

AVATAR HOLDINGS INC  
Form 10-Q  
August 09, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended June 30, 2010**

**OR**

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

**Commission File Number 0-7616  
AVATAR HOLDINGS INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other Jurisdiction of Incorporation or Organization)*

**23-1739078**

*(I.R.S. Employer Identification No.)*

**201 Alhambra Circle, Coral Gables, Florida**

*(Address of Principal Executive Offices)*

**33134**

*(Zip Code)*

**(305) 442-7000**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

11,361,331 shares of Avatar's common stock (\$1.00 par value) were outstanding as of July 31, 2010.



**AVATAR HOLDINGS INC. AND SUBSIDIARIES**  
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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AVATAR HOLDINGS INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands)

	June 30, 2010	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents	\$ 160,266	\$ 217,132
Restricted cash	23,080	699
Receivables, net	6,841	6,656
Income tax receivable	1,391	35,018
Land and other inventories	263,594	264,236
Property and equipment, net	46,493	48,010
Poinciana Parkway	8,452	8,482
Investment in and notes receivable from unconsolidated entities	5,228	5,321
Prepaid expenses and other assets	8,913	9,165
<b>Total Assets</b>	<b>\$ 524,258</b>	<b>\$ 594,719</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,401	\$ 2,014
Accrued and other liabilities	6,228	5,293
Customer deposits and deferred revenues	2,895	2,874
Estimated development liability for sold land	20,347	20,417
Notes, mortgage notes and other debt:		
Corporate	63,728	63,010
Real estate	111	55,992
<b>Total Liabilities</b>	<b>94,710</b>	<b>149,600</b>
Commitments and Contingencies		
<b>Stockholders Equity</b>		
Common Stock, par value \$1 per share		
Authorized: 50,000,000 shares		
Issued: 14,019,792 shares at June 30, 2010 14,013,912 shares at December 31, 2009	14,020	14,014
Additional paid-in capital	286,670	286,096
Retained earnings	207,049	222,928
	507,739	523,038
	(78,937)	(78,937)

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Treasury stock: at cost, 2,658,461 shares at June 30, 2010 and December 31, 2009

Total Avatar stockholders' equity	428,802	444,101
Non-controlling interest	746	1,018
Total Equity	429,548	445,119
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 524,258</b>	<b>\$ 594,719</b>

See notes to consolidated financial statements.

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**AVATAR HOLDINGS INC. AND SUBSIDIARIES**  
 Consolidated Statements of Operations  
 For the six and three months ended June 30, 2010 and 2009  
 (Unaudited)  
 (Dollars in thousands except per-share amounts)

	Six Months		Three Months	
	2010	2009	2010	2009
<b>Revenues</b>				
Real estate revenues	\$ 25,938	\$ 32,012	\$ 16,496	\$ 18,261
Interest income	254	378	132	179
Other	733	2,312	674	915
Total revenues	26,925	34,702	17,302	19,355
<b>Expenses</b>				
Real estate expenses	31,694	39,518	17,819	22,061
Impairment charges	168	1,676		928
General and administrative expenses	7,845	9,011	3,762	4,344
Interest expense	3,162	3,550	1,486	1,713
Total expenses	42,869	53,755	23,067	29,046
Equity losses from unconsolidated entities	(207)	(148)	(117)	(86)
<b>Loss before income taxes</b>	(16,151)	(19,201)	(5,882)	(9,777)
Income tax benefit		830		
<b>Net loss (including net loss attributable to non-controlling interests)</b>	(16,151)	(18,371)	(5,882)	(9,777)
<b>Less: Net loss attributable to non-controlling interests</b>	(272)		(139)	
<b>Net loss attributable to Avatar</b>	(\$15,879)	(\$18,371)	(\$5,743)	(\$9,777)
<b>Basic and Diluted Loss Per Share</b>	(\$1.41)	(\$2.12)	(\$0.51)	(\$1.13)

See notes to consolidated financial statements.

