11,724)	\$(13,217)	\$(1,231,329)
Income (loss) from discontinued operations				(569)	(2,286)
Net income (loss)	\$531,421	\$(16,417)	\$(11,724)	\$(13,786)	\$(1,233,615)
Basic income (loss) per common share:					
Continuing operations (3)	\$1.52	\$(0.05)	\$(0.05)	\$(0.06)	\$(9.12)
Discontinued operations					(0.02)
Basic income (loss) per common share	\$1.52	\$(0.05)	\$(0.05)	\$(0.06)	\$(9.14)
Diluted income (loss) per common share:					
Continuing operations (3)	\$1.44	\$(0.05)	\$(0.05)	\$(0.06)	\$(9.12)
Discontinued operations					(0.02)
Diluted income (loss) per common share	\$1.44	\$(0.05)	\$(0.05)	\$(0.06)	\$(9.14)
Weighted average common shares outstanding:					
Basic	201,953,799	193,909,714	105,202,857	95,623,851	81,439,248
Diluted	220,518,897	193,909,714	105,202,857	95,623,851	81,439,248
Weighted average additional common shares outstanding if preferred shares converted to common shares:	147,812,786	147,812,786	147,812,786	147,812,786	53,523,829

Total weighted average diluted common shares outstanding if preferred shares converted to common shares:	368,331,683	341,722,500	253,015,643	243,436,637	134,963,077
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Balance Sheet and Other Financial

Data:

Homebuilding cash (including restricted cash)	\$366,808	\$438,157	\$748,754	\$602,222	\$626,379
Inventories owned (1)	\$1,971,418	\$1,477,239	\$1,181,697	\$986,322	\$1,262,521
Total assets	\$3,113,074	\$2,200,383	\$2,133,123	\$1,861,011	\$2,252,488
Homebuilding debt (4)	\$1,542,018	\$1,324,948	\$1,320,254	\$1,158,626	\$1,486,437
Financial services debt	\$92,159	\$46,808	\$30,344	\$40,995	\$63,655
Stockholders' equity	\$1,255,816	\$623,754	\$621,862	\$435,798	\$407,941
Stockholders' equity per common share (5)	\$5.89	\$3.20	\$3.23	\$4.30	\$4.40
Pro forma stockholders' equity per common share (6)	\$3.48	\$1.82	\$1.83	\$1.75	\$1.70

- (1) Excludes our Tucson and San Antonio divisions, which were classified as discontinued operations in 2009 and 2008.
- (2) The 2012, 2011, 2010, 2009 and 2008 homebuilding pretax income (loss) includes pretax impairment charges totaling \$0, \$13.2 million, \$2.3 million, \$68.6 million and \$1,127.9 million, respectively. (Please see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" and Note 4 of the accompanying Consolidated Financial Statements for further discussion).
- (3) The 2012 net income and basic and diluted income per common share include a \$454 million tax benefit resulting from the reversal of a portion of our deferred tax asset valuation allowance.
- (4) Homebuilding debt as of December 31, 2009 includes the indebtedness related to liabilities from inventories not owned of \$1.9 million.
- (5) At December 31, 2012, 2011, 2010, 2009 and 2008, common shares outstanding exclude 147.8 million common equivalent shares issued during the year ended December 31, 2008 in the form of preferred stock to MP CA Homes LLC, an affiliate of MatlinPatterson Global Advisers LLC. In addition, at December 31, 2011, 2010, 2009 and 2008, common shares outstanding exclude 3.9 million, 3.9 million, 3.9 million and 7.8 million shares, respectively, issued under a share lending facility related to our 6% convertible senior subordinated notes issued September 28, 2007. On October 11, 2012, the remaining 3.9 million shares outstanding under the share lending facility were returned to us and no shares under the share lending facility remain outstanding.
- (6) At December 31, 2012, 2011, 2010, 2009 and 2008, pro forma common shares outstanding include 147.8 million preferred shares outstanding on an if-converted basis. In addition, at December 31, 2011, 2010, 2009 and 2008, pro forma common shares outstanding exclude 3.9 million, 3.9 million, 3.9 million and 7.8 million shares, respectively, issued under a share lending facility related to our 6% convertible senior subordinated notes.

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

The following discussion and analysis should be read in conjunction with the section "Selected Financial Data" and our consolidated financial statements and the related notes included elsewhere in this Form 10-K.

Results of Operations

Selected Financial Information

	Year Ended December 31,					
	2012		2011		2010	
	(Dollars in thousands, except per share amounts)					
Homebuilding:						
Home sale revenues	\$ 1,190,252		\$ 882,094		\$ 908,562	
Land sale revenues	46,706		899		3,856	
Total revenues	1,236,958		882,993		912,418	
Cost of home sales	(946,630	)	(719,893	)	(707,006	)
Cost of land sales	(46,654	)	(903	)	(3,568	)
Total cost of sales	(993,284	)	(720,796	)	(710,574	)
Gross margin	243,674		162,197		201,844	
Gross margin percentage	19.7	%	18.4	%	22.1	%
Selling, general and administrative expenses	(172,207	)	(154,375	)	(150,542	)
Income (loss) from unconsolidated joint ventures	(2,090	)	207		1,166	
Interest expense	(6,396	)	(25,168	)	(40,174	)
Loss on early extinguishment of debt					(30,028	)
Other income (expense)	4,664		(1,017	)	3,733	
Homebuilding pretax income (loss)	67,645		(18,156	)	(14,001	)
Financial Services:						
Revenues	21,300		10,907		12,456	
Expenses	(11,062	)	(9,401	)	(10,878	)
Other income	304		177		142	
Financial services pretax income	10,542		1,683		1,720	
Income (loss) before income taxes	78,187		(16,473	)	(12,281	)
Benefit for income taxes	453,234		56		557	
Net income (loss)	531,421		(16,417	)	(11,724	)
Less: Net (income) loss allocated to preferred shareholder	(224,408	)	7,101		6,849	
Less: Net (income) loss allocated to unvested restricted stock	(410	)				
Net income (loss) available to common stockholders	\$ 306,603		\$ (9,316	)	\$ (4,875	)
Income (Loss) per common share:						
Basic	\$ 1.52		\$ (0.05	)	\$ (0.05	)
Diluted	\$ 1.44		\$ (0.05	)	\$ (0.05	)
Weighted average common shares outstanding:						
Basic	201,953,799		193,909,714		105,202,857	
Diluted	220,518,897		193,909,714		105,202,857	
Weighted average additional common shares outstanding if preferred shares converted to common shares:						
	147,812,786		147,812,786		147,812,786	

Total weighted average diluted common shares outstanding
if preferred shares converted to common shares:

	368,331,683	341,722,500	253,015,643
Net cash provided by (used in) operating activities	\$(283,116)	\$(322,613)	\$(80,958)
Net cash provided by (used in) investing activities	\$(105,205)	\$(8,313)	\$(33,455)
Net cash provided by (used in) financing activities	\$324,354	\$10,077	\$250,225
Adjusted Homebuilding EBITDA (1)	\$193,903	\$105,855	\$131,576

- (1) Adjusted Homebuilding EBITDA means net income (loss) (plus cash distributions of income from unconsolidated joint ventures) before (a) income taxes, (b) homebuilding interest expense, (c) expensing of previously capitalized interest included in cost of sales, (d) impairment charges and deposit write-offs, (e) gain (loss) on early extinguishment of debt, (f) homebuilding depreciation and amortization, (g) amortization of stock-based compensation, (h) income (loss) from unconsolidated joint ventures and (i) income (loss) from financial services subsidiary. Other companies may calculate Adjusted Homebuilding EBITDA (or similarly titled measures) differently. We believe Adjusted Homebuilding EBITDA information is useful to management and investors as one measure of our ability to service debt and obtain financing. However, it should be noted that Adjusted Homebuilding EBITDA is not a U.S. generally accepted accounting principles (“GAAP”) financial measure. Due to the significance of the GAAP components excluded, Adjusted Homebuilding EBITDA should not be considered in isolation or as an alternative to cash flows from operations or any other liquidity performance measure prescribed by GAAP.

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Selected Financial Information (continued)

(1) Continued

The table set forth below reconciles net cash provided by (used in) operating activities, calculated and presented in accordance with GAAP, to Adjusted Homebuilding EBITDA.

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Net cash provided by (used in) operating activities	\$(283,116)	\$(322,613)	\$(80,958)
Add:			
Benefit for income taxes	(453,234)	(56)	(557)
Deferred income tax benefit	454,000		
Homebuilding interest amortized to cost of sales and interest expense	110,298	94,804	100,739
Excess tax benefits from share-based payment arrangements			27
Less:			
Income from financial services subsidiary	10,238	1,506	1,578
Depreciation and amortization from financial services subsidiary	108	611	934
(Gain) loss on disposal of property and equipment	37	179	(37)
Net changes in operating assets and liabilities:			
Trade and other receivables	(801)	5,358	(6,541)
Mortgage loans held for sale	46,339	43,661	(12,165)
Inventories-owned	315,639	282,447	148,706
Inventories-not owned	31,551	19,727	27,861
Other assets	(2,618)	(6,212)	(111,496)
Accounts payable	(4,617)	(1,113)	6,592
Accrued liabilities	(9,155)	(7,852)	61,843
Adjusted Homebuilding EBITDA	\$193,903	\$105,855	\$131,576

Overview

We made significant improvement in our operating performance during 2012, with new home deliveries, homebuilding revenues, net new orders and homes in backlog up 30%, 40%, 44% and 106%, respectively, as compared to the prior year. Our results reflect the continued execution of our strategy, the operating leverage inherent in our business, and improvements in general market conditions.

For the year ended December 31, 2012, we reported net income of \$531.4 million, or \$1.44 per diluted share, compared to net losses of \$16.4 million (\$0.05 per share) and \$11.7 million (\$0.05 per share) for the years ended December 31, 2011 and 2010. Net income for 2012 included \$78.2 million of pretax income and a \$453.2 million tax benefit resulting from the reversal of a portion of our deferred tax asset valuation allowance. Homebuilding pretax income for 2012 was \$67.6 million compared to pretax losses of \$18.2 million and \$14.0 million in 2011 and 2010.

We ended 2012 with \$366.8 million of homebuilding cash (including \$26.9 million of restricted cash), compared to \$438.2 million (including \$31.4 million of restricted cash) at the end of the prior year. Net cash used in operating activities during 2012 was \$283.1 million compared to \$322.6 million in 2011. The decrease in cash used in operating activities for 2012 as compared to the prior year was driven primarily by a 40% increase in homebuilding revenues, partially offset by a \$168.2 million increase in cash land purchase and development costs. Cash flows from financing

activities for 2012 included approximately \$245 million in net proceeds from a convertible senior notes offering and approximately \$72 million in net proceeds from a common stock issuance, offset by the repayment of approximately \$50 million of senior subordinated notes. In October 2012, we amended our revolving credit facility to, among other things, increase the total aggregate commitment to \$350 million and to extend the maturity date of \$320 million of the commitment to October 2015. With \$340 million of unrestricted homebuilding cash and availability under the revolving credit facility, we believe we have ample liquidity to continue progressing against our strategy.

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Homebuilding

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Homebuilding revenues:			
California	\$699,672	\$506,002	\$546,946
Southwest	248,421	190,622	187,609
Southeast	288,865	186,369	177,863
Total homebuilding revenues	\$1,236,958	\$882,993	\$912,418
Homebuilding pretax income (loss):			
California	\$44,959	\$11,357	\$39,594
Southwest	10,877	(10,231)	(5,103)
Southeast	5,991	(10,236)	(8,902)
Corporate	5,818	(9,046)	(39,590)
Total homebuilding pretax income (loss)	\$67,645	\$(18,156)	\$(14,001)
Homebuilding impairment charges:			
California	\$	\$9,490	\$
Southwest		2,878	331
Southeast		821	1,958
Total homebuilding impairment charges	\$	\$13,189	\$2,289
Homebuilding impairment charges by type (1):			
Inventory impairments	\$	\$13,189	\$1,818
Joint venture impairments			471
Total homebuilding impairment charges	\$	\$13,189	\$2,289
		As of December 31,	
	2012	2011	2010
		(Dollars in thousands)	
Total Assets:			
California	\$ 1,192,249	\$ 985,560	\$ 819,376
Southwest	496,902	355,060	233,120
Southeast	438,122	294,996	237,635
Corporate	842,705	473,971	786,791
Total homebuilding	2,969,978	2,109,587	2,076,922
Financial services	143,096	90,796	56,201
Total Assets	\$ 3,113,074	\$ 2,200,383	\$ 2,133,123

(1) Inventory impairment charges are included in cost of sales and joint venture impairments are included in loss from unconsolidated joint ventures.

For 2012, we generated homebuilding pretax income of \$67.6 million compared to a pretax loss of \$18.2 million in 2011. The improvement in our financial performance was primarily the result of a 30% increase in new home deliveries, a \$13.2 million decrease in asset impairment charges, an increase in gross margin from home sales, an \$18.8 million decrease in interest expense and the operating leverage inherent in our business.

For 2011, we reported a homebuilding pretax loss of \$18.2 million compared to a pretax loss of \$14.0 million in 2010. The decrease in our financial performance was primarily the result of a 4% decrease in new home deliveries, a \$10.9 million decrease in asset impairment charges, a decrease in our gross margin from home sales and a \$3.8 million increase in our SG&A expenses. These negative changes were partially offset by a \$15.0 million decrease in interest expense and a \$30.0 million decrease in loss on early extinguishment of debt.

Revenues

Homebuilding revenues for 2012 increased 40% from 2011 as a result of a 30% increase in new home deliveries, a \$45.8 million increase in land sale revenues and a 4% increase in our consolidated average home price to \$362 thousand. Land sale revenues for 2012 were \$46.7 million, related primarily to sales contracts assumed in connection with land purchase transactions during 2012. Homebuilding revenues for 2011 decreased 3% from 2010 as a result of a 4% decrease in

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new home deliveries and a \$3.0 million decrease in land sale revenues. These decreases for 2011 were partially offset by a 2% increase in our consolidated average home price to \$349 thousand.

		Year Ended December 31,			
	2012	% Change	2011	% Change	2010
New homes delivered:					
California	1,304	34%	975	(12%)	1,102
Arizona	247	46%	169	(14%)	196
Texas	472	12%	420	14%	368
Colorado	114	18%	97	(16%)	115
Nevada	9	(40%)	15	(32%)	22
Total Southwest	842	20%	701		701
Florida	581	30%	446		446
Carolinas	564	39%	406	2%	397
Total Southeast	1,145	34%	852	1%	843
Total	3,291	30%	2,528	(4%)	2,646

New home deliveries increased 30% in 2012 as compared to the prior year. The increase in our 2012 deliveries was driven largely by a 64% increase in the number of homes in backlog at the beginning of the year as compared to the year earlier period and a 44% increase in net new orders. New home deliveries for 2011 decreased 4% compared to 2010. The decline in our 2011 deliveries was driven largely by a 31% decrease in the number of homes in backlog at the beginning of 2011 as compared to 2010, which was partially offset by a 14% increase in net new orders and a 17% increase in the number of average active selling communities during 2011.

		Year Ended December 31,			
	2012	% Change	2011	% Change	2010
(Dollars in thousands)					
Average selling prices of homes delivered:					
California	\$ 506	(3%)	\$ 519	5%	\$ 495
Arizona	213	5%	202		202
Texas	318	9%	292	(1%)	294
Colorado	388	26%	308	4%	295
Nevada	192	1%	190	(5%)	201
Total Southwest	295	9%	271	2%	266
Florida	247	19%	208	8%	193
Carolinas	247	7%	231	0%	230
Total Southeast	247	13%	219	4%	210
Total	\$ 362	4%	\$ 349	2%	\$ 343

During 2012, our consolidated average home price increased 4% to \$362 thousand as compared to \$349 thousand for 2011. The increase in our consolidated average home price during 2012 was largely due to higher average home prices within most of our markets, partially offset by lower average home prices in California compared to the prior year. The 3% lower average home price in California reflected the delivery of more luxury homes in Southern California during 2011 as compared to 2012. During 2011, our consolidated average home price increased 2% to \$349 thousand as compared to \$343 thousand for 2010. The increase in our consolidated average home price during 2011 was largely due to higher average home prices in California and Florida, partially offset by a lower percentage of California deliveries as compared to 2010. The 5% higher average home price in California reflected the delivery of

more luxury homes in Southern California during 2011 as compared to 2010.

Gross Margin

Our 2012 gross margin percentage from home sales was 20.5%, up 210 basis points from 18.4% in 2011. The 210 basis point increase in the gross margin percentage from home sales resulted primarily from a mix shift to more deliveries from higher margin communities, a decrease in the use of sales incentives, base house price increases at some of our faster selling communities, and the absence of inventory impairments in 2012. Our 2011 gross margin percentage from home sales was 18.4%, down 380 basis points from 22.2% in 2010. The 2011 gross margin percentage from home sales reflected \$13.2 million of inventory impairment charges and a \$2.9 million benefit related to an adjustment in the Company's warranty accrual, compared to \$1.8 million of inventory impairment charges and a \$2.0 million benefit related to an adjustment in the Company's warranty accrual in 2010. The 380 basis point decrease in the gross margin percentage from home sales was primarily the result of lower margins in a majority of the Company's markets due to a mix shift to more deliveries from lower

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margin projects, a reduction in the percentage of California deliveries as compared to prior year and the \$11.4 million increase in inventory impairment charges in 2011.

SG&A Expenses

Our 2012 SG&A expenses (including corporate G&A) were \$172.2 million compared to \$154.4 million for the prior year. Our 2012 SG&A rate from home sales was 14.5% versus a SG&A rate from home sales of 17.5% for 2011. The 300 basis point improvement in our SG&A rate was primarily the result of a 35% increase in home sale revenues and the operating leverage inherent in our business. Our 2011 SG&A expenses (including corporate G&A) were \$154.4 million compared to \$150.5 million for 2010. Our 2011 SG&A rate from home sales was 17.5% versus a SG&A rate from home sales of 16.6% for 2010. The 90 basis point increase in our SG&A rate in 2011 was primarily the result of restructuring and management change charges in 2011 and a 3% decrease in home sale revenues.

Interest Expense

As required by ASC Topic 835, Interest, we expensed \$6.4 million, \$25.2 million and \$40.2 million of interest costs during 2012, 2011 and 2010 attributable to the portion of our debt that was in excess of our qualified assets. The declining amount of interest we expensed from 2010 through 2012 is a result of an increase in the amount of qualified assets we owned over that time period. To the extent our debt exceeds our qualified assets in the future, we will continue to be required to expense a portion of the interest related to such debt.

Loss on Early Extinguishment of Debt

During 2010, we recognized a \$30.0 million loss on early extinguishment of debt. The loss consisted of a \$29.0 million loss associated with the early extinguishment of substantially all of our remaining senior and senior subordinated public notes due 2010 through 2015, and a \$1.0 million noncash loss in connection with the early extinguishment of \$6.0 million of our convertible senior subordinated notes due 2012.

Other Income (Expense)

Other income (expense) for 2012 was primarily attributable to \$4.1 million received in connection with a property insurance claim settlement and \$1.1 million of interest income. Other income (expense) for 2011 included \$2.1 million of deposit write-offs, partially offset by \$1.4 million of interest income. Other income (expense) for 2010 included \$2.1 million of interest income and a \$1.5 million recovery of a land deposit that had been previously written off.

Operating Data

	Year Ended December 31,						
		%	%		%	%	
	2012	Change	Absorption Change (1)	2011	Change	Absorption Change (1)	2010
Net new orders (2):							
California	1,570	52%	52%	1,030	6%	(1%)	974
Arizona	267	41%	81%	190	3%	3%	185
Texas	527	12%	12%	470	31%	6%	358
Colorado	156	56%	11%	100	10%	10%	91
Nevada	6	(40%)		10	(67%)	(67%)	30
Total Southwest	956	24%	28%	770	16%	3%	664

Florida	785	45%	49%	541	24%	(13%)	435
Carolinas	703	55%	33%	454	17%	1%	388
Total Southeast	1,488	50%	41%	995	21%	(6%)	823
Total	4,014	44%	41%	2,795	14%	(3%)	2,461

- (1) Represents the percentage change of net new orders per average number of selling communities during the period.
- (2) Net new orders are new orders for the purchase of homes during the period, less cancellations during such period of existing contracts for the purchase of homes.