**Table of Contents****AVATAR HOLDINGS INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows (Unaudited)

For the six months ended June 30, 2010 and 2009

(Dollars in Thousands)

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net loss (including net loss attributable to non-controlling interests)	(\$16,151)	(\$18,371)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,379	2,788
Amortization of stock-based compensation	580	980
Impairment of land and other inventories	168	1,228
Impairment of the Poinciana Parkway		448
Gain from repurchase of 4.50% Notes		(1,783)
Return of earnings from an unconsolidated entity	(32)	(95)
Equity losses from unconsolidated entities	207	148
Deferred income taxes		2,005
Changes in operating assets and liabilities:		
Restricted cash	(22,381)	397
Receivables, net	(185)	(795)
Income tax receivable	33,627	18,522
Land and other inventories	446	13,977
Prepaid expenses and other assets	252	1,096
Accounts payable and accrued and other liabilities	184	(970)
Customer deposits and deferred revenues	21	(886)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(885)</b>	<b>18,689</b>
<b>INVESTING ACTIVITIES</b>		
Investment in property and equipment	(48)	(34)
Return from (investment in) Poinciana Parkway	30	(5)
Investment in unconsolidated entities	(82)	(23)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(100)</b>	<b>(62)</b>
<b>FINANCING ACTIVITIES</b>		
Repurchase of 4.50% Notes		(11,627)
Principal payments of real estate borrowings	(55,881)	(97)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(55,881)</b>	<b>(11,724)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(56,866)</b>	<b>6,903</b>
Cash and cash equivalents at beginning of period	217,132	175,396
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 160,266</b>	<b>\$ 182,299</b>



See notes to consolidated financial statements.

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**AVATAR HOLDINGS INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**June 30, 2010**

**(Dollars in thousands except share and per share data)**

**Basis of Financial Statement Presentation and Summary of Significant Accounting Policies**

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

The consolidated balance sheets as of June 30, 2010 and December 31, 2009, and the related consolidated statements of operations for the six and three months ended June 30, 2010 and 2009 and the consolidated statements of cash flows for the six months ended June 30, 2010 and 2009 have been prepared in accordance with United States generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statement presentation. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The preparation of our consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Due to Avatar 's normal operating cycle being in excess of one year, we present unclassified balance sheets.

The consolidated balance sheet as of December 31, 2009 was derived from audited consolidated financial statements included in our 2009 Annual Report on Form 10-K but does not include all disclosures required by United States generally accepted accounting principles. These consolidated financial statements should be read in conjunction with our December 31, 2009 audited consolidated financial statements included in our 2009 Annual Report on Form 10-K and the notes to the consolidated financial statements included therein.

**Reclassifications**

Certain 2009 financial statement items have been reclassified to conform to the 2010 presentation.

**Cash and Cash Equivalents and Restricted Cash**

We consider all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. We also consider closing proceeds from our house closings held by our title insurance agency as cash equivalents which were \$0 and \$330 as of June 30, 2010 and December 31, 2009, respectively. As of June 30, 2010, our cash and cash equivalents were invested primarily in money market accounts that invest in U.S. government securities. Due to the short maturity period of the cash equivalents, the carrying amount of these instruments approximates their fair values.

Restricted cash includes deposits of \$23,080 and \$699 as of June 30, 2010 and December 31, 2009, respectively. The balance at June 30, 2010 comprised primarily of \$22,035 on deposit with Wells Fargo, N.A., successor by merger with Wachovia Bank, N.A., to collateralize letters of credit outstanding under the credit facility, which was effectively terminated in May 2010. Additionally, within restricted cash we include housing deposits from customers that will become available when the housing contracts close. We held escrow funds of \$286 and \$383 as of June 30, 2010 and December 31, 2009, respectively, which are not considered assets of ours and, therefore, are excluded from restricted cash in the accompanying consolidated balance sheets.

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Income Tax Receivable**

Income tax receivable consists of tax refunds we expect to receive within one year. As of June 30, 2010 and December 31, 2009, there was \$1,391 and \$35,018, respectively, of income tax receivables. During the three months ended June 30, 2010 we received tax refunds of \$33,627.

**Land and Other Inventories**

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

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

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

For assets held for sale (such as completed speculative housing inventory), we perform an impairment test in which the asset is reviewed for impairment by comparing the fair value (estimated sales prices) less cost to sell the asset to its carrying value. If such fair value less cost to sell is less than the asset's carrying value, the carrying value is written down to its estimated fair value less cost to sell.

We evaluate our Land and Other Inventories for impairment on a quarterly basis. During the six and three months ended June 30, 2010, our impairment assessment resulted in impairment charges of \$168 and \$0, respectively, for homes completed or under construction. During the six and three months ended June 30, 2009, our impairment assessment resulted in impairment charges of \$1,228 and \$798, respectively, for homes completed or under construction. Our evaluation of land developed and/or held for future development or sale did not result in impairment charges for the six and three months ended June 30, 2010. As of June 30, 2010, we had no land developed and/or held for future development or sale that had undiscounted cash flows within 25% of their carrying values.

Other than at our recently acquired community of Seasons at Tradition, we have experienced difficulty in selling homes at a profit, which has caused us to reduce prices to monetize our speculative housing inventory. During 2009 and for the six months ended June 30, 2010, other than Seasons at Tradition, most of our sales contracts were signed at selling prices that have resulted or will result in losses upon closing when factoring in operating costs such as sales and marketing and divisional overhead. During the six months ended June 30, 2010, at Seasons at Tradition, we entered into 47 sales contracts representing an aggregate dollar value of approximately \$7,516. Closings of homes at Seasons at Tradition commenced during April 2010. During the six and three months ended June 30, 2010, at Seasons at Tradition, we had 42 closings with an aggregate dollar value of approximately \$6,766.

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Land and Other Inventories continued**

In our impairment analysis of Land and Other Inventories, we utilize various assumptions including estimates of contribution margins. Contribution margins are defined as house sales prices less direct production costs (including the lot cost) as well as closing costs and commissions. The following significant trends were utilized in the evaluation of our Land and Other Inventories for impairment.

**Primary Residential Communities.**

The average price on sales closed from primary residential homebuilding operations during the six and three months ended June 30, 2010 increased from \$183 and \$164 during the six and three months ended June 30, 2009 to \$203 and \$212 during the comparable periods in 2010. Our average sales price on sales contracts entered into during the six and three months ended June 30, 2010 was \$237 and \$321, respectively, compared to \$163 and \$151 during the six and three months ended June 30, 2009, respectively. The increases in average sales price were due to changes in mix between our lower and higher price communities. The average contribution margin on closings from primary residential homebuilding operations was approximately 2% and 10% during the six and three months ended June 30, 2010, respectively, compared to approximately 5% and 0.1% during the six and three months ended June, 30, 2009.

**Active Adult Communities.**

The average price on sales closed from active adult homebuilding operations during the six and three months ended June 30, 2010 decreased from \$246 and \$242 during the six and three months ended June 30, 2009 to \$185 and \$184 during the comparable periods in 2010. Our average sales price on sales contracts entered into during the six and three months ended June 30, 2010 was \$203 and \$189, respectively, compared to \$203 and \$220 during the six and three months ended June 30, 2009, respectively. The decreases in average sales prices for sales and closing were due to the lower sales prices at Seasons at Traditions compared to Solivita. Additionally, the average contribution margin on closings from active adult homebuilding operations was approximately 34% and 38% during the six and three months ended June 30, 2010, respectively, compared to approximately 17% and 16% during the six and three months ended June, 30, 2009. The increase in average contribution margins on closings from active adult homebuilding operations is attributable to the closings at Seasons at Tradition which generated higher margins as a result of our acquisition price. During the six and three months ended June 30, 2010, at Seasons at Tradition, we had 42 closings with an aggregate dollar value of approximately \$6,766. As of June 30, 2010, we have 45 completed homes remaining to close.

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

**Housing communities:** Activities include the development of active adult and primary residential communities and the operation of amenities. The operating results and losses generated from active adult and primary residential communities during the six months ended June 30, 2010 and 2009 include operating expenses relating to the operation of the amenities in our communities as well as divisional overhead not associated with specific communities.

Our active adult and primary residential communities are generally large master-planned communities in Florida and in southeast Arizona. Several of these communities are long term projects on land we have owned for many years. In reviewing each of our communities, we determine if potential impairment indicators exist by reviewing actual contribution margins on homes closed in recent months, projected contribution margins on homes in backlog, projected contribution margins on speculative homes, average selling prices, sales activities and local market conditions. If indicators are present, the asset is reviewed for impairment. In determining estimated future cash flows for purposes of the impairment test, the estimated future cash flows are significantly impacted by specific community factors such as: (i) sales absorption rates; (ii) estimated sales prices and sales incentives; and (iii) estimated cost of home construction, estimated land development costs, interest costs, indirect construction and overhead costs, and

selling and marketing costs. In addition, our estimated future cash flows are also impacted by general economic and local market conditions, competition from other homebuilders, foreclosures and depressed home sales in the areas in which we build and sell homes, product desirability in our local markets and the buyers' ability to obtain mortgage financing. Build-out of our active adult and primary residential communities generally exceeds five years. Our current assumptions are based on current activity and recent trends at our active adult and primary residential communities. There are a significant number

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**continued****Land and Other Inventories continued**

of assumptions with respect to each analysis. Many of these assumptions extend over a significant number of years. The substantial number of variables to these assumptions could significantly affect the potential for future impairments.