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	2012	Year Ended December 31, % Change	2011	% Change	2010
Average number of selling communities during the year:					
California	49		49	7%	46
Arizona	7	(22%)	9		9
Texas	21		21	24%	17
Colorado	7	40%	5		5
Nevada		(100%)	1		1
Total Southwest	35	(3%)	36	13%	32
Florida	36	(3%)	37	42%	26
Carolinas	35	17%	30	15%	26
Total Southeast	71	6%	67	29%	52
Total	155	2%	152	17%	130

Net new orders for 2012 increased 44% from the prior year on a 2% increase in the number of average active selling communities. Our monthly sales absorption rate was 2.2 per community for 2012, up from 1.5 per community for 2011. During the 2012 fourth quarter our monthly sales absorption rate was 2.2 per community, up from 1.3 per community for the 2011 fourth quarter and up from 2.1 per community for the 2012 third quarter. The 3% quarter-over-quarter increase in absorption rate bucked the historical seasonal trend, which averaged down 19% over the last 15 years. We believe these improvements in absorption rate are attributable to the execution of our strategy and general improvements in market conditions over these periods. Our consolidated cancellation rate for 2012 was 13% compared to 16% for 2011, and was 15% for the 2012 fourth quarter compared to 19% for the 2011 fourth quarter. Net new orders for 2011 increased 14% from 2010 on a 17% increase in the number of average active selling communities. Our monthly sales absorption rate was 1.5 per community for 2011, down from 1.6 per community for 2010. Our consolidated cancellation rate for 2011 was 16% compared to 18% for 2010.

	2012		As of December 31, 2011		2010	
Backlog (\$ in thousands):	Homes	Dollar Value	Homes	Dollar Value	Homes	Dollar Value
California	440	\$ 218,115	174	\$ 91,051	119	\$ 60,440
Arizona	77	19,178	57	11,598	36	7,988
Texas	204	78,468	149	46,307	99	30,456
Colorado	75	32,230	33	12,904	30	9,313
Nevada			3	638	8	1,628
Total Southwest	356	129,876	242	71,447	173	49,385
Florida	366	95,264	162	42,360	67	14,225
Carolinas	242	72,214	103	27,725	55	13,373
Total Southeast	608	167,478	265	70,085	122	27,598
Total	1,404	\$ 515,469	681	\$ 232,583	414	\$ 137,423

The dollar value of our backlog as of December 31, 2012 increased 122% from 2011 to \$515.5 million, or 1,404 homes. The increase in backlog value from 2011 reflects the increase in order activity experienced during 2012 and a 7% increase in our consolidated average home price in backlog to \$367 thousand. The higher average home price in our backlog as of December 31, 2012 compared to the prior year was due primarily to price increases in Arizona, Colorado, Texas and the Carolinas as a result of mix shift to higher priced projects.

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		At December 31,			
	2012	% Change	2011	% Change	2010
Homesites owned and controlled:					
California	10,288	11%	9,230	(3%)	9,505
Arizona	1,965	5%	1,872	(4%)	1,940
Texas	5,129	21%	4,232	75%	2,419
Colorado	792	15%	690	86%	370
Nevada	1,124	(1%)	1,133	(5%)	1,196
Total Southwest	9,010	14%	7,927	34%	5,925
Florida	8,159	29%	6,323	12%	5,632
Carolinas	3,310	12%	2,964	19%	2,487
Total Southeast	11,469	23%	9,287	14%	8,119
Total (including joint ventures)	30,767	16%	26,444	12%	23,549
Homesites owned	25,475	27%	20,035	14%	17,650
Homesites optioned or subject to contract	4,681	(10%)	5,183	16%	4,451
Joint venture homesites (1)	611	(50%)	1,226	(15%)	1,448
Total (including joint ventures) (1)	30,767	16%	26,444	12%	23,549

(1) Joint venture homesites represent our expected share of land development joint venture homesites and all of the homesites of our homebuilding joint ventures.

Total homesites owned and controlled as of December 31, 2012 increased 16% from 2011, reflecting our efforts to acquire more land in preparation for growth. We purchased \$542.1 million of land (9,344 homesites) during 2012, of which 39% (based on homesites) was located in California, 25% in Florida, 18% in the Carolinas and 12% in Texas, with the balance spread throughout our other markets. During 2011, we purchased \$303.8 million of land (4,895 homesites), of which 57% (based on homesites) was located in California and 18% in Texas, with the balance spread throughout the Company's other operations. As of December 31, 2012, we owned or controlled 30,767 homesites, of which 19,219 are owned and actively selling or under development, 5,292 are controlled or under option, and the remaining 6,256 homesites are held for future development or for sale.

		At December 31,			
	2012	% Change	2011	% Change	2010
Homes under construction and spec homes:					
Homes under construction (excluding specs)	963	147%	390	82%	214
Spec homes under construction	611	11%	550	55%	354
Total homes under construction	1,574	67%	940	65%	568
Completed and unsold homes (excluding models)	215	(44%)	383	(25%)	512

Total homes under construction as of December 31, 2012 increased 67% compared to December 31, 2011 as a result of the 106% increase in homes in backlog. As of December 31, 2012, the number of completed unsold homes decreased 44% from the year earlier period as a result of the shift to more to-be-built homes and a higher conversion rate of spec homes sold and closed during the 2012 fourth quarter compared to the prior year period.

Financial Services

For 2012, our financial services subsidiary generated pretax income of \$10.2 million compared to \$1.5 million in 2011. The increase in 2012 was driven by a 44% increase in the dollar volume of loans closed and sold, a decrease in loan loss expense related to indemnification and repurchase allowances, from approximately \$4.3 million for 2011 to \$1.0 million for 2012, and a \$0.9 million decrease in loan loss expense related to allowances for loans held for investment. These changes were partially offset by an increase in personnel expenses as a result of higher production levels in 2012 driven by the 30% increase in our new home deliveries as compared to 2011.

For 2011, our financial services subsidiary generated pretax income of \$1.5 million compared to \$1.6 million in 2010. The decrease in 2011 was driven by an 18% decrease in the dollar volume of loans closed and sold and an increase in loan loss expense related to indemnification and repurchase allowances, from approximately \$2.3 million for 2010 to \$4.3 million for 2011. These changes were partially offset by an increase in margins on loans closed and sold during 2011, a decrease in personnel expenses due to a reduction in headcount as a result of lower production levels and a \$1.1 million decrease in loan loss expense related to allowances for loans held for investment.

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The following table details information regarding loan originations and related credit statistics for our mortgage financing operations:

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Total Originations:			
Loans	2,352	1,759	2,007
Principal	\$662,400	\$464,665	\$532,743
Capture rate	82%	78%	80%
Loans Sold to Third Parties:			
Loans	2,234	1,600	2,038
Principal	\$616,599	\$420,550	\$542,702
Mortgage Loan Origination Product Mix:			
FHA loans	23%	29%	39%
Other government loans (VA & USDA)	18%	19%	17%
Total government loans	41%	48%	56%
Conforming loans	59%	52%	44%
Jumbo loans			
	100%	100%	100%
Loan Type:			
Fixed	98%	95%	96%
ARM	2%	5%	4%
Credit Quality:			
Avg. FICO score	744	743	741
Other Data:			
Avg. combined LTV ratio	86%	86%	87%
Full documentation loans	100%	100%	100%
Non-Full documentation loans			

Income Taxes

As of December 31, 2012, we had a \$478.1 million deferred tax asset which was partially offset by a deferred tax asset valuation allowance of \$22.7 million. During the year ended December 31, 2012, we utilized \$30.8 million of our deferred tax asset valuation allowance to fully offset the income tax provision related to the pretax income for the year. During the years ended December 31, 2011 and 2010, we generated deferred tax assets of \$6.4 million and \$4.7 million, respectively, related to the pretax losses for those years.

During the year ended December 31, 2012, we recognized a \$453.2 million income tax benefit that resulted from the reversal of all but \$22.7 million of our deferred tax asset valuation allowance. We concluded that this reversal was appropriate after determining that it was more likely than not that we would be able to realize the full amount of this income tax benefit within allowable net loss carryforward periods. In reaching this conclusion we considered, among other things, our recent financial and operating results (three years of cumulative income, five consecutive quarters of profitability, and strong growth in net new orders and backlog) and improved conditions in the new home market

(home sales pace and prices trending up steadily in most of our markets throughout 2012, coupled with falling unemployment, historically low interest rates, and high affordability). The remaining valuation allowance of \$22.7 million relates primarily to state net operating loss carryforwards and potential Section 382 limitations that expire during the 2013 second quarter.

As of December 31, 2012, approximately \$100 million of our deferred tax asset related to unrealized built-in losses generated primarily from inventory impairment charges. Our ability to recognize a tax benefit from these unrealized built-in losses may be limited under Internal Revenue Code Section 382 depending on, among other things, when, and at what price, we dispose of the underlying assets. Assets with built-in losses sold prior to June 27, 2013 are subject to a \$15.6 million gross annual deduction limitation for federal and state purposes. Assets with built-in losses sold after June 27, 2013 are not subject to these limitations. In general, if realized tax losses from these built-in loss assets exceed \$15.6 million in any tax year prior to June 27, 2013, the built-in losses in excess of this amount will be permanently lost. During the years ended December 31, 2012, 2011 and 2010, we permanently lost \$10.5 million, \$12.2 million and \$22.9 million, respectively, as a result of the Section 382 annual limitation.

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Liquidity and Capital Resources

Our principal uses of cash over the last several years have been for:

- land acquisition
- construction and development
- operating expenses
- principal and interest payments on debt
- cash collateralization

Cash requirements over the last several years have been met by:

- internally generated funds
- bank revolving credit and term loans
- land option contracts and seller notes
- public and private sales of our equity
- public and private note offerings
- joint venture financings
- assessment district bond financings
- letters of credit and surety bonds
- mortgage credit facilities
- tax refunds

For the year ended December 31, 2012, we used \$283.1 million of cash in operating activities versus \$322.6 million in the year earlier period. The decrease in cash used in operating activities for the year ended December 31, 2012 as compared to the prior year was driven primarily by a 40% increase in homebuilding revenues, partially offset by a \$168.2 million increase in cash land purchase and development costs and an \$18 million increase in interest payments. The increase in homebuilding revenues was primarily attributable to a 30% increase in new home deliveries and a \$45.8 million increase in land sale revenues. As of December 31, 2012, our homebuilding cash balance was \$366.8 million (including \$26.9 million of restricted cash).

Revolving Credit Facility. On October 19, 2012, we amended our \$210 million unsecured revolving credit facility (the “Revolving Facility”) to, among other things, increase the aggregate commitment to \$350 million (all of which is available for letters of credit), provide an accordion feature that allows for an increase in the aggregate commitment to \$550 million (subject to the availability of additional bank commitments and certain other conditions), and to extend the maturity date of \$320 million of the commitment to October 19, 2015. Substantially all of our 100% owned homebuilding subsidiaries are guarantors of the Revolving Facility. We were in compliance with the covenants and other requirements of the Revolving Facility that were in effect on December 31, 2012. Our covenant compliance for the Revolving Facility is set forth in the table below:

Covenant and Other Requirements		Actual at December 31, 2012 (Dollars in millions)	Covenant Requirements at December 31, 2012
Consolidated Tangible Net Worth (1)		\$1,255.8	≥ \$770.8
Leverage Ratio:			
Net Homebuilding Debt to Adjusted Consolidated Tangible Net Worth Ratio (2)		0.99	≤ 2.50
Land Not Under Development Ratio:			
Land Not Under Development to Consolidated Tangible Net Worth Ratio (3)		0.23	≤ 1.00
Interest Coverage Ratio (4):			
EBITDA (as defined in the Revolving Facility) to Consolidated Interest Incurred (5)		1.63	≥ 1.00

Investments in Homebuilding Joint Ventures or Consolidated Homebuilding Non-Guarantor Entities (6)	\$183.3	≤	\$519.5
Actual/Permitted Borrowings under the Revolving Facility (7)	\$0	≤	\$283.3

- (1) The minimum covenant requirement amount is subject to increase over time based on subsequent earnings (without deductions for losses) and proceeds from equity offerings.
- (2) This covenant requirement decreases to 2.25 for the period ending March 31, 2014 and thereafter. Net Homebuilding Debt represents Consolidated Homebuilding Debt reduced for certain cash balances in excess of \$5 million.
- (3) Land not under development is land that has not yet undergone physical site improvement and has not been sold to a homebuyer or other third party.
- (4) As of December 31, 2012, we were in compliance with the interest coverage covenant. However, if we fail to meet the required interest coverage ratio, it is not an event of default but rather upon such occurrence, the amount we can borrow under the Revolving Facility is limited by a mandatory prepayment requirement that limits our permitted borrowings to \$100 million plus 90% of the book value of our completed model home inventory. As of December 31, 2012, if we had not been in compliance with the interest coverage covenant, our permitted borrowings would have been limited to \$190.1 million using this formula.
- (5) This covenant requirement increases to 1.25 beginning with the quarter ending March 31, 2014. Consolidated Interest Incurred excludes noncash interest expense.
- (6) Net investments in unconsolidated homebuilding joint ventures or consolidated homebuilding non-guarantor entities must not exceed 35% of consolidated tangible net worth plus \$80 million.
- (7) As of December 31, 2012 our borrowing base availability was approximately \$283.3 million.

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Letter of Credit Facilities. As of December 31, 2012, we were party to two committed letter of credit facilities totaling \$11 million, of which \$7.2 million was outstanding. In addition, as of such date, we also had a \$30 million uncommitted letter of credit facility, of which \$18.9 million was outstanding. These facilities require cash collateralization and have maturity dates ranging from September 2013 to November 2013. As of December 31, 2012 these facilities were secured by cash collateral deposits of \$26.5 million. Upon maturity, we may renew or enter into new letter of credit facilities with the same or other financial institutions.

Senior and Convertible Senior Notes. As of December 31, 2012, the principal amount outstanding on our senior and convertible senior notes payable consisted of the following:

	December 31, 2012 (Dollars in thousands)
6¼% Senior Notes due April 2014	\$ 4,971
7% Senior Notes due August 2015	29,789
10¾% Senior Notes due September 2016	280,000
8 % Senior Notes due May 2018	575,000
8 % Senior Notes due January 2021	400,000
1¼% Convertible Senior Notes due August 2032	253,000
	\$ 1,542,760

These notes contain various restrictive covenants. Our 10¾% Senior Notes due 2016 contain our most restrictive covenants, including a limitation on additional indebtedness and a limitation on restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited, aside from those exceptions, from incurring further indebtedness if we do not satisfy either a maximum leverage condition or a minimum interest coverage condition. Under the limitation on restricted payments, we are also prohibited from making restricted payments (which include dividends, investments in and advances to our joint ventures and other unrestricted subsidiaries), if we do not satisfy either condition. Our ability to make restricted payments is also subject to a basket limitation. As of December 31, 2012, we were able to satisfy the conditions necessary to incur additional indebtedness and to make restricted payments.

The leverage and interest coverage conditions contained in our 10¾% Senior Notes due 2016 (our most restrictive series of notes) are set forth in the table below:

Covenant Requirements	Actual at December 31, 2012	Covenant Requirements at December 31, 2012
Total Leverage Ratio:		
Indebtedness to Consolidated Tangible Net Worth Ratio (1)	1.12	≤ 2.25
Interest Coverage Ratio:		
EBITDA (as defined in the indenture) to Consolidated Interest Incurred	1.45	≥ 2.00

(1)

Indebtedness represents consolidated homebuilding debt reduced by cash held by Standard Pacific Corp. and its restricted subsidiaries in excess of \$5 million. As of December 31, 2012, our unrestricted subsidiaries had approximately \$175.0 million of unrestricted cash. As of December 31, 2012, we retained the ability, at our option, to distribute substantially all of this cash to Standard Pacific Corp. If such a distribution were to occur, the Leverage Ratio would be positively impacted.

On July 31, 2012, the Company issued \$253 million in aggregate principal amount of 1¼% Convertible Senior Notes due 2032 (the “Convertible Notes”). The Convertible Notes are senior unsecured obligations of the Company and are guaranteed by the guarantors of our other senior notes on a senior unsecured basis.

The Convertible Notes bear interest at a rate of 1¼% per year and will mature on August 1, 2032, unless earlier converted, redeemed or repurchased. The holders may convert their Convertible Notes at any time into shares of the Company's common stock at an initial conversion rate of 123.7662 shares of common stock per \$1,000 principal amount of Convertible Notes (which is equal to an initial conversion price of approximately \$8.08 per share), subject to adjustment.

The Company may not redeem the Convertible Notes prior to August 5, 2017. On or after August 5, 2017 and prior to the maturity date, the Company may redeem for cash all or part of the Convertible Notes at a redemption price equal to 100% of the principal amount of the Convertible Notes being redeemed. On each of August 1, 2017, August 1, 2022 and August 1, 2027, holders of the Convertible Notes may require the Company to purchase all or any portion of their Convertible Notes for

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cash at a price equal to 100% of the principal amount of the Convertible Notes to be repurchased.

Common Stock Issuance. The Company conducted a secondary public offering of its common stock in conjunction with the Convertible Notes offering, issuing 13.4 million shares of the Company's common stock at a price of \$5.67 per share and receiving \$71.8 million in net proceeds.

Potential Future Transactions. In the future, we may, from time to time, undertake negotiated or open market purchases of, or tender offers for, our notes prior to maturity when they can be purchased at prices that we believe are attractive. We may also, from time to time, engage in exchange transactions (including debt for equity and debt for debt transactions) for all or part of our notes. Such transactions, if any, will depend on market conditions, our liquidity requirements, contractual restrictions and other factors.

Joint Venture Loans. As described more particularly under the heading "Off-Balance Sheet Arrangements", our land development and homebuilding joint ventures have historically obtained secured acquisition, development and/or construction financing. This financing is designed to reduce the use of funds from our corporate financing sources. As of December 31, 2012, we held interests in seven active joint ventures with no project specific financing outstanding.

Secured Project Debt and Other Notes Payable. At December 31, 2012, we had \$11.5 million outstanding in secured project debt and other notes payable. Our secured project debt and other notes payable consist of seller non-recourse financing and community development district and similar assessment district bond financings used to finance land acquisition, development and infrastructure costs for which we are responsible.

Mortgage Credit Facilities. At December 31, 2012, we had \$92.2 million outstanding under our mortgage financing subsidiary's mortgage credit facilities. These mortgage credit facilities consist of a \$75 million repurchase facility with one lender, maturing in July 2013, and a \$25 million repurchase facility with another lender, maturing in September 2013. These facilities require Standard Pacific Mortgage to maintain cash collateral accounts, which totaled \$2.4 million as of December 31, 2012, and also contain financial covenants which require Standard Pacific Mortgage to, among other things, maintain a minimum level of tangible net worth, not to exceed a debt to tangible net worth ratio, maintain a minimum liquidity amount based on a measure of total assets (inclusive of the cash collateral requirement), and satisfy pretax income (loss) requirements. As of December 31, 2012, Standard Pacific Mortgage was in compliance with the financial and other covenants contained in these facilities.

Surety Bonds. Surety bonds serve as a source of liquidity for the Company because they are used in lieu of cash deposits and letters of credit that would otherwise be required by governmental entities and other third parties to ensure our completion of the infrastructure of our projects and other performance. At December 31, 2012, we had approximately \$319.1 million in surety bonds outstanding (exclusive of surety bonds related to our joint ventures), with respect to which we had an estimated \$176.9 million remaining in cost to complete.

Availability of Additional Liquidity. The availability of additional capital, whether from private capital sources (including banks) or the public capital markets, fluctuates as market conditions change. There may be times when the private capital markets and the public debt or equity markets lack sufficient liquidity or when our securities cannot be sold at attractive prices, in which case we would not be able to access capital from these sources. A weakening of our financial condition, including in particular a material increase in our leverage or a decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, result in a credit rating downgrade or change in outlook, or otherwise increase our cost of borrowing.

Dividends & Stock Repurchases. We did not pay dividends or repurchase capital stock during the years ended December 31, 2012, 2011 and 2010.

Leverage. Our homebuilding debt to total book capitalization as of December 31, 2012 and 2011 was 55.1% and 68.0%, respectively, and our adjusted net homebuilding debt to adjusted total book capitalization was 48.3% and 58.7%, respectively, for these periods. We believe that the adjusted ratio, which reflects the offset of homebuilding cash against debt, is useful to investors as an additional measure of our ability to service debt. Excluding the impact and timing of recording impairments and new land purchases, historically, our adjusted net homebuilding debt to adjusted total book capitalization ratio increases during the first three quarters of the year and tapers off at year end, as we typically experience the highest new home order activity in the spring and summer months and deliver a greater number of homes in the second half of the calendar year as the prior orders are converted to home deliveries.

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Contractual Obligations

The following table summarizes our future estimated cash payments under existing contractual obligations as of December 31, 2012, including estimated cash payments due by period. Our purchase obligations primarily represent commitments for land purchases under land purchase and land option contracts with non-refundable deposits, estimated future payments under price and profit participation agreements with land sellers and commitments for subcontractor labor and material to be utilized in the normal course of business.

		Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years	
	(Dollars in thousands)					
Contractual Obligations						
Long-term debt principal payments (1)	\$ 1,554,276	\$ 4,790	\$ 40,947	\$ 280,539	\$ 1,228,000	
Long-term debt interest payments	675,144	117,857	233,723	190,990	132,574	
Operating leases (2)	9,119	2,888	4,158	1,751	322	
Purchase obligations (3)	532,492	426,300	101,374	4,818		
Total (4)	\$ 2,771,031	\$ 551,835	\$ 380,202	\$ 478,098	\$ 1,360,896	

- (1) Long-term debt represents senior and convertible senior notes payable and secured project debt and other notes payable. For a more detailed description of our long-term debt, please see Note 6 in our accompanying consolidated financial statements.
- (2) For a more detailed description of our operating leases, please see Note 10.f. in our accompanying consolidated financial statements.
- (3) Includes approximately \$197.1 million (net of deposits) in non-refundable land purchase and option contracts and \$335.0 million in commitments under development and construction contracts. For a more detailed description of our land purchase and option contracts, please see "Off-Balance Sheet Arrangements" below and Note 10.a. in our accompanying consolidated financial statements.
- (4) The table above excludes liabilities related to \$13.5 million of unrecognized tax benefits as of December 31, 2012. Due to the uncertainty as to whether any payments may be made or any benefit may be realized, we are unable to make reasonable estimates of the period of such amounts. For a more detailed description of our unrecognized tax benefit, please see Note 11 to our accompanying consolidated financial statements.

At December 31, 2012, we had mortgage repurchase facilities with two lenders totaling \$100 million, and had \$92.2 million outstanding under these facilities.

Off-Balance Sheet Arrangements

Land Purchase and Option Agreements

We are subject to customary obligations associated with entering into contracts for the purchase of land and improved homesites. These purchase contracts typically require a cash deposit or delivery of a letter of credit, and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers and third-party financial entities as a method of acquiring land in staged takedowns, to help us manage the financial and market risk associated with land holdings, and to reduce the use of funds from our corporate financing sources. Option contracts generally require a non-refundable deposit for the right to acquire lots over a specified period of time at predetermined prices. We generally have the right at our discretion to terminate our obligations under both purchase contracts and option contracts by forfeiting our cash deposit or by repaying amounts drawn under

our letter of credit with no further financial responsibility to the land seller, although in certain instances, the land seller has the right to compel us to purchase a specified number of lots at predetermined prices. Also, in a few instances where we have entered into option contracts with third party financial entities, we have generally entered into construction agreements that do not terminate if we elect not to exercise our option. In these instances, we are generally obligated to complete land development improvements on the optioned property at a predetermined cost (paid by the option provider) and are responsible for all cost overruns. At December 31, 2012, we had no option contracts outstanding with third party financial entities. In some instances, we may also expend funds for due diligence, development and construction activities with respect to our land purchase and option contracts prior to purchase, which we would have to write off should we not purchase the land. At December 31, 2012, we had non-refundable cash deposits outstanding of approximately \$20.4 million and capitalized preacquisition and other development and construction costs of approximately \$2.1 million relating to land purchase and option contracts having a total remaining purchase price of approximately \$197.1 million. Approximately \$30.3 million of the remaining purchase price is included in inventories not owned in the accompanying consolidated balance sheets.

Our utilization of option contracts is dependent on, among other things, the availability of land sellers willing to enter into option takedown arrangements, the availability of capital to financial intermediaries, general housing market conditions,

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and geographic preferences. Options may be more difficult to procure from land sellers in strong housing markets and are more prevalent in certain geographic regions.

Land Development and Homebuilding Joint Ventures

Historically, we have entered into land development and homebuilding joint ventures from time to time as a means of:

- accessing larger or highly desirable lot positions
- expanding our market opportunities
- establishing strategic alliances
- managing the financial and market risk associated with land holdings
- leveraging our capital base

These joint ventures have historically obtained secured acquisition, development and/or construction financing designed to reduce the use of funds from our corporate financing sources. As of December 31, 2012, we held membership interests in 20 homebuilding and land development joint ventures, of which seven were active and 13 were inactive or winding down. As of such date, our joint ventures had no project specific financing outstanding. As of December 31, 2012, we had \$2.7 million of joint venture surety bonds outstanding subject to indemnity arrangements by us and had an estimated \$0.2 million remaining in cost to complete.

Critical Accounting Policies

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those that impact our most critical accounting policies. We base our estimates and judgments on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe that the accounting policies related to the following accounts or activities are those that are most critical to the portrayal of our financial condition and results of operations and require the more significant judgments and estimates:

Segment Reporting

We operate two principal businesses: homebuilding and financial services (consisting of our mortgage financing and title operations). In accordance with ASC Topic 280, Segment Reporting ("ASC 280"), we have determined that each of our homebuilding operating divisions and our financial services operations are our operating segments. Corporate is a non-operating segment.

Our homebuilding operations construct and sell single-family attached and detached homes. In accordance with the aggregation criteria defined in ASC 280, our homebuilding operating segments have been grouped into three reportable segments: California; Southwest, consisting of our operating divisions in Arizona, Texas, Colorado and Nevada; and Southeast, consisting of our operating divisions in Florida and the Carolinas. In particular, we have determined that the homebuilding operating divisions within their respective reportable segments have similar economic characteristics, including similar historical and expected future long-term gross margin percentages. In addition, the operating divisions also share all other relevant aggregation characteristics prescribed in ASC 280, such as similar product types, production processes and methods of distribution.

Our mortgage financing operation provides mortgage financing to our homebuyers in substantially all of the markets in which we operate, and sells substantially all of the loans it originates in the secondary mortgage market. Our title service operation provides title examinations for our homebuyers in Texas. Our mortgage financing and title services operations are included in our financial services reportable segment, which is separately reported in our consolidated

financial statements under “Financial Services.”

Corporate is a non-operating segment that develops and implements strategic initiatives and supports our operating divisions by centralizing key administrative functions such as accounting, finance and treasury, information technology, insurance and risk management, litigation, marketing and human resources. Corporate also provides the necessary administrative functions to support us as a publicly traded company. A substantial portion of the expenses incurred by Corporate are allocated to each of our operating divisions based on their respective percentage of revenues.

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Inventories and Impairments

Inventories consist of land, land under development, homes under construction, completed homes and model homes and are stated at cost, net of impairment losses. We capitalize direct carrying costs, including interest, property taxes and related development costs to inventories. Field construction supervision and related direct overhead are also included in the capitalized cost of inventories. Direct construction costs are specifically identified and allocated to homes while other common costs, such as land, land improvements and carrying costs, are allocated to homes within a community based upon their anticipated relative sales or fair value.

We assess the recoverability of real estate inventories in accordance with the provisions of ASC Topic 360, Property, Plant, and Equipment (“ASC 360”). ASC 360 requires long-lived assets, including inventories, that are expected to be held and used in operations to be carried at the lower of cost or, if impaired, the fair value of the asset. ASC 360 requires that companies evaluate long-lived assets for impairment based on undiscounted future cash flows of the assets at the lowest level for which there is identifiable cash flows. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

We evaluate real estate projects (including unconsolidated joint venture real estate projects) for inventory impairments when indicators of potential impairment are present. Indicators of impairment include, but are not limited to: significant decreases in local housing market values and selling prices of comparable homes; significant decreases in gross margins and sales absorption rates; accumulation of costs in excess of budget; actual or projected operating or cash flow losses; and current expectations that a real estate asset will more likely than not be sold before its previously estimated useful life.

We perform a detailed budget and cash flow review of all of our real estate projects (including projects actively selling as well as projects under development and on hold) on a periodic basis throughout each fiscal year to, among other things, determine whether the estimated remaining undiscounted future cash flows of the project are more or less than the carrying value of the asset. If the undiscounted cash flows are more than the carrying value of the real estate project, then no impairment adjustment is required. However, if the undiscounted cash flows are less than the carrying amount, then the asset is deemed impaired and is written-down to its fair value. We evaluate the identifiable cash flows at the project level. When estimating undiscounted future cash flows of a project, we are required to make various assumptions, including the following: (i) the expected sales prices and sales incentives to be offered, including the number of homes available and pricing and incentives being offered in other communities by us or by other builders; (ii) the expected sales pace and cancellation rates based on local housing market conditions and competition; (iii) costs expended to date and expected to be incurred in the future, including, but not limited to, land and land development costs, home construction costs, interest costs, indirect construction and overhead costs, and selling and marketing costs; (iv) alternative product offerings that may be offered that could have an impact on sales pace, sales price and/or building costs; and (v) alternative uses for the property such as the possibility of a sale of lots to a third party versus the sale of individual homes. Many of these assumptions are interdependent and changing one assumption generally requires a corresponding change to one or more of the other assumptions. For example, increasing or decreasing the sales absorption rate has a direct impact on the estimated per unit sales price of a home, the level of time sensitive costs (such as indirect construction, overhead and carrying costs), and selling and marketing costs (such as model maintenance costs and promotional and advertising campaign costs). Depending on what objective we are trying to accomplish with a community, it could have a significant impact on the project cash flow analysis. For example, if our business objective is to drive delivery levels our project cash flow analysis will be different than if the business objective is to preserve operating margins. These objectives may vary significantly from project to project, from division to division, and over time with respect to the same project.

Once we have determined a real estate project is impaired, we calculate the fair value of the project under a land residual value analysis and in certain cases in conjunction with a discounted cash flow analysis. Under the land

residual value analysis, we estimate what a willing buyer (including us) would pay and what a willing seller would sell a parcel of land for (other than in a forced liquidation) in order to generate a market rate operating margin based on projected revenues, costs to develop land, and costs to construct and sell homes within a community. Under the discounted cash flow method, all estimated future cash inflows and outflows directly associated with the real estate project are discounted to calculate fair value. The net present value of these project cash flows are then compared to the carrying value of the asset to determine the amount of the impairment that is required. The land residual value analysis is the primary method that we use to calculate impairments as it is the principal method used by us and land sellers for determining the fair value of a residential parcel of land. In many cases, we also supplement our land residual value analysis with a discounted cash flow analysis in evaluating the fair value. In addition, for projects that require a longer time frame to develop and sell assets, in some instances we incorporate a certain level of inflation or deflation into our projected revenue and cost assumptions. This evaluation and the assumptions used by management to determine future estimated cash flows and fair value require a substantial degree of judgment, especially with respect to real estate projects that have a substantial amount of development to be completed, have

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not started selling or are in the early stages of sales, or are longer-term in duration. Due to the inherent uncertainty in the estimation process, significant volatility in the demand for new housing, and the availability of mortgage financing for potential homebuyers, actual results could differ significantly from our estimates.

From time to time, we write-off deposits related to land options that we decide not to exercise. The decision not to exercise a land option takes into consideration changes in market conditions, the timing of required land takedowns, the willingness of land sellers to modify terms of the land option contract (including the timing of land takedowns), the availability and best use of our capital, and other factors. The write-off is charged to homebuilding other income (expense) in our consolidated statement of operations in the period that we determine it is probable that the optioned property will not be acquired. If we recover deposits which were previously written off, the recoveries are recorded to homebuilding other income (expense) in the period received.

Stock-Based Compensation

We account for share-based awards in accordance with ASC Topic 718, Compensation – Stock Compensation, which requires that compensation expense be measured and recognized at an amount equal to the fair value of share-based payments granted under compensation arrangements. Our outstanding share-based awards include stock options, stock appreciation rights, restricted and unrestricted stock, and performance share awards. The fair value of stock options and stock appreciation rights that vest based on time is calculated by using the Black-Scholes option-pricing model and the fair value of stock appreciation rights that vest based on market performance is calculated by using a lattice model. The fair value of restricted stock, unrestricted stock and performance share awards is based on the market value of our common stock as of the grant date. The determination of the fair value of share-based awards at the grant date requires judgment in developing assumptions and involves a number of variables. These variables include, but are not limited to: expected stock-price volatility over the term of the awards and expected stock option exercise behavior. Additionally, judgment is required in estimating the number of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and our consolidated results of operations could be significantly impacted.

Homebuilding Revenue and Cost of Sales

Homebuilding revenue and cost of sales are recognized after construction is completed, a sufficient down payment has been received, title has transferred to the homebuyer, collection of the purchase price is reasonably assured and we have no continuing involvement. Cost of sales is recorded based upon total estimated costs to be allocated to each home within a community. Any changes to the estimated costs are allocated to the remaining undelivered lots and homes within their respective community. The estimation and allocation of these costs requires a substantial degree of judgment by management.

The estimation process involved in determining relative sales or fair values is inherently uncertain because it involves estimating future sales values of homes before delivery. Additionally, in determining the allocation of costs to a particular land parcel or individual home, we rely on project budgets that are based on a variety of assumptions, including assumptions about construction schedules and future costs to be incurred. It is common that actual results differ from budgeted amounts for various reasons, including construction delays, increases in costs that have not been committed or unforeseen issues encountered during construction that fall outside the scope of existing contracts, or costs that come in less than originally anticipated. While the actual results for a particular construction project are accurately reported over time, a variance between the budget and actual costs could result in the understatement or overstatement of costs and have a related impact on gross margins between reporting periods. To reduce the potential for such variances, we have procedures that have been applied on a consistent basis, including assessing and revising project budgets on a periodic basis, obtaining commitments from subcontractors and vendors for future costs to be incurred, and utilizing the most recent information available to estimate costs. We believe that these policies and

procedures provide for reasonably dependable estimates for purposes of calculating amounts to be relieved from inventories and expensed to cost of sales in connection with the sale of homes.

Variable Interest Entities

We account for variable interest entities in accordance with ASC Topic 810, Consolidation (“ASC 810”). Under ASC 810, a variable interest entity (“VIE”) is created when: (a) the equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders; (b) the entity’s equity holders as a group either (i) lack the direct or indirect ability to make decisions about the entity, (ii) are not obligated to absorb expected losses of the entity or (iii) do not have the right to receive expected residual returns of the entity; or (c) the entity’s equity holders have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of the equity holder with disproportionately few

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voting rights. If an entity is deemed to be a VIE pursuant to ASC 810, the enterprise that has both (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb the expected losses of the entity or right to receive benefits from the entity that could be potentially significant to the VIE is considered the primary beneficiary and must consolidate the VIE. In accordance with ASC 810, we perform ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE.

Unconsolidated Homebuilding and Land Development Joint Ventures

Investments in our unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. All joint venture profits generated from land sales to us are deferred and recorded as a reduction to our cost basis in the lots we purchase until we ultimately sell the homes to be constructed to third parties. Our share of joint venture losses from land sales to us are recorded in the period we acquire the property from the joint venture. Our ownership interests in our unconsolidated joint ventures vary but are generally less than or equal to 50%.

We review inventory projects within our unconsolidated joint ventures for impairments consistent with the critical accounting policy described above under "Inventories and Impairments." We also review our investments in unconsolidated joint ventures for evidence of an other than temporary decline in value. To the extent that we deem any portion of our investment in unconsolidated joint ventures not recoverable, we impair our investment accordingly.

In addition, we accrue for guarantees provided to unconsolidated joint ventures when it is determined that there is an obligation that is due from us. These obligations consist of various items, including but not limited to, surety indemnities, credit enhancements provided in connection with joint venture borrowings such as loan-to-value maintenance agreements, construction completion agreements, and environmental indemnities. In many cases we share these obligations with our joint venture partners, and in some cases, we are solely responsible for such obligations. For further discussion regarding these guarantees, please see "Management's Discussion and Analysis of Financial Condition – Off-Balance Sheet Arrangements".

Warranty Accruals

In the normal course of business, we incur warranty-related costs associated with homes that have been delivered to homebuyers. Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized while indirect warranty overhead salaries and related costs are charged to cost of sales in the period incurred. Amounts accrued are based upon historical experience rates. We review the adequacy of the warranty accruals each reporting period by evaluating the historical warranty experience in each market in which we operate, and the warranty accruals are adjusted as appropriate for current quantitative and qualitative factors. Factors that affect the warranty accruals include the number of homes delivered, historical and anticipated rates of warranty claims, and cost per claim. Although we consider the warranty accruals reflected in our consolidated balance sheet to be adequate, actual future costs could differ significantly from our currently estimated amounts.

Insurance and Litigation Accruals

Insurance and litigation accruals are established with respect to estimated future claims cost. We maintain general liability insurance designed to protect us against a portion of our risk of loss from construction-related claims. We also generally require our subcontractors and design professionals to indemnify us for liabilities arising from their work, subject to various limitations. However, such indemnity is significantly limited with respect to certain subcontractors that are added to our general liability insurance policy. We record allowances to cover our estimated

costs of self-insured retentions and deductible amounts under these policies and estimated costs for claims that may not be covered by applicable insurance or indemnities. Estimation of these accruals include consideration of our claims history, including current claims, estimates of claims incurred but not yet reported, and potential for recovery of costs from insurance and other sources. We utilize the services of an independent third party actuary to assist us with evaluating the level of our insurance and litigation accruals. Because of the high degree of judgment required in determining these estimated accrual amounts, actual future claim costs could differ significantly from our currently estimated amounts.

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Income Taxes

We account for income taxes in accordance with ASC Topic 740, Income Taxes (“ASC 740”). This statement requires an asset and a liability approach for measuring deferred taxes based on temporary differences between the financial statement and tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for years in which taxes are expected to be paid or recovered.

We evaluate our deferred tax assets on a quarterly basis to determine whether a valuation allowance is required. In accordance with ASC 740, we assess whether a valuation allowance should be established based on our determination of whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related temporary differences become deductible. The assessment of a valuation allowance includes giving appropriate consideration to all positive and negative evidence related to the realization of the deferred tax asset. This assessment considers, among other things, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards not expiring unused, and tax planning alternatives. Significant judgment is required in determining the future tax consequences of events that have been recognized in our consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on our consolidated financial position or results of operations. Changes in existing tax laws and tax rates also affect actual tax results and the valuation of deferred tax assets over time.

We generated significant deferred tax assets during 2006 through 2011, largely due to inventory, joint venture and goodwill impairments. During the year ended December 31, 2012, we recognized a \$453.2 million income tax benefit that resulted from the reversal of all but \$22.7 million of our deferred tax asset valuation allowance. We concluded that this reversal was appropriate after determining that it was more likely than not that we would be able to realize the full amount of this income tax benefit within allowable net loss carryforward periods. In reaching this conclusion we considered, among other things, our recent financial and operating results (three years of cumulative income, five consecutive quarters of profitability, and strong growth in net new orders and backlog) and improved conditions in the new home market (home sales pace and prices trending up steadily in most of our markets throughout 2012, coupled with falling unemployment, historically low interest rates, and high affordability). The remaining valuation allowance of \$22.7 million relates primarily to state net operating loss carryforwards and potential Section 382 limitations that expire during the 2013 second quarter. To the extent that we conclude that it is more likely than not that the remaining valuation allowance will be utilized, we will be able to reduce our effective tax rate, by reducing the valuation allowance and offsetting a portion of taxable income. Conversely, any significant future operating losses generated by us in the near term may increase the deferred tax asset valuation allowance and adversely impact our income tax provision (benefit) to the extent we enter into a cumulative loss position as described in ASC 740.

Interest and penalties related to unrecognized tax benefits are recognized in the financial statements as a component of income tax expense. Significant judgment is required to evaluate uncertain tax positions. We evaluate our uncertain tax positions on a quarterly basis. Our evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in our income tax expense in the period in which we make the change.

Recent Accounting Pronouncements

See Note 2.v. in our accompanying consolidated financial statements.

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FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, other statements we may make from time to time, such as press releases, oral statements made by Company officials and other reports we file with the Securities and Exchange Commission, may also contain such forward-looking statements. Forward-looking statements in this report include, but are not limited to, statements regarding:

- our strategy;
- our plans to continue to make substantial investments in land;
 - our belief that the housing market is recovering;
- the potential for additional impairments and further deposit write-offs;
- housing market conditions and trends in the geographic markets in which we operate;
 - the impact of future market rate risks on our financial assets and borrowings;
 - our expectation to convert year-end backlog in 2013;
- trends relating to the amount of make-whole payments and loan repurchases that we may have to make;
 - the sufficiency of our warranty and other reserves;
 - our expected equity award forfeiture rates;
- trends in new home deliveries, orders, backlog, home pricing, leverage and gross margins;
 - housing market conditions and trends in the geographic markets in which we operate;
- the sufficiency of our liquidity to implement our strategy and our ability to access additional capital and renew existing credit facilities;
 - litigation outcomes and related costs;
- plans to purchase our notes prior to maturity and to engage in debt exchange transactions;
- changes to our unrecognized tax benefits and uncertain tax positions and the timing of our recognition of these benefits;
 - the timing of the amortization of equity award unrecognized compensation expense;
 - our ability to utilize our deferred tax asset;
 - seasonal trends relating to our leverage levels;
 - our ability to realize the value of our deferred tax assets and the timing relating thereto;
 - our intention of not paying dividends;
 - amounts remaining to complete relating to existing surety bonds; and
 - the impact of recent accounting standards.

Forward-looking statements are based on our current expectations or beliefs regarding future events or circumstances, and you should not place undue reliance on these statements. Such statements involve known and unknown risks, uncertainties, assumptions and other factors—many of which are out of our control and difficult to forecast—that may cause actual results to differ materially from those that may be described or implied. Such factors include, but are not limited to, the risks described in this Annual Report under the heading “Risk Factors.”