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

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

Declines in market values below those realized from our current sales prices and estimations could result in future impairment.

Land and Other Inventories consist of the following:

	June 30, 2010	December 31, 2009
Land developed and in process of development	\$ 135,430	\$ 136,578
Land held for future development or sale	105,028	98,818
Homes completed or under construction	22,294	27,971
Other	842	869
	\$ 263,594	\$ 264,236

On June 1, 2010, we acquired approximately 1,064 residential lots in a community known as Tortosa in Maricopa, Arizona (approximately 35 miles southeast of Phoenix) for a purchase price of \$5,683. On August 5, 2010, we acquired 368 residential lots in a planned development known as Turtle Creek located in St. Cloud (Osceola County), Florida for a purchase price of \$7,000.

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Land and Other Inventories continued**

During the six and three months ended June 30, 2010, we realized pre-tax profits (losses) of (\$27) and \$10, respectively, on revenues of \$23 from sales of commercial, industrial and other land. During the six and three months ended June 30, 2009, we realized pre-tax profits of \$1,987 and \$209, respectively, on revenues of \$2,064 and \$239, respectively, from sales of commercial, industrial and other land. For the six and three months ended June 30, 2009, pre-tax profits from sales of commercial and industrial land were \$1,758 and \$0, respectively, on aggregate revenues of \$1,785 and \$0, respectively. For the six and three months ended June 30, 2009, pre-tax profits from other land sales were \$229 and \$209, respectively, on aggregate revenues of \$279 and \$239, respectively.

See Financial Information Relating to Reportable Segments below.

**Property and Equipment**

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

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

Each reporting period, we review our Property and Equipment for indicators of impairment in accordance with ASC 360-10. For our amenities, which are located within our housing communities, indicators of potential impairment are similar to those of our housing communities (described above) as these factors may impact our ability to generate revenues at our amenities or cause construction costs to increase. In addition, we factor in the collectability and potential delinquency of the fees due for our amenities. For the six and three months ended June 30, 2010, no impairments existed for Property and Equipment.

**Poinciana Parkway**

In December 2006, we entered into agreements with Osceola County, Florida and Polk County, Florida for us to develop and construct at our cost a 9.66 mile four-lane road in Osceola and Polk Counties, to be known as the Poinciana Parkway (the Poinciana Parkway). The Poinciana Parkway is to include a 4.15 mile segment to be operated as a toll road. We have acquired right-of-way and federal and state environmental permits necessary to construct the Poinciana Parkway. In July 2008 and August 2008, we entered into amended and restated agreements with Osceola County and Polk County, pursuant to which construction is to be commenced by February 14, 2011. Construction was to be completed by December 31, 2011 subject to extension for Force Majeure. We have notified the Counties that the completion date has been extended to October 14, 2013 due to Force Majeure related to the economic downturn. We advised the Counties that the current economic downturn has resulted in our inability to: (i) conclude negotiations with potential investors; or (ii) obtain financing for the construction of the Poinciana Parkway.

If funding for the Poinciana Parkway is not obtained and construction of the Poinciana Parkway cannot be commenced by February 14, 2011 as required by our agreements with Osceola County and Polk County, the Counties have no right to obtain damages or sue Avatar for specific performance. Polk County's sole remedy under its agreement with Avatar is to cancel such agreement if Avatar does not construct the Poinciana Parkway. If the construction of the Parkway is not funded and commenced by February 14, 2011, (i) a portion of Avatar's land in Osceola County will become subject to Osceola traffic concurrency requirements applicable generally to other home builders in the County and (ii) Avatar will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that it otherwise might have been obligated to build or fund if it had not agreed to

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Poinciana Parkway continued**

construct the Poinciana Parkway. Avatar is investigating the availability of an extension of the Poinciana Parkway permits and the related deadlines in its agreements with the Counties.