Except as required by law, we assume no, and hereby disclaim any, obligation to update any of the foregoing or any other forward-looking statements. We nonetheless reserve the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this report. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks related to fluctuations in interest rates on our rate-locked loan commitments, mortgage loans held for sale and outstanding variable rate debt. We did not utilize swaps, forward or option contracts on interest rates or commodities, or other types of derivative financial instruments as of or during the year ended December 31, 2012. We have not entered into and currently do not hold derivatives for trading or speculative purposes. Many of the statements contained in this section are forward looking and should be read in conjunction with our disclosures under the heading “Forward-Looking Statements.”

As part of our ongoing operations, we provide mortgage loans to our homebuyers through our mortgage financing subsidiary, Standard Pacific Mortgage. Standard Pacific Mortgage manages the interest rate risk associated with making loan commitments to our customers and holding loans for sale by preselling loans. Preselling loans consists of obtaining commitments (subject to certain conditions) from third party investors to purchase the mortgage loans while concurrently

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extending interest rate locks to loan applicants. Before completing the sale to these investors, Standard Pacific Mortgage finances these loans under its mortgage credit facilities for a short period of time (typically for 30 to 45 days), while the investors complete their administrative review of the applicable loan documents. While preselling these loans reduces risk, we remain subject to risk relating to investor non-performance, particularly during periods of significant market turmoil. As of December 31, 2012, Standard Pacific Mortgage had approximately \$119.3 million in closed mortgage loans held for sale and \$41.1 million of mortgage loans that we were committed to sell to investors subject to our funding of the loans and completion of the investors' administrative review of the applicable loan documents.

The table below details the principal amount and the average interest rates for the mortgage loans held for sale, mortgage loans held for investment and outstanding debt for each category based upon the expected maturity or disposition dates. Certain mortgage loans held for sale require periodic principal payments prior to the expected maturity date. The fair value estimates for these mortgage loans held for sale are based upon future discounted cash flows of similar type notes or quoted market prices for similar loans. The fair value of mortgage loans held for investment is based on the estimated market value of the underlying collateral based on market data and other factors for similar type properties as further adjusted to reflect their estimated net realizable value of carrying the loans through disposition. The fair value of our variable rate debt, which consists of our mortgage credit facilities, is based on quoted market prices for the same or similar instruments as of December 31, 2012. Our fixed rate debt consists of secured project debt and other notes payable, senior notes payable and convertible senior notes payable. The interest rates on our secured project debt and other notes payable approximate the current rates available for secured real estate financing with similar terms and maturities and, as a result, their carrying amounts approximate fair value. The fair values of our senior notes payable and convertible senior notes payable are based on their quoted market prices as of December 31, 2012.

		Expected Maturity Date										Estimated Fair Value		
December 31,	2013	2014		2015		2016		2017		Thereafter		Total		
(Dollars in thousands)														
Assets:														
Mortgage loans held for sale (1)	\$119,319	\$		\$		\$		\$		\$		\$119,319		\$122,398
Average interest rate	3.3	%												
Mortgage loans held for investment, net														
	\$191	\$202		\$213		\$225		\$238		\$8,854		\$9,923		\$9,923
Average interest rate	5.6	%	5.7	%	5.7	%	5.7	%	5.7	%	5.8	%	5.8	%
Liabilities:														
Fixed rate debt	\$4,790	\$9,766		\$31,181		\$280,539		\$		\$1,228,000		\$1,554,276		\$1,814,718
Average interest rate	4.7	%	5.3	%	6.9	%	10.7	%			6.9	%	7.6	%
Variable rate debt														
	\$92,159	\$		\$		\$		\$		\$		\$92,159		\$92,159
Average interest rate	3.4	%												

Off-Balance
Sheet Financial
Instruments:

Commitments
to originate
mortgage loans:

Notional amount	\$41,143	\$	\$	\$	\$	\$	\$41,143	\$42,119
Average interest rate	3.3	%						

(1) Substantially all of the amounts presented in this line item reflect the expected 2013 disposition of certain loans rather than the actual scheduled maturity dates of these mortgages.

Based on the current interest rate management policies we have in place with respect to most of our mortgage loans held for sale, mortgage loans held for investment, commitments to originate rate-locked mortgage loans and outstanding debt, we do not believe that the future market rate risks related to the above securities will have a material adverse impact on our financial position, results of operations or liquidity.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Standard Pacific Corp.:

We have audited the accompanying consolidated balance sheets of Standard Pacific Corp. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Standard Pacific Corp. and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Standard Pacific Corp.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Irvine, California
February 22, 2013

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STANDARD PACIFIC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands, except per share amounts)		
Homebuilding:			
Home sale revenues	\$1,190,252	\$882,094	\$908,562
Land sale revenues	46,706	899	3,856
Total revenues	1,236,958	882,993	912,418
Cost of home sales	(946,630)	(719,893)	(707,006)
Cost of land sales	(46,654)	(903)	(3,568)
Total cost of sales	(993,284)	(720,796)	(710,574)
Gross margin	243,674	162,197	201,844
Selling, general and administrative expenses	(172,207)	(154,375)	(150,542)
Income (loss) from unconsolidated joint ventures	(2,090)	207	1,166
Interest expense	(6,396)	(25,168)	(40,174)
Loss on early extinguishment of debt			(30,028)
Other income (expense)	4,664	(1,017)	3,733
Homebuilding pretax income (loss)	67,645	(18,156)	(14,001)
Financial Services:			
Revenues	21,300	10,907	12,456
Expenses	(11,062)	(9,401)	(10,878)
Other income	304	177	142
Financial services pretax income	10,542	1,683	1,720
Income (loss) before income taxes	78,187	(16,473)	(12,281)
Benefit for income taxes	453,234	56	557
Net income (loss)	531,421	(16,417)	(11,724)
Less: Net (income) loss allocated to preferred shareholder	(224,408)	7,101	6,849
Less: Net (income) loss allocated to unvested restricted stock	(410)		
Net income (loss) available to common stockholders	\$306,603	\$ (9,316)	\$ (4,875)
Income (Loss) per common share:			
Basic	\$1.52	\$ (0.05)	\$ (0.05)
Diluted	\$1.44	\$ (0.05)	\$ (0.05)
Weighted average common shares outstanding:			
Basic	201,953,799	193,909,714	105,202,857
Diluted	220,518,897	193,909,714	105,202,857
Weighted average additional common shares outstanding if preferred shares converted to common shares			
	147,812,786	147,812,786	147,812,786
Total weighted average diluted common shares outstanding if preferred shares converted to common shares			
	368,331,683	341,722,500	253,015,643

The accompanying notes are an integral part of these consolidated statements.

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STANDARD PACIFIC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Net income (loss)	\$531,421	\$(16,417)	\$(11,724)
Other comprehensive income, net of tax:			
Unrealized gain on interest rate swaps	6,419	6,402	247
Comprehensive income (loss)	\$537,840	\$(10,015)	\$(11,477)

The accompanying notes are an integral part of these consolidated statements.

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STANDARD PACIFIC CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2012	2011
	(Dollars in thousands)	
ASSETS		
Homebuilding:		
Cash and equivalents	\$339,908	\$406,785
Restricted cash	26,900	31,372
Trade and other receivables	10,724	11,525
Inventories:		
Owned	1,971,418	1,477,239
Not owned	71,295	59,840
Investments in unconsolidated joint ventures	52,443	81,807
Deferred income taxes, net of valuation allowance of \$22,696 and \$510,621 at December 31, 2012 and 2011, respectively	455,372	5,326
Other assets	41,918	35,693
Total Homebuilding Assets	2,969,978	2,109,587
Financial Services:		
Cash and equivalents	6,647	3,737
Restricted cash	2,420	1,295
Mortgage loans held for sale, net	119,549	74,195
Mortgage loans held for investment, net	9,923	10,115
Other assets	4,557	1,454
Total Financial Services Assets	143,096	90,796
Total Assets	\$3,113,074	\$2,200,383
LIABILITIES AND EQUITY		
Homebuilding:		
Accounts payable	\$22,446	\$17,829
Accrued liabilities	198,144	185,890
Secured project debt and other notes payable	11,516	3,531
Senior notes payable	1,530,502	1,275,093
Senior subordinated notes payable		46,324
Total Homebuilding Liabilities	1,762,608	1,528,667
Financial Services:		
Accounts payable and other liabilities	2,491	1,154
Mortgage credit facilities	92,159	46,808
Total Financial Services Liabilities	94,650	47,962
Total Liabilities	1,857,258	1,576,629
Equity:		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; 450,829 shares issued and outstanding at December 31, 2012 and 2011	5	5
Common stock, \$0.01 par value; 600,000,000 shares authorized; 213,245,488 and 198,563,273 shares issued and outstanding at December 31, 2012 and 2011, respectively	2,132	1,985

Additional paid-in capital	1,333,255	1,239,180
Accumulated deficit	(77,348)	(608,769)
Accumulated other comprehensive loss, net of tax	(2,228)	(8,647)
Total Equity	1,255,816	623,754
Total Liabilities and Equity	\$3,113,074	\$2,200,383

The accompanying notes are an integral part of these consolidated balance sheets.

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STANDARD PACIFIC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

Years Ended December 31, 2010, 2011 and 2012	Number of Preferred Shares	Number of Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
(Dollars in thousands)										
Balance, December 31, 2009	450,829	\$ 5	105,293,180	\$ 1,053	\$ 1,030,664	\$ (580,628)	\$ (15,296)	\$ 435,798	\$ 3,506	\$ 439,304
Net loss						(11,724)		(11,724)		(11,724)
Change in fair value of interest rate swaps, net of tax							247	247		
Comprehensive loss								(11,477)		(11,477)
Stock issuances under employee plans, including income tax benefits			1,948,371	19	5,061			5,080		
Exercise of Warrant for common stock, net of issuance costs			89,400,000	894	185,259			186,153		186,153
Amortization of stock-based compensation					6,584			6,584		
Derecognition of conversion feature related to repurchase of Convertible Note					(276)			(276)		
Change in noncontrolling interest										

attributable to lot option contracts									(3,506)	(3,506)
Balance, December 31, 2010	450,829	5	196,641,551	1,966	1,227,292	(592,352)	(15,049)		621,862	621,862
Net loss						(16,417)			(16,417)	(16,417)
Change in fair value of interest rate swaps, net of tax							6,402		6,402	6,402
Comprehensive loss									(10,015)	(10,015)
Stock issuances under employee plans, including income tax benefits			1,921,722	19	4,453				4,472	4,472
Issuance costs in connection with exercise of Warrant for common stock					(324)				(324)	(324)
Amortization of stock-based compensation					7,759				7,759	7,759
Balance, December 31, 2011	450,829	5	198,563,273	1,985	1,239,180	(608,769)	(8,647)	\$	623,754	623,754
Net income						531,421			531,421	531,421
Change in fair value of interest rate swaps, net of tax							6,419		6,419	6,419
Comprehensive income									537,840	537,840
Stock issuances under employee plans, including income tax benefits			5,224,948	52	15,172				15,224	15,224

Issuance of
common stock
in

connection
with equity
offering,

net of
issuance costs

13,377,171

134

71,713

71,847

7

Common
stock returned
under

share lending
facility

(3,919,904)

(39)

39

Amortization
of stock-based

compensation

7,151

7,151

Balance,
December 31,

2012 450,829 \$ 5 213,245,488 \$ 2,132 \$ 1,333,255 \$ (77,348) \$ (2,228) \$ 1,255,816 \$ \$ 1,25

The accompanying notes are an integral part of these consolidated statements.

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STANDARD PACIFIC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Cash Flows From Operating Activities:			
Net income (loss)	\$ 531,421	\$(16,417)	\$(11,724)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
(Income) loss from unconsolidated joint ventures	2,090	(207)	(1,166)
Cash distributions of income from unconsolidated joint ventures	3,910	20	
Depreciation and amortization	2,480	3,255	3,002
(Gain) loss on disposal of property and equipment	37	179	(37)
Loss on early extinguishment of debt			30,028
Amortization of stock-based compensation	7,151	11,239	11,848
Excess tax benefits from share-based payment arrangements			(27)
Deferred income tax benefit	(454,000)		
Inventory impairment charges and deposit write-offs	133	15,334	1,918
Changes in cash and equivalents due to:			
Trade and other receivables	801	(5,358)	6,541
Mortgage loans held for sale	(46,339)	(43,661)	12,165
Inventories - owned	(315,639)	(282,447)	(148,706)
Inventories - not owned	(31,551)	(19,727)	(27,861)
Other assets	2,618	6,212	111,496
Accounts payable	4,617	1,113	(6,592)
Accrued liabilities	9,155	7,852	(61,843)
Net cash provided by (used in) operating activities	(283,116)	(322,613)	(80,958)
Cash Flows From Investing Activities:			
Investments in unconsolidated homebuilding joint ventures	(57,458)	(14,689)	(39,513)
Distributions of capital from unconsolidated homebuilding joint ventures	14,530	8,593	7,640
Net cash paid for acquisitions	(60,752)		
Other investing activities	(1,525)	(2,217)	(1,582)
Net cash provided by (used in) investing activities	(105,205)	(8,313)	(33,455)
Cash Flows From Financing Activities:			
Change in restricted cash	3,347	(1,559)	(12,843)
Principal payments on secured project debt and other notes payable	(866)	(1,207)	(83,562)
Principal payments on senior and senior subordinated notes payable	(49,603)		(792,389)
Proceeds from the issuance of senior and convertible senior notes payable	253,000		977,804
Payment of debt issuance costs	(11,761)	(4,575)	(17,215)
Net proceeds from (payments on) mortgage credit facilities	45,351	16,464	(10,651)
Excess tax benefits from share-based payment arrangements			27
Payment of issuance costs in connection with exercise of Warrant for common stock		(324)	
Net proceeds from the issuance of common stock	71,847		186,443

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Proceeds from the exercise of stock options	13,039	1,278	2,611
Net cash provided by (used in) by financing activities	324,354	10,077	250,225
Net increase (decrease) in cash and equivalents	(63,967)	(320,849)	135,812
Cash and equivalents at beginning of year	410,522	731,371	595,559
Cash and equivalents at end of year	\$346,555	\$410,522	\$731,371
Cash and equivalents at end of year	\$346,555	\$410,522	\$731,371
Homebuilding restricted cash at end of year	26,900	31,372	28,238
Financial services restricted cash at end of year	2,420	1,295	2,870
Cash and equivalents and restricted cash at end of year	\$375,875	\$443,189	\$762,479

The accompanying notes are an integral part of these consolidated statements.

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STANDARD PACIFIC CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Company Organization and Operations

We are a geographically diversified builder of single-family attached and detached homes. We construct homes within a wide range of price and size targeting a broad range of homebuyers, with an emphasis on move-up buyers. We have operations in major metropolitan markets in California, Florida, the Carolinas, Texas, Arizona and Colorado. We also provide mortgage financing services to our homebuyers through our mortgage financing subsidiary and title examination services to our Texas homebuyers through our title services subsidiary. Unless the context otherwise requires, the terms “we,” “us,” “our” and “the Company” refer to Standard Pacific Corp. and its subsidiaries.

The percentages of our homes delivered by state for the years ended December 31, 2012, 2011 and 2010 were as follows:

The percentages of our homes delivered by state (excluding deliveries by unconsolidated joint ventures) for the years ended December 31, 2011, 2010 and 2009 were as follows:

State	Year Ended December 31,		
	2012	2011	2010
California	40%	38%	42%
Florida	18	18	17
Carolinas	17	16	15
Texas	14	16	14
Arizona	8	7	7
Colorado	3	4	4
Nevada		1	1
Total	100%	100%	100%

We generate a significant amount of our revenues and profits in California.

2. Summary of Significant Accounting Policies

a. Basis of Presentation

The consolidated financial statements include the accounts of Standard Pacific Corp. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

b. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Segment Reporting

ASC Topic 280, Segment Reporting (“ASC 280”) established standards for the manner in which public enterprises report information about operating segments. In accordance with ASC 280, we have determined that each of our homebuilding operating divisions and our financial services operations (consisting of our mortgage financing and title operations) are our operating segments. Corporate is a non-operating segment. In accordance with the aggregation criteria defined in ASC 280, we have grouped our homebuilding operations into three reportable segments: California; Southwest, consisting of our operating divisions in Arizona, Texas, Colorado and Nevada; and Southeast, consisting of our operating divisions in Florida and the Carolinas. In particular, we have determined that the homebuilding operating divisions within their respective reportable segments have similar economic characteristics, including similar historical and expected future long-term gross margin percentages. In addition, our homebuilding operating divisions also share all other relevant aggregation characteristics prescribed in ASC 280, such as similar product types, production processes and methods of distribution.

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d. Variable Interest Entities

We account for variable interest entities in accordance with ASC Topic 810, Consolidation (“ASC 810”). Under ASC 810, a variable interest entity (“VIE”) is created when: (a) the equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders; (b) the entity’s equity holders as a group either (i) lack the direct or indirect ability to make decisions about the entity, (ii) are not obligated to absorb expected losses of the entity or (iii) do not have the right to receive expected residual returns of the entity; or (c) the entity’s equity holders have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of the equity holder with disproportionately few voting rights. If an entity is deemed to be a VIE pursuant to ASC 810, the enterprise that has both (i) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (ii) the obligation to absorb the expected losses of the entity or right to receive benefits from the entity that could be potentially significant to the VIE is considered the primary beneficiary and must consolidate the VIE. In accordance with ASC 810, we perform ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE.

e. Limited Partnerships and Limited Liability Companies

We analyze our homebuilding and land development joint ventures under the provisions of ASC 810 (as discussed above) when determining whether the entity should be consolidated. In accordance with the provisions of ASC 810, limited partnerships or similar entities, such as limited liability companies, must be further evaluated under the presumption that the general partner, or the managing member in the case of a limited liability company, is deemed to have a controlling interest and therefore must consolidate the entity unless the limited partners or non-managing members have: (1) the ability, either by a single limited partner or through a simple majority vote, to dissolve or liquidate the entity, or kick-out the managing member/general partner without cause, or (2) substantive participatory rights that are exercised in the ordinary course of business. Under the provisions of ASC 810, we may be required to consolidate certain investments in which we hold a general partner or managing member interest.

f. Revenue Recognition

In accordance with ASC Topic 360-20, Property, Plant, and Equipment – Real Estate Sales (“ASC 360-20”), homebuilding revenues are recorded after construction is completed, a sufficient down payment has been received, title has passed to the homebuyer, collection of the purchase price is reasonably assured and we have no other continuing involvement. In instances where the homebuyer’s financing is originated by our mortgage financing subsidiary and the buyer has not made an adequate initial or continuing investment as prescribed by ASC 360-20, the profit on such home sales is deferred until the sale of the related mortgage loan to a third-party investor has been completed and the contractual terms of the applicable early payment default provisions have lapsed.

In accordance with ASC Topic 825, Financial Instruments (“ASC 825”), loan origination fees and expenses are recognized upon origination of loans by our mortgage financing operation. Generally our policy is to sell all mortgage loans originated. These sales generally occur within a short period of time (typically 30-45 days of origination). Mortgage loan interest is accrued only so long as it is deemed collectible.

g. Cost of Sales

Homebuilding cost of sales is recognized in the period when the related homebuilding revenues are recognized. Cost of sales is recorded based upon total estimated costs to be allocated to each home within a community. Certain direct construction costs are specifically identified and allocated to homes while other common costs, such as land, land improvements and carrying costs, are allocated to homes within a community based upon their anticipated relative sales or fair value. Any changes to the estimated costs are allocated to the remaining undelivered lots and homes within their respective community. The estimation of these costs requires a substantial degree of judgment by management.

h. Warranty Costs

Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Amounts accrued are based upon historical experience rates. Indirect warranty

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overhead salaries and related costs are charged to cost of sales in the period incurred. We assess the adequacy of our warranty accrual on a quarterly basis and adjust the amounts recorded if necessary. During the years ended December 31, 2011 and 2010, we recorded \$2.9 million and \$2.0 million, respectively, in reductions to our warranty accrual due to a decrease in our warranty expenditure trends. We did not record any warranty adjustments during the year ended December 31, 2012. Our warranty accrual is included in accrued liabilities in the accompanying consolidated balance sheets. Changes in our warranty accrual are detailed in the table set forth below:

		Year Ended December 31,		
	2012	2011	2010	
	(Dollars in thousands)			
Warranty accrual, beginning of the year	\$ 17,572	\$ 20,866	\$ 22,606	
Warranty costs accrued during the year	1,497	2,794	4,183	
Warranty costs paid during the year	(3,555)	(3,188)	(3,896)	
Adjustments to warranty accrual during the year		(2,900)	(2,027)	
Warranty accrual, end of the year	\$ 15,514	\$ 17,572	\$ 20,866	

i. Restructuring Costs

During 2008 we initiated a restructuring plan designed to reduce ongoing overhead costs and improve operating efficiencies, which was substantially completed as of December 31, 2011. The total amount of restructuring charges incurred from January 1, 2008 through December 31, 2011 was \$48.7 million, of which \$30.7 million related to employee severance costs, \$13.7 million related to lease termination and other exit costs and \$4.3 million related to property and equipment disposals. Our restructuring accrual included in accrued liabilities in the accompanying consolidated balance sheets was \$0.4 million and \$2.1 million as of December 31, 2012 and 2011, respectively.

j. Earnings (Loss) Per Common Share

We compute earnings (loss) per share in accordance with ASC Topic 260, Earnings per Share (“ASC 260”), which requires earnings (loss) per share for each class of stock (common stock and participating preferred stock) to be calculated using the two-class method. The two-class method is an allocation of earnings (loss) between the holders of common stock and a company's participating security holders. Under the two-class method, earnings (loss) for the reporting period are allocated between common shareholders and other security holders based on their respective participation rights in undistributed earnings. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method.

Basic earnings (loss) per common share is computed by dividing income or loss available to common stockholders by the weighted average number of shares of basic common stock outstanding. Our Series B junior participating convertible preferred stock (“Series B Preferred Stock”), which is convertible into shares of our common stock at the holder’s option (subject to a limitation based upon voting interest), and our unvested restricted stock, are classified as participating securities in accordance with ASC 260. Net income (loss) allocated to the holders of our Series B Preferred Stock and unvested restricted stock is calculated based on the shareholders’ proportionate share of weighted average shares of common stock outstanding on an if-converted basis.

For purposes of determining diluted earnings (loss) per common share, basic earnings (loss) per common share is further adjusted to include the effect of potential dilutive common shares outstanding, including stock options, stock appreciation rights, performance share awards and unvested restricted stock using the more dilutive of either the two-class method or the treasury stock method, and Series B Preferred Stock and convertible debt using the if-converted method. Under the two-class method of calculating diluted earnings per share, net income is reallocated to common stock, the Series B Preferred stock and all dilutive securities based on the contractual participating rights of the security to share in the current earnings as if all of the earnings for the period had been distributed. In the computation of diluted earnings (loss) per share, the two-class method and if-converted method for the Series B Preferred Stock resulted in the same earnings (loss) per share amounts as the holder of the Series B Preferred Stock has the same economic rights as the holders of the common stock. For the years ended December 31, 2011 and 2010, all dilutive securities were excluded from the calculation as they were anti-dilutive as a result of the net loss for these respective periods. Shares outstanding under the share lending facility in 2011 and 2010 were not treated as outstanding for earnings per share purposes in accordance with ASC 260, because the share borrower was required to return to us all borrowed shares (or identical shares) upon the maturity of our 6% Convertible Senior Subordinated Notes, which

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occurred in October 2012. On October 11, 2012, the remaining 3.9 million shares outstanding under the share lending facility were returned to us. We cancelled and retired the shares upon receipt and no shares under the share lending facility remain outstanding.

The following table sets forth the components used in the computation of basic and diluted income (loss) per share.

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands, except per share amounts)		
Numerator:			
Net income (loss)	\$531,421	\$(16,417)	\$(11,724)
Less: Net (income) loss allocated to preferred shareholder	(224,408)	7,101	6,849
Less: Net (income) loss allocated to unvested restricted stock	(410)		
Net income (loss) available to common stockholders for basic earnings (loss) per common share	306,603	(9,316)	(4,875)
Effect of dilutive securities:			
Net income allocated to preferred shareholder	224,408		
Interest on 1¼% convertible senior notes due 2032	268		
Net income (loss) available to common and preferred stock for diluted earnings (loss) per share	\$531,279	\$(9,316)	\$(4,875)
Denominator:			
Weighted average basic common shares outstanding	201,953,799	193,909,714	105,202,857
Weighted average additional common shares outstanding if preferred shares converted to common shares (if dilutive)	147,812,786		
Total weighted average common shares outstanding if preferred shares converted to common shares	349,766,585	193,909,714	105,202,857
Effect of dilutive securities:			
Stock options	5,988,625		
1¼% convertible senior notes due 2032	12,576,473		
Weighted average diluted shares outstanding	368,331,683	193,909,714	105,202,857
Income (loss) per share:			
Basic	\$1.52	\$(0.05)	\$(0.05)
Diluted	\$1.44	\$(0.05)	\$(0.05)

k. Stock-Based Compensation

We account for share-based awards in accordance with ASC Topic 718, Compensation – Stock Compensation (“ASC 718”). ASC 718 requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. ASC 718 requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans.

l. Cash and Equivalents and Restricted Cash

Cash and equivalents include cash on hand, demand deposits and all highly liquid short-term investments, including interest-bearing securities purchased with a maturity of three months or less from the date of purchase. At December 31, 2012, restricted cash included \$29.3 million of cash held in cash collateral accounts related to certain letters of credit that have been issued and a portion related to our financial services subsidiary mortgage credit facilities (\$26.9 million of homebuilding cash and \$2.4 million of financial services cash).

m. Mortgage Loans Held for Sale

In accordance with ASC 825, mortgage loans held for sale are recorded at fair value and loan origination and related costs are recognized upon loan closing. In addition, we recognize net interest income on loans held for sale from the date of origination through the date of disposition. We sell substantially all of the loans we originate in the secondary mortgage market, with servicing rights released on a non-recourse basis. These sales are generally subject to our obligation to repay gain on sale if the loan is prepaid by the borrower within a certain time period following such sale, or to repurchase loans or indemnify investors for losses from borrower defaults if, among other things, the loan purchaser’s underwriting guidelines are not met or there is fraud in connection with the loan. We establish liabilities for such anticipated losses based upon,

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among other things, an analysis of indemnification and repurchase requests received, an estimate of potential indemnification or repurchase claims not yet received, our historical amount of indemnification payments and repurchases, and losses incurred through the disposition of affected loans. During the years ended December 31, 2012, 2011 and 2010, we recorded loan loss expense related to indemnification and repurchase allowances of \$1.0 million, \$4.3 million and \$2.3 million, respectively. As of December 31, 2012 and 2011, we had indemnity and repurchase allowances related to loans sold of \$3.0 million and \$2.9 million, respectively.

n. Mortgage Loans Held for Investment

Mortgage loans are classified as held for investment based on our intent and ability to hold the loans for the foreseeable future or to maturity. Mortgage loans held for investment are recorded at their unpaid principal balance, net of discounts and premiums, unamortized net deferred loan origination costs and fees and allowance for loan losses. Discounts, premiums, and net deferred loan origination costs and fees are amortized into income over the contractual life of the loan. Mortgage loans held for investment are continually evaluated for collectability and, if appropriate, specific allowances are established based on estimates of collateral value. Loans are placed on non-accrual status for first trust deeds when the loan is 90 days past due and for second trust deeds when the loan is 30 days past due, and previously accrued interest is reversed from income if deemed uncollectible. As of December 31, 2012 and 2011, we had allowances for loan losses for loans held for investment of \$2.8 million and \$4.4 million, respectively.

o. Inventories

Inventories consist of land, land under development, homes under construction, completed homes and model homes and are stated at cost, net of impairment charges. We capitalize direct carrying costs, including interest, property taxes and related development costs to inventories. Field construction supervision and related direct overhead are also included in the capitalized cost of inventories. Direct construction costs are specifically identified and allocated to homes while other common costs, such as land, land improvements and carrying costs, are allocated to homes within a community based upon their anticipated relative sales or fair value.

We assess the recoverability of real estate inventories in accordance with the provisions of ASC Topic 360, Property, Plant, and Equipment ("ASC 360"). ASC 360 requires long-lived assets, including inventories, that are expected to be held and used in operations to be carried at the lower of cost or, if impaired, the fair value of the asset. ASC 360 requires that companies evaluate long-lived assets for impairment based on undiscounted future cash flows of the assets at the lowest level for which there is identifiable cash flows. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

p. Capitalization of Interest

We follow the practice of capitalizing interest to inventories owned during the period of development and to investments in unconsolidated homebuilding and land development joint ventures in accordance with ASC Topic 835, Interest ("ASC 835"). Homebuilding interest capitalized as a cost of inventories owned is included in cost of sales as related units or lots are sold. Interest capitalized to investments in unconsolidated homebuilding and land development joint ventures is included as a reduction of income from unconsolidated joint ventures when the related homes or lots are sold to third parties. Interest capitalized to investments in unconsolidated land development joint ventures is transferred to inventories owned if the underlying lots are purchased by us. To the extent our debt exceeds

our qualified assets as defined in ASC 835, we expense a portion of the interest incurred by us. Qualified assets represent projects that are actively selling or under development as well as investments in unconsolidated joint ventures accounted for under the equity method. For the years ended December 31, 2012, 2011 and 2010, we expensed \$6.4 million, \$25.2 million and \$40.2 million, respectively, of interest costs related to the portion of our debt in excess of our qualified assets in accordance with ASC 835.

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The following is a summary of homebuilding interest capitalized to inventories owned and investments in unconsolidated joint ventures, amortized to cost of sales and income (loss) from unconsolidated joint ventures and expensed as interest expense, for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Total interest incurred (1)	\$ 141,827	\$ 140,905	\$ 110,358
Less: Interest capitalized to inventories owned	(129,136)	(109,002)	(66,665)
Less: Interest capitalized to investments in unconsolidated joint ventures	(6,295)	(6,735)	(3,519)
Interest expense	\$ 6,396	\$ 25,168	\$ 40,174
Interest previously capitalized to inventories owned, included in home cost of home sales	\$ 100,683	\$ 69,421	\$ 59,750
Interest previously capitalized to inventories owned, included in land cost of land sales	\$ 3,219	\$ 215	\$ 815
Interest previously capitalized to investments in unconsolidated joint ventures, included in income (loss) from unconsolidated joint ventures	\$ 843	\$ 876	\$ 609
Interest capitalized in ending inventories owned (2)	\$ 221,402	\$ 188,526	\$ 147,935
Interest capitalized as a percentage of inventories owned	11.2	% 12.8	% 12.5
Interest capitalized in ending investments in unconsolidated joint ventures (2)	\$ 6,921	\$ 9,111	\$ 4,477
Interest capitalized as a percentage of investments in unconsolidated joint ventures	13.2	% 11.1	% 6.1

- (1) For the years ended December 31, 2012, 2011 and 2010, interest incurred included the noncash amortization of \$10.4 million, \$10.3 million and \$0.2 million, respectively, of interest related to the Term Loan B swap that was unwound in the 2010 fourth quarter (please see Note 2.t. "Derivative Instruments and Hedging Activities").
- (2) During the years ended December 31, 2012, 2011 and 2010, in connection with lot purchases from our joint ventures, \$7.6 million, \$1.2 million and \$0.4 million, respectively, of capitalized interest was transferred from investments in unconsolidated joint ventures to inventories owned.

q. Investments in Unconsolidated Land Development and Homebuilding Joint Ventures

Investments in our unconsolidated land development and homebuilding joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses generated by the joint venture upon the delivery of lots or homes to third parties. All joint venture profits generated from land sales to us are deferred and recorded as a reduction to our cost basis in the lots purchased until the homes to be constructed are ultimately sold by us to third parties. Our ownership interests in our unconsolidated joint ventures vary, but are generally less than or equal to 50 percent.

We review inventory projects within our unconsolidated joint ventures for impairments consistent with our real estate inventories described in Note 2.o. We also review our investments in unconsolidated joint ventures for evidence of an other than temporary decline in value. To the extent we deem any portion of our investment in unconsolidated joint ventures as not recoverable, we impair our investment accordingly.

r. Income Taxes

We account for income taxes in accordance with ASC Topic 740, Income Taxes (“ASC 740”). ASC 740 requires an asset and liability approach for measuring deferred taxes based on temporary differences between the financial statement and tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for years in which taxes are expected to be paid or recovered.

We evaluate our deferred tax assets on a quarterly basis to determine whether a valuation allowance is required. In accordance with ASC 740, we assess whether a valuation allowance should be established based on our determination of whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends primarily on: (i) our ability to carry back net operating losses to tax years where we have previously paid income taxes based on applicable federal law; and (ii) our ability to generate future taxable income during the periods in which the related temporary differences become deductible. The assessment of a valuation allowance includes giving appropriate consideration to all positive and negative evidence related to the realization of the deferred tax asset. This assessment considers, among other things, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax

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credit carryforwards not expiring unused, and tax planning alternatives. Significant judgment is required in determining the future tax consequences of events that have been recognized in our consolidated financial statements and/or tax returns. Actual outcomes of these future tax consequences could differ materially from the outcomes we currently anticipate.

ASC 740 defines the methodology for recognizing the benefits of uncertain tax return positions as well as guidance regarding the measurement of the resulting tax benefits. These provisions require an enterprise to recognize the financial statement effects of a tax position when it is more likely than not (defined as a likelihood of more than 50%), based on the technical merits, that the position will be sustained upon examination. In addition, these provisions provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of whether a tax position meets the more-likely-than-not recognition threshold requires a substantial degree of judgment by management based on the individual facts and circumstances. Actual results could differ from estimates.

s. Insurance and Litigation Accruals

Insurance and litigation accruals are established with respect to estimated future claims cost. We maintain general liability insurance designed to protect us against a portion of our risk of loss from construction-related claims. We also generally require our subcontractors and design professionals to indemnify us for liabilities arising from their work, subject to various limitations. However, such indemnity is significantly limited with respect to certain subcontractors that are added to our general liability insurance policy. We record allowances to cover our estimated costs of self-insured retentions and deductible amounts under these policies and estimated costs for claims that may not be covered by applicable insurance or indemnities. Our total insurance and litigation accruals as of December 31, 2012 and 2011 were \$57.2 million and \$55.8 million, respectively, which are included in accrued liabilities in the accompanying consolidated balance sheets. Estimation of these accruals include consideration of our claims history, including current claims, estimates of claims incurred but not yet reported, and potential for recovery of costs from insurance and other sources. We utilize the services of an independent third party actuary to assist us with evaluating the level of our insurance and litigation accruals. Because of the high degree of judgment required in determining these estimated accrual amounts, actual future claim costs could differ from our currently estimated amounts.

t. Derivative Instruments and Hedging Activities

We account for derivatives and certain hedging activities in accordance with ASC Topic 815, Derivatives and Hedging ("ASC 815"). ASC 815 establishes the accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded as either assets or liabilities in the consolidated balance sheets and to measure these instruments at fair market value. Gains and losses resulting from changes in the fair market value of derivatives are recognized in the consolidated statement of operations or recorded in accumulated other comprehensive income (loss), net of tax, and recognized in the consolidated statement of operations when the hedged item affects earnings, depending on the purpose of the derivative and whether the derivative qualifies for hedge accounting treatment.

Our policy is to designate at a derivative's inception the specific assets, liabilities or future commitments being hedged and monitor the derivative to determine if the derivative remains an effective hedge. The effectiveness of a derivative as a hedge is based on a high correlation between changes in the derivative's value and changes in the value of the underlying hedged item. We recognize gains or losses for amounts received or paid when the underlying transaction

settles. We do not enter into or hold derivatives for trading or speculative purposes.

In May 2006, we entered into two interest rate swap agreements related to our Term Loan B with an aggregate notional amount of \$250 million that effectively fixed our 3-month LIBOR rates for our then outstanding term loan through its maturity date of May 2013. The swap agreements were designated as cash flow hedges and, accordingly, were reflected at their fair market value in accrued liabilities in our consolidated balance sheets. To the extent the swaps were deemed effective and qualified for hedge accounting treatment, the related gain or loss was deferred, net of tax, in stockholders' equity as accumulated other comprehensive income (loss).

In December 2010, we repaid in full the remaining \$225 million balance of our Term Loan B and made a \$24.5 million payment to terminate the related interest rate swap agreements. As a result, we have no payment obligation remaining related to interest rate swap agreements. The \$24.5 million cost associated with the early unwind of the interest rate swap agreements is being amortized over a period of approximately 2.3 years (or to May 2013), the original maturity date of the

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terminated instruments. As of December 31, 2012, the remaining unamortized balance of \$2.2 million is included in accumulated other comprehensive loss, net of tax, and \$1.4 million is included in deferred income taxes in the accompanying consolidated balance sheets. For each of the years ended December 31, 2012 and 2011, we recorded after-tax other comprehensive income of \$6.4 million related to the swap agreements and a corresponding pretax increase to interest incurred of \$10.4 million and \$10.3 million in 2012 and 2011, respectively.

u. Accounting for Guarantees

We account for guarantees in accordance with the provisions of ASC Topic 470, Debt (“ASC 470”). Under ASC 470, recognition of a liability is recorded at its estimated fair value based on the present value of the expected contingent payments under the guarantee arrangement. The types of guarantees that we generally provide that are subject to ASC 470 generally are made to third parties on behalf of our unconsolidated homebuilding and land development joint ventures. As of December 31, 2012, these guarantees included, but were not limited to, construction completion guarantees, environmental indemnities and surety bond indemnities.

v. Recent 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”), providing a consistent definition and measurement of fair value, as well as 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. Our adoption of these new provisions of ASU 2011-04 on January 1, 2012 did not have an 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 and have elected to present two separate consecutive statements in our consolidated financial statements.

3. Segment Reporting

We operate two principal businesses: homebuilding and financial services.

Our homebuilding operations construct and sell single-family attached and detached homes. In accordance with the aggregation criteria defined in ASC Topic 280, Segment Reporting, our homebuilding operating segments have been grouped into three reportable segments: California; Southwest, consisting of our operating divisions in Arizona, Texas, Colorado and Nevada; and Southeast, consisting of our operating divisions in Florida and the Carolinas.

Our mortgage financing operation provides mortgage financing to our homebuyers in substantially all of the markets in which we operate, and sells substantially all of the loans it originates in the secondary mortgage market. Our title service operation provides title examinations for our homebuyers in Texas. Our mortgage financing and title services operations are included in our financial services reportable segment, which is separately reported in our consolidated financial statements under “Financial Services.”

Corporate is a non-operating segment that develops and implements strategic initiatives and supports our operating divisions by centralizing key administrative functions such as accounting, finance and treasury, information technology, insurance and risk management, litigation, marketing and human resources. Corporate also provides the necessary administrative functions to support us as a publicly traded company. A substantial portion of the expenses incurred by Corporate are allocated to each of the homebuilding operating divisions and financial services subsidiary based on their respective percentage of revenues.

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Segment financial information relating to the Company's homebuilding operations was as follows:

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Homebuilding revenues:			
California	\$ 699,672	\$ 506,002	\$ 546,946
Southwest	248,421	190,622	187,609
Southeast	288,865	186,369	177,863
Total homebuilding revenues	\$ 1,236,958	\$ 882,993	\$ 912,418
Homebuilding pretax income (loss):			
California	\$ 44,959	\$ 11,357	\$ 39,594
Southwest	10,877	(10,231)	(5,103)
Southeast	5,991	(10,236)	(8,902)
Corporate	5,818	(9,046)	(39,590)
Total homebuilding pretax income (loss)	\$ 67,645	\$ (18,156)	\$ (14,001)
Homebuilding income (loss) from unconsolidated joint ventures:			
California	\$ (1,904)	\$ 354	\$ 1,835
Southwest	(31)	(22)	(123)
Southeast	(155)	(125)	(546)
Total homebuilding income (loss) from unconsolidated joint ventures	\$ (2,090)	\$ 207	\$ 1,166
Inventory impairment charges:			
California	\$	\$ 9,490	\$
Southwest		2,878	331
Southeast		821	1,487
Total inventory impairment charges	\$	\$ 13,189	\$ 1,818

Segment financial information relating to the Company's homebuilding assets and investments in unconsolidated joint ventures was as follows:

	December 31,	
	2012	2011
	(Dollars in thousands)	
Homebuilding assets:		
California	\$1,192,249	\$985,560
Southwest	496,902	355,060
Southeast	438,122	294,996
Corporate	842,705	473,971
Total homebuilding assets	\$2,969,978	\$2,109,587
Homebuilding investments in unconsolidated joint ventures:		
California	\$50,878	\$76,999

Southwest	2	2,770
Southeast	1,563	2,038
Total homebuilding investments in unconsolidated joint ventures	\$52,443	\$81,807

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4. Inventories

a. Inventories Owned

Inventories owned consisted of the following at:

	California	December 31, 2012 Southwest Southeast (Dollars in thousands)		Total
Land and land under development	\$778,419	\$352,705	\$313,037	\$1,444,161
Homes completed and under construction	240,236	93,265	93,695	427,196
Model homes	67,504	15,231	17,326	100,061
Total inventories owned	\$1,086,159	\$461,201	\$424,058	\$1,971,418

	California	December 31, 2011 Southwest Southeast (Dollars in thousands)		Total
Land and land under development	\$614,668	\$221,481	\$200,680	\$1,036,829
Homes completed and under construction	205,515	67,200	67,134	339,849
Model homes	70,117	14,005	16,439	100,561
Total inventories owned	\$890,300	\$302,686	\$284,253	\$1,477,239

In accordance with ASC 360, we record impairment losses on inventories when events and circumstances indicate that they may be impaired, and the future undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. Inventories that are determined to be impaired are written down to their estimated fair value. We calculate the fair value of a project under a land residual value analysis and in certain cases in conjunction with a discounted cash flow analysis. During the years ended December 31, 2012, 2011 and 2010, the total number of projects included in inventories-owned and reviewed for impairment were 290, 262 and 240, respectively. Based on the impairment review, we recorded \$13.2 million and \$1.8 million of inventory impairments during the years ended December 31, 2011 and 2010, respectively, which are included in cost of home sales in the accompanying consolidated statements of operations (please see Note 3 for a breakout of impairment charges by segment). We did not record any inventory impairments during the year ended December 31, 2012. The operating margins (defined as gross margin less direct selling and marketing costs) used to calculate land residual values and related fair values for our projects impaired during the years ended December 31, 2011 and 2010, were generally in the 6% to 12% range and discount rates were generally in the 20% to 30% range.

b. Inventories Not Owned

Inventories not owned consisted of the following at:

December 31,
2012 2011
(Dollars in thousands)

Land purchase and lot option deposits	\$23,803	\$24,379
Other lot option contracts, net of deposits	47,492	35,461
Total inventories not owned	\$71,295	\$59,840

Under ASC Topic 810, Consolidation (“ASC 810”), a non-refundable deposit paid to an entity is deemed to be a variable interest that will absorb some or all of the entity’s expected losses if they occur. Our land purchase and lot option deposits generally represent our maximum exposure to the land seller if we elect not to purchase the optioned property. In some instances, we may also expend funds for due diligence, development and construction activities with respect to optioned land prior to takedown. Such costs are classified as inventories owned, which we would have to write off should we not exercise the option. Therefore, whenever we enter into a land option or purchase contract with an entity and make a non-refundable deposit, a variable interest entity (“VIE”) may have been created. As of December 31, 2012 and 2011, we were not required to consolidate any VIEs related to land option or purchase contracts. In accordance with ASC 810, we perform ongoing reassessments of whether we are the primary beneficiary of a VIE. Other lot option contracts noted in the table

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above represent specific performance obligations where the land option contract contains a binding obligation requiring us to complete the lot purchases.

We incurred pretax charges of \$0.1 million, \$2.1 million and \$0.1 million related to deposit write-offs for the years ended December 31, 2012, 2011 and 2010, respectively. These charges were included in other income (expense) in the accompanying consolidated statements of operations. We continue to evaluate the terms of open land option and purchase contracts and may write-off option deposits in the future, particularly in those instances where land sellers are unwilling to renegotiate significant contract terms.

5. Investments in Unconsolidated Land Development and Homebuilding Joint Ventures

The table set forth below summarizes the combined statements of operations for our unconsolidated land development and homebuilding joint ventures that we accounted for under the equity method:

	2012	Year December 31, 2011 2010 (Dollars in thousands)	
Revenues	\$21,178	\$69,941	\$66,667
Cost of sales and expenses	(18,788)	(55,447)	(56,125)
Income of unconsolidated joint ventures	\$2,390	\$14,494	\$10,542
Income (loss) from unconsolidated joint ventures reflected in the accompanying consolidated statements of operations	\$(2,090)	\$207	\$1,166

Income (loss) from unconsolidated joint ventures reflected in the accompanying consolidated statements of operations represents our share of the income (loss) of our unconsolidated land development and homebuilding joint ventures, which is allocated based on the provisions of the underlying joint venture operating agreements plus any additional impairments recorded against our investments in joint ventures which we do not deem recoverable. In addition, we defer recognition of our share of income that relates to lots purchased by us from land development joint ventures until we ultimately sell the homes to be constructed to third parties, at which time we account for these earnings as a reduction of the cost basis of the lots purchased from these joint ventures. For the years ended December 31, 2012, 2011 and 2010, income (loss) from unconsolidated joint ventures was primarily attributable to our share of income (loss) related to one Southern California land development joint venture and one Northern California homebuilding joint venture, which were allocated based on the provisions of the underlying joint venture operating agreements.

During the years ended December 31, 2012, 2011 and 2010, all of our unconsolidated joint ventures were reviewed for impairment. Based on the impairment review, we recorded impairment charges of \$0.5 million in 2010. No impairments were recorded for joint venture projects for the years ended December 31, 2012 and 2011.

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The table set forth below summarizes the combined balance sheets for our unconsolidated land development and homebuilding joint ventures that we accounted for under the equity method:

	December 31,	
	2012	2011
	(Dollars in thousands)	
Assets:		
Cash	\$15,627	\$24,155
Inventories	129,477	230,571
Other assets	10,783	11,190
Total assets	\$155,887	\$265,916
Liabilities and Equity:		
Accounts payable and accrued liabilities	\$5,796	\$21,190
Standard Pacific equity	51,173	77,259
Other Members' equity	98,918	167,467
Total liabilities and equity	\$155,887	\$265,916
Investments in unconsolidated joint ventures reflected in the accompanying consolidated balance sheets	\$52,443	\$81,807

In some cases our net investment in these unconsolidated joint ventures is not equal to our proportionate share of equity reflected in the table above primarily because of differences between asset impairments that we recorded against our joint venture investments and the impairments recorded by the applicable joint venture. Our investments in unconsolidated joint ventures also included approximately \$6.9 million and \$9.1 million of homebuilding interest capitalized to investments in unconsolidated joint ventures as of December 31, 2012 and 2011, respectively, which capitalized interest is not included in the combined balance sheets above.

Our investments in these unconsolidated joint ventures may represent a variable interest in a VIE depending on, among other things, the economic interests of the members of the entity and the contractual terms of the arrangement. We analyze all of our unconsolidated joint ventures under the provisions of ASC 810 to determine whether these entities are deemed to be VIEs, and if so, whether we are the primary beneficiary. As of December 31, 2012, all of our homebuilding and land development joint ventures with unrelated parties were determined under the provisions of ASC 810 to be unconsolidated joint ventures either because they were not deemed to be VIEs, or, if they were a VIE, we were not deemed to be the primary beneficiary.

During the 2012 third quarter, we acquired control of the remaining assets of one of our Southern California land development joint ventures. The assets include approximately 1,700 residential lots, commercial and retail sites and a school site. A portion of this transaction was accounted for as a business combination in accordance with ASC 805. As a result of this transaction, our homebuilding assets increased by approximately \$121 million, representing \$5 million of homebuilding cash and \$116 million of inventories owned. In addition, we assumed approximately \$4 million of accounts payable and accrued liabilities, and recorded \$12 million of contingent consideration, which is included in accrued liabilities and represents a future payment to one of the joint venture partners related to the future sale of a retail site that we acquired as part of the transaction.

6. Homebuilding Indebtedness

a. Letter of Credit Facilities

As of December 31, 2012, we were party to two committed letter of credit facilities totaling \$11 million, of which \$7.2 million was outstanding. In addition, as of such date, we also had a \$30 million uncommitted letter of credit facility, of which \$18.9 million was outstanding. These facilities require cash collateralization and have maturity dates ranging from September 2013 to November 2013. As of December 31, 2012 these facilities were secured by cash collateral deposits of \$26.5 million. Upon maturity, we may renew or enter into new letter of credit facilities with the same or other financial institutions.

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b. Senior Notes Payable

Senior notes payable consist of the following at:

	December 31, 2012	2011
	(Dollars in thousands)	
6¼% Senior Notes due April 2014	\$4,971	\$4,971
7% Senior Notes due August 2015	29,789	29,789
10¾% Senior Notes due September 2016, net of discount	265,823	262,968
8 % Senior Notes due May 2018, net of premium	579,832	580,523
8 % Senior Notes due January 2021, net of discount	397,087	396,842
1¼% Convertible Senior Notes due August 2032	253,000	
	\$1,530,502	\$1,275,093

In September 2009, we issued \$280 million of 10¾% Senior Notes due September 15, 2016 (the “2016 Notes”). These notes were issued at a discount to yield approximately 12.50% under the effective interest method and have been reflected net of the unamortized discount in the accompanying consolidated balance sheets.

In May 2010, we issued \$300 million of 8 % Senior Notes due May 15, 2018 (the “2018 Notes”). In December 2010, we issued an additional \$275 million of 2018 Notes (issued at a premium to yield approximately 7.964% under the effective interest method) and \$400 million of 8 % Senior Notes due January 15, 2021 (the “2021 Notes”) (issued at a discount to yield approximately 8.50% under the effective interest method), which have been reflected net of their unamortized premium and discount, respectively, in the accompanying consolidated balance sheets.

The senior notes payable described above are all senior obligations and rank equally with our other existing senior indebtedness and are redeemable at our option, in whole or in part, pursuant to a “make whole” formula. These senior notes contain various restrictive covenants, including, with respect to the 2016 Notes, a limitation on additional indebtedness and a limitation on restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited, aside from those exceptions, from incurring further indebtedness if we do not satisfy either a maximum leverage condition or a minimum interest coverage condition. Under the limitation on restricted payments, we are also prohibited from making restricted payments (which include dividends, and investments in and advances to our joint ventures and other unrestricted subsidiaries), if we do not satisfy either condition. Our ability to make restricted payments is also subject to a basket limitation. As of December 31, 2012, we were able to satisfy the conditions necessary to incur additional indebtedness and to make restricted payments. In addition, if we were unable to satisfy either the leverage condition or interest coverage condition, restricted payments could be made from our unrestricted subsidiaries. As of December 31, 2012, we had approximately \$175.0 million of cash available in our unrestricted subsidiaries. Many of our 100% owned direct and indirect subsidiaries (collectively, the “Guarantor Subsidiaries”) guaranty our outstanding senior notes and our senior subordinated notes. The guarantees are full and unconditional, and joint and several. Please see Note 16 for supplemental financial statement information about our guarantor subsidiaries group and non-guarantor subsidiaries group.

On July 31, 2012, we issued \$253 million of 1¼% Convertible Senior Notes due 2032 (the “Convertible Notes”). The Notes are senior unsecured obligations of the Company and are guaranteed by the guarantors of our other senior notes

on a senior unsecured basis.

The Convertible Notes bear interest at a rate of $1\frac{1}{4}\%$ and will mature on August 1, 2032, unless earlier converted, redeemed or repurchased. The holders may at any time convert their Convertible Notes into shares of the Company's common stock at an initial conversion rate of 123.7662 shares of common stock per \$1,000 principal amount of Convertible Notes (which is equal to an initial conversion price of approximately \$8.08 per share), subject to adjustment.

The Company may not redeem the Convertible Notes prior to August 5, 2017. On or after August 5, 2017 and prior to the maturity date, the Company may redeem for cash all or part of the Convertible Notes at a redemption price equal to 100% of the principal amount of the Convertible Notes being redeemed. On each of August 1, 2017, August 1, 2022 and August 1,

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2027, holders of the Convertible Notes may require the Company to purchase all or any portion of their Convertible Notes for cash at a price equal to 100% of the principal amount of the Convertible Notes to be repurchased.

c. Senior Subordinated Notes Payable

Senior subordinated notes payable consisted of the following at:

	2012	December 31, 2011 (Dollars in thousands)
6% Convertible Senior Subordinated Notes due October 2012, net of discount (1)	\$	\$ 36,339
9¼% Senior Subordinated Notes due April 2012, net of discount (2)		9,985
	\$	\$ 46,324

(1) The 6% Convertible Senior Subordinated Notes were repaid in full upon maturity in October 2012.

(2) The 9¼% Senior Subordinated Notes were repaid in full upon maturity in April 2012.

d. Secured Project Debt and Other Notes Payable

Our secured project debt and other notes payable consist of seller non-recourse financing and community development district and similar assessment district bond financings used to finance land acquisition, development and infrastructure costs for which we are responsible. At December 31, 2012, we had approximately \$11.5 million outstanding in secured project debt and other notes payable.

e. Borrowings and Maturities

The principal amount of maturities of senior and convertible senior notes payable, and secured project debt and other notes payable are as follows:

	Year Ended December 31, (Dollars in thousands)
2013	\$ 4,790
2014	9,766
2015	31,181
2016	280,539
2017	
Thereafter	1,228,000
Total principal amount	1,554,276
Less: Net (discount) premium	(12,258)
Total homebuilding debt	\$ 1,542,018

The weighted average interest rate of our borrowings outstanding under our revolving credit facility, bank term loans, senior and convertible senior notes payable, secured project debt and other notes payable (excluding indebtedness included in liabilities from inventories not owned) as of December 31, 2012, 2011 and 2010, was 7.6%, 8.9%, and 8.9%, respectively.

f. Revolving Credit Facility

On October 19, 2012, we amended our \$210 million unsecured revolving credit facility (the “Revolving Facility”) to, among other things, increase the aggregate commitment to \$350 million (all of which is available for letters of credit), provide an accordion feature that allows for an increase in the aggregate commitment to \$550 million (subject to the availability of additional bank commitments and certain other conditions), and to extend the maturity date of \$320 million of the commitment to October 19, 2015. As of December 31, 2012, the Revolving Facility contained financial covenants, including, but not limited to, (i) a minimum consolidated tangible net worth covenant; (ii) a minimum interest coverage ratio; (iii) a maximum net homebuilding leverage ratio and (iv) a maximum land not under development to tangible net worth ratio. The amendment eliminated the minimum liquidity level covenant and provided that the failure to meet the minimum interest

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coverage ratio is not an event of default, but rather upon such occurrence, the Company's borrowing availability under the Revolving Facility may become more limited. This facility also contains a borrowing base provision, which limits the amount we may borrow or keep outstanding under the facility, and also contains a limitation on our investments in joint ventures. Interest rates charged under the Revolving Facility include LIBOR and prime rate pricing options. As of December 31, 2012 we satisfied the conditions that would allow us to borrow up to \$283.3 million under the facility and had no amounts outstanding.

7. Stockholders' Equity

a. Common Stock

During the 2012 third quarter, the Company issued 13.4 million shares of its common stock in a secondary public offering at a price of \$5.67 per share and received \$71.8 million in net proceeds.

b. Preferred Stock

At December 31, 2012, we had 450,829 shares of Series B junior participating convertible preferred stock ("Series B Preferred Stock") outstanding, which are convertible into 147.8 million shares of our common stock. The number of shares of common stock into which our Series B Preferred Stock is convertible is determined by dividing \$1,000 by the applicable conversion price (\$3.05, subject to customary anti-dilution adjustments) plus cash in lieu of fractional shares. The Series B Preferred Stock will be convertible at the holder's option into shares of our common stock provided that no holder, with its affiliates, may beneficially own total voting power of our voting stock in excess of 49%. The Series B Preferred Stock also mandatorily converts into our common stock upon its sale, transfer or other disposition by MatlinPatterson or its affiliates to an unaffiliated third party. The Series B Preferred Stock votes together with our common stock on all matters upon which holders of our common stock are entitled to vote. Each share of Series B Preferred Stock is entitled to such number of votes as the number of shares of our common stock into which such share of Series B Preferred Stock is convertible, provided that the aggregate votes attributable to such shares with respect to any holder of Series B Preferred Stock (including its affiliates), taking into consideration any other voting securities of the Company held by such stockholder, cannot exceed more than 49% of the total voting power of the voting stock of the Company. Shares of Series B Preferred Stock are entitled to receive only those dividends declared and paid on the common stock. As of December 31, 2012, the outstanding shares of Series B Preferred Stock and 89.4 million shares of common stock owned by MatlinPatterson represented approximately 66% of the total number of shares of our common stock outstanding on an if-converted basis.

8. Mortgage Credit Facilities

At December 31, 2012, we had \$92.2 million outstanding under our mortgage financing subsidiary's mortgage credit facilities. These mortgage credit facilities consist of a \$75 million repurchase facility with one lender, maturing in July 2013, and a \$25 million repurchase facility with another lender, maturing in September 2013. These facilities require Standard Pacific Mortgage to maintain cash collateral accounts, which totaled \$2.4 million as of December 31, 2012, and also contain financial covenants which require Standard Pacific Mortgage to, among other things, maintain a minimum level of tangible net worth, not to exceed a debt to tangible net worth ratio, maintain a minimum liquidity amount based on a measure of total assets (inclusive of the cash collateral requirement), and satisfy pretax income (loss) requirements. As of December 31, 2012, Standard Pacific Mortgage was in compliance with the financial and other covenants contained in these facilities.

9. Disclosures about Fair Value

ASC Topic 820, Fair Value Measurements and Disclosures (“ASC 820”), establishes a framework for measuring fair value, expands disclosures regarding fair value measurements and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Further, ASC 820 requires us to maximize the use of observable market inputs, minimize the use of unobservable market inputs and disclose in the form of an outlined hierarchy the details of such fair value measurements. ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. The three levels of the hierarchy are as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets;

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- Level 2 – quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table presents the Company's financial instruments measured at fair value on a recurring basis:

Description	As of December 31, 2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices	Significant	Significant
		in	Other	Significant
		Active	Observable	Unobservable
		Markets for Identical Assets	Inputs	Inputs
		(Level 1)	(Level 2)	(Level 3)
(Dollars in thousands)				
Mortgage loans held for sale	\$ 122,398	\$	\$ 122,398	\$

Mortgage loans held for sale consist of FHA, VA, USDA and agency first mortgages on single-family residences which are eligible for sale to FNMA/FHLMC, GNMA or other investors, as applicable. Fair values of these loans are based on quoted prices from third party investors when preselling loans.

The following table presents the carrying values and estimated fair values of our other financial instruments for which we have not elected the fair value option in accordance with ASC Topic 825, Financial Instruments:

Description	Fair Value Hierarchy	December 31, 2012		December 31, 2011	
		Carrying Amount	Fair Value (Dollars in thousands)	Carrying Amount	Fair Value
Financial services assets:					
Mortgage loans held for investment, net	Level 2	\$9,923	\$9,923	\$10,115	\$10,115
Homebuilding liabilities:					
Senior notes payable, net	Level 2	\$1,530,502	\$1,803,202	\$1,275,093	\$1,243,209
Senior subordinated notes payable, net	Level 2	\$	\$	\$46,324	\$50,793

Mortgage Loans Held for Investment – Fair value of these loans is based on the estimated market value of the underlying collateral based on market data and other factors for similar type properties as further adjusted to reflect the estimated net realizable value of carrying the loans through disposition.

Senior and Senior Subordinated Notes Payable – The senior and senior subordinated notes are traded over the counter and their fair values were estimated based upon the values of their last trade at the end of the period.

The fair value of our cash and equivalents, restricted cash, accounts receivable, trade accounts payable, secured project debt and other notes payable, mortgage credit facilities and other liabilities approximate their carrying amounts due to the short-term nature of these assets and liabilities.

10. Commitments and Contingencies

a. Land Purchase and Option Agreements

We are subject to obligations associated with entering into contracts for the purchase of land and improved homesites. These purchase contracts typically require a cash deposit or delivery of a letter of credit, and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers and third-party financial entities as a method of acquiring land in staged takedowns, to help us manage the financial and market risk associated with land holdings, and to reduce the use of funds from our corporate financing sources. Option contracts generally require a non-refundable deposit for the right to acquire lots over a specified period of time at predetermined prices. We generally have the

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right at our discretion to terminate our obligations under both purchase contracts and option contracts by forfeiting our cash deposit or by repaying amounts drawn under our letter of credit with no further financial responsibility to the land seller, although in certain instances, the land seller has the right to compel us to purchase a specified number of lots at predetermined prices. Also, in a few instances where we have entered into option contracts with third party financial entities, we have generally entered into construction agreements that do not terminate if we elect not to exercise our option. In these instances, we are generally obligated to complete land development improvements on the optioned property at a predetermined cost (paid by the option provider) and are responsible for all cost overruns. At December 31, 2012, we had no option contracts outstanding with third party financial entities. In some instances, we may also expend funds for due diligence, development and construction activities with respect to our land purchase and option contracts prior to purchase, which we would have to write off should we not purchase the land. At December 31, 2012, we had non-refundable cash deposits outstanding of approximately \$20.4 million and capitalized preacquisition and other development and construction costs of approximately \$2.1 million relating to land purchase and option contracts having a total remaining purchase price of approximately \$197.1 million. Approximately \$30.3 million of the remaining purchase price is included in inventories not owned in the accompanying consolidated balance sheets.

Our utilization of option contracts is dependent on, among other things, the availability of land sellers willing to enter into option takedown arrangements, the availability of capital to financial intermediaries, general housing market conditions, and geographic preferences. Options may be more difficult to procure from land sellers in strong housing markets and are more prevalent in certain geographic regions.

b. Land Development and Homebuilding Joint Ventures

Our joint ventures have historically obtained secured acquisition, development and construction financing designed to reduce the use of funds from corporate financing sources. As of December 31, 2012, we held membership interests in 20 homebuilding and land development joint ventures, of which seven were active and 13 were inactive or winding down. As of such date, our joint ventures had no project specific financing outstanding. In addition, as of December 31, 2012, our joint ventures had \$2.7 million of surety bonds outstanding subject to indemnity arrangements by us and had an estimated \$0.2 million remaining in cost to complete.

c. Surety Bonds

We obtain surety bonds in the normal course of business to ensure completion of the infrastructure of our projects. At December 31, 2012, we had approximately \$319.1 million in surety bonds outstanding (exclusive of surety bonds related to our joint ventures), with respect to which we had an estimated \$176.9 million remaining in cost to complete.

d. Mortgage Loans and Commitments

We commit to making mortgage loans to our homebuyers through our mortgage financing subsidiary, Standard Pacific Mortgage. Standard Pacific Mortgage sells substantially all of the loans it originates in the secondary mortgage market and finances these loans under its mortgage credit facilities for a short period of time (typically for 30 to 45 days), as investors complete their administrative review of applicable loan documents. Mortgage loans in process for which interest rates were committed to borrowers totaled approximately \$37.7 million at December 31, 2012 and carried a weighted average interest rate of approximately 3.4%. Interest rate risks related to these

obligations are mitigated through the preselling of loans to investors. As of December 31, 2012, Standard Pacific Mortgage had approximately \$119.3 million in closed mortgage loans held for sale and \$41.1 million of mortgage loans that we were committed to sell to investors subject to our funding of the loans and completion of the investors' administrative review of the applicable loan documents.

Standard Pacific Mortgage sells substantially all of the loans it originates in the secondary mortgage market, with servicing rights released on a non-recourse basis. This sale is subject to Standard Pacific Mortgage's obligation to repay its gain on sale if the loan is prepaid by the borrower within a certain time period following such sale, or to repurchase the loan if, among other things, the purchaser's underwriting guidelines are not met, or there is fraud in connection with the loan. As of December 31, 2012, we had incurred an aggregate of \$9.5 million in losses related to loan repurchases and make-whole payments we had been required to make on the \$7.2 billion total dollar value of the loans we originated from the beginning of 2004 through the end of 2012. During the years ended December 31, 2012, 2011 and 2010, Standard Pacific Mortgage recorded loan loss expense related to indemnification and repurchase allowances of \$1.0 million, \$4.3 million and \$2.3 million, respectively. As of December 31, 2012, Standard Pacific Mortgage had indemnity and repurchase allowances

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related to loans sold of approximately \$3.0 million. In addition, during the years ended December 31, 2012, 2011 and 2010, Standard Pacific Mortgage made make-whole payments totaling approximately \$1.0 million related to eight loans, \$3.1 million related to 27 loans and \$1.9 million related to 17 loans, respectively.

e. Insurance and Litigation Accruals

We are involved in various litigation and legal claims arising in the ordinary course of business and have established insurance and litigation accruals for estimated future claim costs (please see Note 2.s. for further discussion).

f. Operating Leases

We lease office facilities and certain equipment under noncancelable operating leases. Future minimum rental payments under these leases, net of related subleases, having an initial term in excess of one year as of December 31, 2012 are as follows:

	Year Ended December 31, (Dollars in thousands)
2013	\$ 2,888
2014	2,379
2015	1,779
2016	1,118
2017	633
Thereafter	322
Subtotal	9,119
Less: Estimated sublease income	(109)
Net rental obligations	\$ 9,010

Rent expense under noncancelable operating leases, net of sublease income, for each of the years ended December 31, 2012, 2011 and 2010 was approximately \$3.6 million, \$3.9 million and \$4.3 million, respectively.

11. Income Taxes

The (provision) benefit for income taxes includes the following components:

	2012	Year Ended December 31, 2011	2010
			(Dollars in thousands)
Current (provision) benefit for income taxes:			
Federal	\$ (766)	) \$ (130)	) \$ (899)
State		186	1,456
	(766)	) 56	557

Deferred (provision) benefit for income taxes:

Federal	338,500		
State	115,500		
	454,000		
(Provision) benefit for income taxes	\$453,234	\$56	\$557

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We account for income taxes in accordance with ASC Topic 740, Income Taxes (“ASC 740”). ASC 740 requires an asset and liability approach for measuring deferred taxes based on temporary differences between the financial statement and tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for years in which taxes are expected to be paid or recovered. The components of our net deferred income tax asset are as follows:

	December 31,	
	2012	2011
	(Dollars in thousands)	
Inventory impairment charges	\$136,239	\$184,393
Financial accruals	39,482	52,493
Federal net operating loss carryforwards	230,220	210,013
State net operating loss carryforwards	60,742	51,003
Goodwill impairment charges	11,019	17,482
Other, net	366	563
Total deferred tax asset	478,068	515,947
Less: Valuation allowance	(22,696)	(510,621)
Net deferred tax asset	\$455,372	\$5,326

At December 31, 2012, we had gross federal and state net operating loss carryforwards of approximately \$662 million and \$1,134 million, respectively, which if unused, will begin to expire in 2028 and 2013, respectively.

The effective tax rate differs from the federal statutory rate of 35% due to the following items:

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Income (loss) before taxes	\$78,187	\$(16,473)	\$(12,281)
(Provision) benefit for income taxes at federal statutory rate	\$(27,365)	\$5,765	\$4,298
(Increases) decreases in tax resulting from:			
State income taxes, net of federal benefit	(2,947)	615	372
Net deferred tax asset valuation (allowance) benefit	487,925	(6,415)	(4,687)
State net operating loss expirations	(4,201)		
Other, net	(178)	91	574
Benefit for income taxes	\$453,234	\$56	\$557
Effective tax rate		0.3	% 4.5

Each quarter we assess our deferred tax asset to determine whether all or any portion of the asset is more likely than not unrealizable under ASC 740. We are required to establish a valuation allowance for any portion of the asset we conclude is more likely than not to be unrealizable. Our assessment considers, among other things, the nature, frequency and severity of our current and cumulative losses, forecasts of our future taxable income, the duration of statutory carryforward periods, our utilization experience with operating loss and tax credit carryforwards, and tax planning alternatives.

As of December 31, 2012, we had a \$478.1 million deferred tax asset which was partially offset by a deferred tax asset valuation allowance of \$22.7 million. During the year ended December 31, 2012, we utilized \$30.8 million of our deferred tax asset valuation allowance to fully offset the income tax provision related to the pretax income for the year. During the years ended December 31, 2011 and 2010, we generated deferred tax assets of \$6.4 million and \$4.7 million, respectively, related to the pretax losses for those years.

During the year ended December 31, 2012, we recognized a \$453.2 million income tax benefit that resulted from the reversal of all but \$22.7 million of our deferred tax asset valuation allowance. We concluded that this reversal was appropriate after determining that it was more likely than not that we would be able to realize the full amount of this income tax benefit within allowable net loss carryforward periods. In reaching this conclusion we considered, among other things, our recent financial and operating results (three years of cumulative income, five consecutive quarters of profitability, and strong growth in net new orders and backlog) and improved conditions in the new home market (home sales pace and prices trending up steadily in most of our markets throughout 2012, coupled with falling unemployment, historically low interest rates, and high affordability). The remaining valuation allowance of \$22.7 million relates primarily to potential Section 382

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limitations that expire during the 2013 second quarter and to net operating loss carryforwards in certain states that have short carryforward periods.

As of December 31, 2012, approximately \$100 million of our deferred tax asset related to unrealized built-in losses generated primarily from inventory impairment charges. Our ability to recognize a tax benefit from these unrealized built-in losses may be limited under Internal Revenue Code Section 382 depending on, among other things, when, and at what price, we dispose of the underlying assets. Assets with built-in losses sold prior to June 27, 2013 are subject to a \$15.6 million gross annual deduction limitation for federal and state purposes. Assets with built-in losses sold after June 27, 2013 are not subject to these limitations. In general, if realized tax losses from these built-in loss assets exceed \$15.6 million in any tax year prior to June 27, 2013, the built-in losses in excess of this amount will be permanently lost. During the years ended December 31, 2012, 2011 and 2010, we permanently lost \$10.5 million, \$12.2 million and \$22.9 million, respectively, as a result of the Section 382 annual limitation.

As of December 31, 2012, \$148 million (or approximately \$359 million and \$438 million, respectively, of federal and state net operating loss carryforwards on a gross basis) of our deferred tax asset related to net operating loss carryforwards is subject to the \$15.6 million gross annual deduction limitation for both federal and state purposes. The remaining \$143 million (or approximately \$303 million and \$696 million, respectively, of federal and state net operating loss carryforwards on a gross basis) is not currently limited by Section 382.

As of December 31, 2012, our liability for gross unrecognized tax benefits was \$13.5 million, all of which, if recognized, would reduce our effective tax rate. We believe that it is reasonably possible that the full amount of our unrecognized tax benefits may be recognized by the end of fiscal 2013 as a result of a lapse of the statute of limitations. As of December 31, 2012, we remained subject to examination by various tax jurisdictions for the tax years ended December 31, 2008 through 2012. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, excluding \$2.2 million and \$1.5 million of accrued interest as of December 31, 2012 and 2011, respectively, is as follows:

	Year Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Balance, beginning of the year	\$13,484	\$13,670
Changes based on tax positions related to the current year		
Changes for tax position in prior years		
Reductions due to lapse of statute of limitations		(186)
Settlements		
Balance, end of the year	\$13,484	\$13,484

12. Stock Incentive and Employee Benefit Plans

a. Stock Incentive Plans

The Company has share-based awards outstanding under four different plans, pursuant to which we have granted stock options, stock appreciation rights, restricted and unrestricted stock, and performance share awards to key officers, employees, and directors. The exercise price of our share-based awards may not be less than the market

value of our common stock on the date of grant. Stock options and stock appreciation rights vest based on either time (generally over a one to four year period) or market performance (based on stock price appreciation) and generally expire between five and ten years after the date of grant. The fair value for stock options and stock appreciation rights is established at the date of grant using the Black-Scholes model for awards that vest based on time and a lattice model for awards that vest based on market performance. Restricted stock typically vest over a three year period and stock grants are valued at the closing price on the date of grant.

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The following is a summary of stock option and stock appreciation rights activity relating to our four plans on a combined basis for the years ended December 31, 2012, 2011 and 2010:

	2012		2011		2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	17,877,785	\$ 4.33	18,630,205	\$ 4.46	20,391,956	\$ 4.75
Granted	6,222,222	4.24	1,350,000	3.82	400,000	3.81
Exercised	(4,677,271)	2.79	(1,050,025)	1.19	(1,181,743)	2.21
Canceled	(806,354)	16.04	(1,052,395)	9.15	(980,008)	12.90
Outstanding, end of year	18,616,382	\$ 4.21	17,877,785	\$ 4.33	18,630,205	\$ 4.46
Exercisable at end of year	11,956,258	\$ 4.17	13,137,785	\$ 4.84	10,401,955	\$ 5.96
Available for future grant	23,283,953		31,570,998		4,279,893	

At December 31, 2012, 18,120,968 stock options and stock appreciation rights were vested or expected to vest in the future with a weighted average exercise price of \$4.20 and a weighted average expected life of 3.56 years.

The following table summarizes information about stock options and stock appreciation rights outstanding and exercisable at December 31, 2012:

		Outstanding		Exercisable		
		Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Shares	Weighted Average Exercise Price
Exercise Prices Low	High					
\$ 0.67	\$ 6.94	17,999,585	\$ 3.43	3.66	11,339,461	\$ 2.94
\$ 14.82	\$ 29.84	616,797	\$ 26.92	1.08	616,797	\$ 26.92

The fair value of each stock option and stock appreciation right granted during each of the three years ended December 31, 2012, 2011 and 2010 was estimated using the following weighted average assumptions:

	2012	2011	2010
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	82.09%	97.40%	93.70%

Risk-free interest rate	0.73%	0.75%	1.33%
	2.5	3.5	4.5
Expected life	years	years	years

Based on the above assumptions, the weighted average per share fair value of stock options and stock appreciation rights granted during the years ended December 31, 2012, 2011 and 2010, was \$0.91, \$2.44 and \$2.63, respectively.

On May 14, 2008, our stockholders approved our 2008 Stock Incentive Plan (the “2008 Plan”). Under the 2008 Plan, as amended and approved by the stockholders on May 18, 2011, the maximum number of shares of common stock that may be issued is 32,486,733 plus awards forfeited under the 2008 Plan. During the year ended December 31, 2012, we granted 50,000 stock options to our employees, and issued 462,119 shares of common stock to our officers and key employees, 77,948 shares of common stock to our independent directors, and 7,610 shares to all employees in connection with a companywide stock grant. Additionally, in connection with the Company’s 2012 incentive compensation program, on April 2, 2012 (“issuance date”) the Compensation Committee of our Board of Directors granted long-term equity awards to executive officers and certain key employees of the Company. The grant consisted of the following awards:

- Restricted Stock – 359,599 shares of restricted common stock vesting in three equal installments on each of the first three anniversaries of the issuance date;

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- Capped Stock Appreciation Rights – 3,472,222 capped common stock appreciation rights with a grant price equal to the closing price of the Company’s common stock (\$4.29) on the issuance date (the “grant price”), vesting in three equal installments on each of the first three anniversaries of the issuance date, and with the value per share of the award capped at the difference between twelve dollars (\$12) and the grant price; and
- Performance Share Awards – 405,012 target performance share awards with payouts at 1-4 times the target number of shares of common stock based on the Company’s actual earnings per share for the year ended December 31, 2014.

On April 2, 2012 the Compensation Committee of our Board of Directors also provided a one-time grant of 2,700,000 market based capped stock appreciation rights to 12 senior executives. These market based grants have a five year term and vest in three equal tranches only if the Company’s common stock closing price reaches eight (\$8), nine (\$9) and ten (\$10) dollars, respectively, for twenty consecutive trading days. The value per share of the award is capped at the difference between twelve dollars (\$12) and the grant price.

Total compensation expense recognized related to stock-based compensation was as follows:

	2012	Year Ended December 31, 2011 2010 (Dollars in thousands)	
Stock options and stock appreciation rights	\$4,523	\$7,259	\$6,084
Unrestricted stock grants	488	3,980	5,764
Restricted stock grants	378		
Performance share awards	1,762		
Total	\$7,151	\$11,239	\$11,848

Total unrecognized compensation expense related to stock-based compensation was as follows:

	2012		As of December 31, 2011		2010	
	Unrecognized Expense	Weighted Average Period	Unrecognized Expense (Dollars in thousands)	Weighted Average Period	Unrecognized Expense	Weighted Average Period
Unvested stock options and stock appreciation rights	\$ 4,395	1.7 years	\$ 3,765	1.6 years	\$ 7,799	1.7 years
Nonvested restricted stock grants	1,098	2.2 years				
Nonvested performance share awards	5,188	2.2 years				
Total unrecognized compensation expense	\$ 10,681	2.0 years	\$ 3,765	1.6 years	\$ 7,799	1.7 years

b. Employee Benefit Plan

We have a defined contribution plan pursuant to Section 401(k) of the Internal Revenue Code. Each employee may elect to make before-tax contributions up to the current tax limits. The Company matches employee contributions up to \$5,000 per employee per year. The Company provides this plan to help its employees save a portion of their cash compensation for retirement in a tax efficient environment. Our contributions to the plan for the years ended December 31, 2012, 2011 and 2010, were \$2.2 million, \$2.1 million and \$2.1 million, respectively.

13. Stockholder Rights Plan

On December 20, 2011, we entered into an Amended and Restated Rights Agreement (the “Rights Agreement”) with Mellon Investor Services LLC. The Rights Agreement amends and restates in its entirety the Company’s rights agreement, which has been effective since December 31, 2001 (as in effect prior to December 20, 2011, the “Original Rights Agreement”). Under the Original Rights Agreement, one preferred stock purchase right was granted for each share of outstanding common stock of Standard Pacific payable to holders of record on December 31, 2001, and all subsequently issued shares of our common stock. Each right entitles the holder, in certain situations where a person acquires beneficial

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ownership of 15% or more of our common stock, as described in the Rights Agreement, and upon paying the exercise price (currently \$20.00), to purchase common stock or other securities having a market value equal to two times the exercise price. Also, after any such acquisition of 15% of our common stock, if we merge with another corporation, or if 50% or more of our assets are sold, the rights holders may be entitled, upon payment of the exercise price, to buy common shares of the acquiring party at a 50% discount from the then-current market value. In either situation, the rights are not exercisable by the acquiring party. Until the occurrence of certain events described in the Rights Agreement, the rights may be terminated at any time or redeemed at the rate of \$0.001 per right and the Rights Agreement amended by Standard Pacific's Board of Directors including, if it believes a proposed acquisition to be in the best interests of our stockholders. As provided in the Original Rights Agreement, under the Rights Agreement, MP CA Homes, LLC and its affiliates generally will not be deemed an acquiring party under the Rights Agreement. The rights will expire on December 31, 2014, unless earlier terminated, redeemed or exchanged. Initially the rights trade with our common stock and are not exercisable, however, if the rights are separated from the common shares, the rights expire three years from the date of such separation.

14. Results of Quarterly Operations (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (1)
	(Dollars in thousands, except per share amounts)				
2012:					
Revenues	\$227,328	\$280,277	\$323,759	\$426,894	\$1,258,258
Homebuilding gross margin	\$44,741	\$56,286	\$64,105	\$78,542	\$243,674
Net income	\$8,523	\$14,263	\$21,710	\$486,925	\$531,421
Basic income per common share	\$0.02	\$0.04	\$0.06	\$1.35	\$1.52
Diluted income per common share	\$0.02	\$0.04	\$0.05	\$1.22	\$1.44
2011:					
Revenues	\$144,759	\$206,880	\$245,322	\$296,939	\$893,900
Homebuilding gross margin	\$29,387	\$34,798	\$38,246	\$59,766	\$162,197
Net income (loss)	\$(14,797)	\$(10,519)	\$(6,434)	\$15,333	\$(16,417)
Basic income (loss) per common share	\$(0.04)	\$(0.03)	\$(0.02)	\$0.04	\$(0.05)
Diluted income (loss) per common share	\$(0.04)	\$(0.03)	\$(0.02)	\$0.04	\$(0.05)

(1) Some amounts do not add across due to rounding differences in quarterly amounts and due to the impact of differences between the quarterly and annual weighted average share calculations.

15. Supplemental Disclosure to Consolidated Statements of Cash Flows

The following are supplemental disclosures to the consolidated statements of cash flows:

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		

Supplemental Disclosures of Cash Flow Information:

Cash paid during the period for:

Interest	\$122,352	\$104,074	\$108,782
Income taxes	\$206	\$100	\$73

Supplemental Disclosure of Noncash Activities:

Increase in inventory in connection with purchase or consolidation of joint ventures	\$66,323	\$	\$1,372
Changes in inventories not owned	\$5,139	\$34,961	\$6,719
Changes in liabilities from inventories not owned	\$5,139	\$34,961	\$3,213
Changes in noncontrolling interests	\$	\$	\$3,506

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16. Supplemental Guarantor Information

Certain of our 100% owned direct and indirect subsidiaries guarantee our outstanding senior and convertible senior notes payable. The guarantees are full and unconditional and joint and several. Presented below are the condensed consolidated financial statements for our guarantor subsidiaries and non-guarantor subsidiaries.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2012

	Standard Pacific Corp.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Standard Pacific Corp.
	(Dollars in thousands)				
Homebuilding:					
Revenues	\$518,040	\$ 580,419	\$ 138,499	\$	\$ 1,236,958
Cost of sales	(408,569)	(463,566)	(121,149)		(993,284)
Gross margin	109,471	116,853	17,350		243,674
Selling, general and administrative expenses	(78,335)	(81,490)	(12,382)		(172,207)
Loss from unconsolidated joint ventures	(166)	(659)	(1,265)		(2,090)
Equity income (loss) of subsidiaries	13,618			(13,618)	
Interest expense	17,319	(17,052)	(6,663)		(6,396)
Other income (expense)	4,695	194	(225)		4,664
Homebuilding pretax income (loss)	66,602	17,846	(3,185)	(13,618)	67,645
Financial Services:					
Financial services pretax income (loss)	(304)	304	10,542		10,542
Income (loss) before income taxes	66,298	18,150	7,357	(13,618)	78,187
(Provision) benefit for income taxes	465,123	(6,668)	(5,221)		453,234
Net income (loss)	\$531,421	\$ 11,482	\$ 2,136	\$ (13,618)	\$ 531,421

Year Ended December 31, 2011

	Standard Pacific Corp.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Standard Pacific Corp.
	(Dollars in thousands)				
Homebuilding:					
Revenues	\$346,645	\$ 483,396	\$ 52,952	\$	\$ 882,993
Cost of sales	(277,248)	(400,150)	(43,398)		(720,796)
Gross margin	69,397	83,246	9,554		162,197
Selling, general and administrative expenses	(79,469)	(69,148)	(5,758)		(154,375)
	653	(192)	(254)		207

Income (loss) from unconsolidated joint ventures					
Equity income (loss) of subsidiaries	756			(756)	)
Interest expense	(3,036)	)	(19,603)	)	(2,529)) (25,168)
Other income (expense)	(802)	)	(1,387)	)	1,172 (1,017)
Homebuilding pretax income (loss)	(12,501)	)	(7,084)	)	2,185 (756)) (18,156)
Financial Services:					
Financial services pretax income (loss)	(177)	)	177		1,683 1,683
Income (loss) before income taxes	(12,678)	)	(6,907)	)	3,868 (756)) (16,473)
(Provision) benefit for income taxes	(3,739)	)	4,757		(962)) 56
Net income (loss)	\$ (16,417)	)	\$ (2,150)	)	\$ 2,906 \$ (756)) \$ (16,417)

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STANDARD PACIFIC CORP. AND SUBSIDIARIES

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16. Supplemental Guarantor Information

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2010

	Standard Pacific Corp.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Standard Pacific Corp.
	(Dollars in thousands)				
Homebuilding:					
Revenues	\$401,476	\$ 444,773	\$ 66,169	\$	\$ 912,418
Cost of sales	(295,214)	(361,464)	(53,896)		(710,574)
Gross margin	106,262	83,309	12,273		201,844
Selling, general and administrative expenses	(80,942)	(65,113)	(4,487)		(150,542)
Income (loss) from unconsolidated joint ventures	1,089	(319)	396		1,166
Equity income (loss) of subsidiaries	(622)			622	
Interest expense	(16,468)	(21,997)	(1,709)		(40,174)
Loss on early extinguishment of debt	(30,028)				(30,028)
Other income (expense)	(536)	(493)	4,762		3,733
Homebuilding pretax income (loss)	(21,245)	(4,613)	11,235	622	(14,001)
Financial Services:					
Financial services pretax income (loss)	(142)	142	1,720		1,720
Income (loss) before income taxes	(21,387)	(4,471)	12,955	622	(12,281)
(Provision) benefit for income taxes	9,663	(1,893)	(7,213)		557
Net income (loss)	\$(11,724)	\$ (6,364)	\$ 5,742	\$ 622	\$ (11,724)

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STANDARD PACIFIC CORP. AND SUBSIDIARIES

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16. Supplemental Guarantor Information

CONDENSED CONSOLIDATING BALANCE SHEET

	December 31, 2012				
	Standard Pacific Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Standard Pacific Corp.
	(Dollars in thousands)				
ASSETS					
Homebuilding:					
Cash and equivalents	\$ 154,722	\$ 114	\$ 185,072	\$	\$ 339,908
Restricted cash			26,900		26,900
Trade and other receivables	845,245	4,219	19,981	(858,721)	10,724
Inventories:					
Owned	759,553	766,188	445,677		1,971,418
Not owned	4,495	36,991	29,809		71,295
Investments in unconsolidated joint ventures	1,649	622	50,172		52,443
Investments in subsidiaries	717,509			(717,509)	
Deferred income taxes, net	455,224			148	455,372
Other assets	37,817	3,267	834		41,918
Total Homebuilding Assets	2,976,214	811,401	758,445	(1,576,082)	2,969,978
Financial Services:					
Cash and equivalents			6,647		6,647
Restricted cash			2,420		2,420
Mortgage loans held for sale, net			119,549		119,549
Mortgage loans held for investment, net			9,923		9,923
Other assets			7,249	(2,692)	4,557
Total Financial Services Assets			145,788	(2,692)	143,096
Total Assets	\$ 2,976,214	\$ 811,401	\$ 904,233	\$ (1,578,774)	\$ 3,113,074
LIABILITIES AND EQUITY					
Homebuilding:					
Accounts payable	\$ 8,038	\$ 10,537	\$ 3,871	\$	\$ 22,446
Accrued liabilities	175,054	518,835	343,485	(839,230)	198,144

Secured project debt and other notes payable	6,804		4,712		11,516
Senior notes payable	1,530,502				1,530,502
Total Homebuilding Liabilities	1,720,398	529,372	352,068	(839,230)	1,762,608
Financial Services:					
Accounts payable and other liabilities			11,026	(8,535)	2,491
Mortgage credit facilities			105,659	(13,500)	92,159
Total Financial Services Liabilities			116,685	(22,035)	94,650
Total Liabilities	1,720,398	529,372	468,753	(861,265)	1,857,258
Equity:					
Total Stockholders' Equity	1,255,816	282,029	435,480	(717,509)	1,255,816
Total Liabilities and Equity	\$2,976,214	\$ 811,401	\$ 904,233	\$ (1,578,774)	\$ 3,113,074

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16. Supplemental Guarantor Information

CONDENSED CONSOLIDATING BALANCE SHEET

	December 31, 2011				Consolidated
	Standard Pacific Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Standard Pacific Corp.
	(Dollars in thousands)				
ASSETS					
Homebuilding:					
Cash and equivalents	\$66,757	\$ 176	\$ 339,852	\$	\$ 406,785
Restricted cash			31,372		31,372
Trade and other receivables	485,835	5,435	23,898	(503,643)	11,525
Inventories:					
Owned	647,577	623,945	205,717		1,477,239
Not owned	6,123	51,684	2,033		59,840
Investments in unconsolidated joint ventures	24,082	2,340	55,385		81,807
Investments in subsidiaries	766,496			(766,496)	
Deferred income taxes, net	5,178			148	5,326
Other assets	32,496	2,965	232		35,693
Total Homebuilding Assets	2,034,544	686,545	658,489	(1,269,991)	2,109,587
Financial Services:					
Cash and equivalents			3,737		3,737
Restricted cash			1,295		1,295
Mortgage loans held for sale, net			74,195		74,195
Mortgage loans held for investment, net			10,115		10,115
Other assets			4,517	(3,063)	1,454
Total Financial Services Assets			93,859	(3,063)	90,796
Total Assets	\$2,034,544	\$ 686,545	\$ 752,348	\$ (1,273,054)	\$ 2,200,383
LIABILITIES AND EQUITY					
Homebuilding:					
Accounts payable	\$6,911	\$ 9,887	\$ 1,031	\$	\$ 17,829
Accrued liabilities	82,462	406,111	181,082	(483,765)	185,890

Secured project debt and other notes payable			3,531		3,531
Senior notes payable	1,275,093				1,275,093
Senior subordinated notes payable	46,324				46,324
Total Homebuilding Liabilities	1,410,790	415,998	185,644	(483,765)	1,528,667
Financial Services:					
Accounts payable and other liabilities			5,947	(4,793)	1,154
Mortgage credit facilities			64,808	(18,000)	46,808
Total Financial Services Liabilities			70,755	(22,793)	47,962
Total Liabilities	1,410,790	415,998	256,399	(506,558)	1,576,629
Equity:					
Total Stockholders' Equity	623,754	270,547	495,949	(766,496)	623,754
Total Liabilities and Equity	\$2,034,544	\$ 686,545	\$ 752,348	\$ (1,273,054)	\$ 2,200,383

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16. Supplemental Guarantor Information

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2012

	Standard Pacific Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Standard Pacific Corp.
(Dollars in thousands)					
Cash Flows From Operating Activities:					
Net cash provided by (used in) operating activities	\$ (248,495)	\$ (794)	\$ (8,227)	\$ (25,600)	\$ (283,116)
Cash Flows From Investing Activities:					
Investments in unconsolidated homebuilding joint ventures	(2,630)	(180)	(80,248)	25,600	(57,458)
Distributions of capital from unconsolidated homebuilding joint ventures	1,392	1,500	11,638		14,530
Net cash paid for acquisitions			(60,752)		(60,752)
Other investing activities	(1,429)	(588)	492		(1,525)
Net cash provided by (used in) investing activities	(2,667)	732	(128,870)	25,600	(105,205)
Cash Flows From Financing Activities:					
Change in restricted cash			3,347		3,347
Principal payments on secured project debt and other notes payable			(866)		(866)
Principal payments on senior subordinated notes payable	(49,603)				(49,603)
Proceeds from convertible senior notes payable	253,000				253,000
Payment of debt issuance costs	(11,761)				(11,761)
Net proceeds from (payments on) mortgage credit facilities			45,351		45,351
Net proceeds from the issuance of common stock	71,847				71,847
(Contributions to) distributions from Corporate and subsidiaries	62,605		(62,605)		
Proceeds from the exercise of stock options	13,039				13,039

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Net cash provided by (used in) financing activities	339,127	(14,773)	324,354
Net increase (decrease) in cash and equivalents	87,965	(62)	(151,870)
Cash and equivalents at beginning of year	66,757	176	343,589
Cash and equivalents at end of year	\$ 154,722	\$ 114	\$ 191,719
			\$ 346,555

Year Ended December 31, 2011

	Standard Pacific Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Standard Pacific Corp.
(Dollars in thousands)					
Cash Flows From Operating Activities:					
Net cash provided by (used in) operating activities	\$ (287,465)	\$ 636	\$ (35,784)	\$	\$ (322,613)
Cash Flows From Investing Activities:					
Investments in unconsolidated homebuilding joint ventures	(4,265)	(216)	(10,208)		(14,689)
Distributions of capital from unconsolidated homebuilding joint ventures	751		7,842		8,593
Other investing activities	(1,512)	(188)	(517)		(2,217)
Net cash provided by (used in) investing activities	(5,026)	(404)	(2,883)		(8,313)
Cash Flows From Financing Activities:					
Change in restricted cash			(1,559)		(1,559)
Principal payments on secured project debt and other notes payable		(273)	(934)		(1,207)
Payment of debt issuance costs	(4,575)				(4,575)
Net proceeds from (payments on) mortgage credit facilities			16,464		16,464
(Contributions to) distributions from Corporate and subsidiaries	102,000		(102,000)		
Payment of issuance costs in connection with exercise of Warrant for common stock	(324)				(324)
Proceeds from the exercise of stock options	1,278				1,278
Net cash provided by (used in) financing activities	98,379	(273)	(88,029)		10,077
	(194,112)	(41)	(126,696)		(320,849)

Net increase (decrease) in cash and
equivalents

Cash and equivalents at beginning of
year

260,869

217

470,285

731,371

Cash and equivalents at end of year

\$ 66,757

\$ 176

\$ 343,589

\$

\$ 410,522

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STANDARD PACIFIC CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Supplemental Guarantor Information

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2010

	Standard Pacific Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Standard Pacific Corp.
	(Dollars in thousands)				
Cash Flows From Operating Activities:					
Net cash provided by (used in) operating activities	\$ (206,309)	\$ 18,334	\$ 107,017	\$	\$ (80,958)
Cash Flows From Investing Activities:					
Investments in unconsolidated homebuilding joint ventures	(3,260)	(132)	(36,121)		(39,513)
Distributions of capital from unconsolidated homebuilding joint ventures	4	(1)	7,637		7,640
Other investing activities	(705)	(362)	(515)		(1,582)
Net cash provided by (used in) investing activities	(3,961)	(495)	(28,999)		(33,455)
Cash Flows From Financing Activities:					
Change in restricted cash			(12,843)		(12,843)
Net proceeds from (principal payments on) secured project debt and other notes payable	(89,052)	(18,024)	23,514		(83,562)
Principal payments on senior and senior subordinated notes payable	(792,389)				(792,389)
Proceeds from the issuance of senior notes payable	977,804				977,804
Payment of debt issuance costs	(17,215)				(17,215)
Net proceeds from (payments on) mortgage credit facilities			(10,651)		(10,651)
(Contributions to) distributions from Corporate and subsidiaries	19,775		(19,775)		
Net proceeds from issuance of common stock	186,443				186,443
Excess tax benefits from share-based payment arrangements	27				27

Proceeds from the exercise of stock options	2,611				2,611
Net cash provided by (used in) financing activities	288,004	(18,024)	(19,755)		250,225
Net increase (decrease) in cash and equivalents	77,734	(185)	58,263		135,812
Cash and equivalents at beginning of year	183,135	402	412,022		595,559
Cash and equivalents at end of year	\$ 260,869	\$ 217	\$ 470,285	\$	\$ 731,371

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

Not applicable.

ITEM 9A.CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this annual report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e), including controls and procedures to timely alert management to material information relating to Standard Pacific Corp. and subsidiaries required to be included in our periodic SEC filings. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Ernst & Young LLP, our independent registered public accounting firm, as stated in its attestation report which is included herein.

Changes in Internal Control Over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal control over financial reporting to determine whether any change occurred during the fourth quarter of the year ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the fourth quarter of the period covered by this report.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Standard Pacific Corp.:

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

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

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

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

In our opinion, Standard Pacific Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Standard Pacific Corp. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012 of Standard Pacific Corp. and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Irvine, California
February 22, 2013

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K will be set forth in the Company's 2013 Annual Meeting Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2013 (the "2013 Proxy Statement"). For the limited purpose of providing the information necessary to comply with this Item 10, the 2013 Proxy Statement is incorporated herein by this reference. All references to the 2013 Proxy Statement in this Part III are exclusive of the information set forth under the captions "Compensation Committee Report" and "Audit Committee Report."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K will be set forth in the 2013 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 11, the 2013 Proxy Statement is incorporated herein by this reference.

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

The information required by Item 201(d) and 403 of Regulation S-K will be set forth in the 2013 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 12, the 2013 Proxy Statement is incorporated herein by this reference.

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

The information required by Items 404 and 407(a) of Regulation S-K will be set forth in the 2013 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 13, the 2013 Proxy Statement is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

This information required by Item 9(e) of Schedule 14A will be set forth in the 2013 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 14, the 2013 Proxy Statement is incorporated herein by this reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

	Page Reference
(a)(1) Financial Statements, included in Part II of this report:	
<u>Report of Independent Registered Public Accounting Firm</u>	37
<u>Consolidated Statements of Operations for each of the three years in the period ended December 31, 2012</u>	38
<u>Consolidated Statements of Comprehensive Income (Loss) for each of the three years in the period ended December 31, 2012</u>	39
<u>Consolidated Balance Sheets at December 31, 2012 and 2011</u>	40
<u>Consolidated Statements of Equity for each of the three years in the period ended December 31, 2012</u>	41
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2012</u>	42
<u>Notes to Consolidated Financial Statements</u>	43
(2) Financial Statement Schedules:	
Financial Statement Schedules are omitted since the required information is not present or is not present in the amounts sufficient to require submission of a schedule, or because the information required is included in the consolidated financial statements, including the notes thereto.	
(3) Index to Exhibits	
See Index to Exhibits on pages 77-79 below.	
(b) Index to Exhibits. See Index to Exhibits on pages 77-79 below.	
(c) Financial Statements required by Regulation S-X excluded from the annual report to shareholders by Rule 14a-3(b). Not applicable.	

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STANDARD PACIFIC
CORP.
(Registrant)

By: /s/ Scott D.
Stowell
Scott D. Stowell
Chief Executive
Officer
and President

February 22,
2013

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

Signature	Title	Date
/S/ Scott D. Stowell (Scott D. Stowell)	Chief Executive Officer, President and Director	February 22, 2013
/S/ Ronald R. Foell (Ronald R. Foell)	Chairman of the Board	February 22, 2013
/S/ Jeff J. McCall (Jeff J. McCall)	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 22, 2013
/S/ Bruce A. Choate (Bruce A. Choate)	Director	February 22, 2013
/S/ Douglas C. Jacobs (Douglas C. Jacobs)	Director	February 22, 2013
/S/ David J. Matlin (David J. Matlin)	Director	February 22, 2013
/S/ John R. Peshkin (John R. Peshkin)	Director	February 22, 2013

/S/ Peter Schoels
(Peter Schoels)

Director

February 22, 2013

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INDEX TO EXHIBITS

- *3.1 Amended and Restated Certificate of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 19, 2008.
- *3.2 Certificate of Designations of Series A Junior Participating Cumulative Preferred Stock of the Registrant, incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on August 19, 2008.
- *3.3 Certificate of Designations of Series B Junior Participating Convertible Preferred Stock of the Registrant, incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed on August 19, 2008.
- *3.4 Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on May 11, 2012.
- *4.1 Form of Specimen Stock Certificate, incorporated by reference to Exhibit 28.3 of the Registrant's Registration Statement on Form S-4 (file no. 33-42293) filed on August 16, 1991.
- *4.2 Amended and Restated Rights Agreement, dated as of December 20, 2011, between the Registrant and Mellon Investor Services LLC, as Rights Agent, incorporated by reference to Exhibit 4.1 on Form 8-K filed on December 22, 2011.
- *4.3 Senior Debt Securities Indenture, dated as of April 1, 1999, by and between the Registrant and The First National Bank of Chicago, as Trustee, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on April 16, 1999.
- *4.4 Eighth Supplemental Indenture relating to the Registrant's 6¼% Senior Notes due 2014, dated as of March 11, 2004, by and between the Registrant and J.P. Morgan Trust Company, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on March 16, 2004.
- *4.5 Tenth Supplemental Indenture relating to the Registrant's 7% Senior Notes due 2015, dated as of August 1, 2005, by and between the Registrant and J.P. Morgan Trust Company, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on August 5, 2005.
- *4.6 Eleventh Supplemental Indenture relating to the addition of certain of the Registrant's wholly owned subsidiaries as guarantors of all of the Registrant's outstanding senior notes (including the form of guaranty), dated as of February 22, 2006, by and between the Registrant and J.P. Morgan Trust Company, National Association, as Trustee incorporated by reference to Exhibit 4.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005.
- *4.7 Twelfth Supplemental Indenture, relating to the amendment of the security provisions of the Registrant's outstanding senior notes, dated as of May 5, 2006, by and between the Registrant and J.P. Morgan Trust Company, National Association, as Trustee, incorporated

by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.

- *4.8 Thirteenth Supplemental Indenture, dated as of October 8, 2009, between the Registrant and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed on October 9, 2009.
- *4.9 Fourteenth Supplemental Indenture relating to the Registrant's 8 % Senior Notes due 2018, dated as of May 3, 2010, by and between the Registrant and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on May 3, 2010.
- *4.10 Fifteenth Supplemental Indenture relating to the Registrant's 8 % Senior Notes due 2018, dated as of December 22, 2010, by and among the Registrant, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on December 23, 2010.
- *4.11 Sixteenth Supplemental Indenture relating to the Registrant's 8 % Senior Notes due 2021, dated as of December 22, 2010, by and among the Registrant, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on

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Form 8-K filed on December 23, 2010.

- *4.12 Seventeenth Supplemental Indenture relating to the Registrant's 6¼% Senior Notes due 2014 and 7% Senior Notes due 2015, dated as of December 22, 2010, by and among the Registrant, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.6 to the Registrant's Current Report on Form 8-K filed on December 23, 2010.

- *4.13 Eighteenth Supplemental Indenture, dated as of August 6, 2012, relating to the Registrant's 1¼% Convertible Senior Notes due 2032, by and among the Company, the guarantors thereto and The Bank of New York Mellon Trust Company, N.A, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on August 6, 2012.

- *4.14 Nineteenth Supplemental Indenture, dated as of August 6, 2012, by and among the Company, the guarantors thereto and The Bank of New York Mellon Trust Company, N.A, incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed on August 6, 2012.

- *4.15 Indenture relating to Standard Pacific Escrow LLC's 10¾% Senior Notes due 2016 (which were subsequently assumed by the Registrant), dated as of September 17, 2009, between Standard Pacific Escrow LLC and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on September 17, 2009.

- *4.16 First Supplemental Indenture relating to Standard Pacific Escrow LLC's 10¾% Senior Notes due 2016 (which were subsequently assumed by the Registrant), dated as of October 8, 2009, between the Registrant, Standard Pacific Escrow LLC and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on October 9, 2009.

- *10.1 Stockholders Agreement, dated June 27, 2008, between the Registrant and MP CA Homes, LLC, incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on July 1, 2008.

- *10.2 Letter Agreement, dated April 27, 2011, amending the June 27, 2008 Stockholders Agreement between the Registrant and MP CA Homes, LLC, incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

- +*10.3 Standard Pacific Corp. 1997 Stock Incentive Plan, incorporated by reference to Exhibit 99.1 of the Registrant's Registration Statement on Form S-8 filed on August 21, 1997.

- +*10.4 2000 Stock Incentive Plan of Standard Pacific Corp., as amended and restated, effective May 12, 2004, incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement filed on April 2, 2004.

- +*10.5 Standard Pacific Corp. 2005 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 11, 2005.

- +*10.6 Standard Pacific Corp. 2008 Equity Incentive Plan (as amended and restated May 18, 2011), incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders.
- +*10.7 Standard Terms and Conditions for Non-Qualified Stock Options to be used in connection with the Company's 2008 Equity Incentive Plan (CIC), incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
- +*10.8 Standard Terms and Conditions for Non-Qualified Stock Options to be used in connection with the Company's 2008 Equity Incentive Plan, incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
- +*10.9 Standard Terms and Conditions for Capped Stock Appreciation Rights (2008 Equity Incentive Plan), incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on March 14, 2012.
- +*10.10 Standard Terms and Conditions for Restricted Stock Grants (2008 Equity Incentive Plan), incorporated by

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reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on March 14, 2012.

- +*10.11 Standard Terms and Conditions for 2012 Performance Share Awards (2008 Equity Incentive Plan), incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on March 14, 2012.
- +*10.12 Form of Executive Officers Indemnification Agreement, incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
- +*10.13 Jeff J. McCall Employment Letter, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 3, 2011.
- +*10.14 Form of Severance and Change in Control Protection Agreement, incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on March 14, 2012.
- *10.15 Amended and Restated Credit Agreement, dated as of October 19, 2012, among Standard Pacific Corp., JPMorgan Chase Bank, N.A., and the several lenders named therein, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 19, 2012.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- 31.1 Certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from Standard Pacific Corp.'s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed furnished and not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(*) Previously filed.

(+) Management contract, compensation plan or arrangement.