Osceola County and Avatar were unsuccessful in their attempt to obtain a federal grant for construction of the Parkway. Osceola County and Avatar are still attempting to obtain other federal funds for development of the Poinciana Parkway, including highway tax bill monies, a newly announced federal transportation grant and a federal loan. We cannot predict whether any federal funds will be available. For the Poinciana Parkway, indicators of impairment are general economic conditions, rate of population growth and estimated change in traffic levels. If indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the estimated future undiscounted cash flows to be generated by the asset to its carrying value. If such cash flows are less than the asset's carrying value, the carrying value is written down to its estimated fair value. In determining estimated future cash flows for purposes of the impairment test, we incorporate current market assumptions based on general economic conditions such as anticipated estimated revenues and estimated costs. These assumptions can significantly affect our estimates of future cash flows.

Our estimate of the right-of-way acquisition, development and construction costs for the Poinciana Parkway approximates \$175,000 to \$200,000. However, no assurance of the ultimate costs can be given at this stage. Of that amount approximately \$47,000 has been expended as of June 30, 2010. During fiscal years 2008 and 2009, we recorded cumulative impairment charges of \$38,336 associated with the Poinciana Parkway.

We review the recoverability of the carrying value of the Poinciana Parkway on a quarterly basis in accordance with authoritative accounting guidance. Based on our review as of June 30, 2010, we determined the estimated future undiscounted cash flows of the Poinciana Parkway were greater than its carrying value, therefore no impairment losses were recorded during the six months ended June 30, 2010. During the six and three months ended June 30, 2009, we recognized impairment losses of \$448 and \$130, respectively. In addition, non-capitalizable expenditures of \$265 and \$57 related to the Poinciana Parkway were expensed during the six and three months ended June 30, 2010, respectively, and \$341 during the six months ended June 30, 2009. At June 30, 2010, the carrying value of the Poinciana Parkway is \$8,452.

**Notes, Mortgage Notes and Other Debt**

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

Each \$1 in principal amount of the 4.50% Notes is convertible, at the option of the holder, at a conversion price of \$52.63, or 19.0006 shares of our common stock, upon the satisfaction of one of the following conditions: a) during any calendar quarter (but only during such calendar quarter) commencing after June 30, 2004 if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 120% of the conversion price per share of common stock on such last day; or b) during the five business day period after any five-consecutive-trading-day period in which the trading price per \$1 principal amount of the 4.50% Notes for each day of that period was less than 98% of the product of the closing sale price for our common stock for each day of that period and the number of shares of common stock issuable upon conversion of \$1 principal amount of the 4.50% Notes, provided that if on the date of any such conversion that is on or after April 1, 2019, the closing sale price of Avatar's common stock is greater than the conversion price, then holders will receive, in lieu of common stock based on the conversion price, cash or common stock or a combination thereof, at our option, with a value equal to the principal amount of the 4.50% Notes plus accrued and unpaid interest, as of the conversion date. The closing price of Avatar's common stock exceeded 120% (\$63.156) of the conversion price for 20 trading days out of 30 consecutive trading days as of the last trading day of



the fourth quarter of 2006, as of the last trading day of the first quarter of 2007 and as of the last trading day of the second quarter of 2007. Therefore, the 4.50%

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited) continued****Notes, Mortgage Notes and Other Debt continued**

Notes became convertible for the quarter beginning January 1, 2007, for the quarter beginning April 1, 2007 and for the quarter beginning July 1, 2007. During 2008, 2009 and the six months ended June 30, 2010, the closing price of Avatar's common stock did not exceed 120% (\$63.156) of the conversion price for 20 trading days out of 30 consecutive trading days; therefore, the 4.50% Notes were not convertible during 2008, 2009 and during the six months ended June 30, 2010. During 2007, \$200 principal amount of the 4.50% Notes were converted into 3,800 shares of Avatar common stock. Also during 2007, Avatar repurchased \$5,000 principal amount of the 4.50% Notes for approximately \$4,984 including accrued interest. During 2008, we repurchased \$35,920 principal amount of the 4.50% Notes for approximately \$28,112 including accrued interest. On March 30, 2009, we repurchased \$7,500 principal amount of the 4.50% Notes for approximately \$6,038 including accrued interest. This repurchase resulted in a pre-tax gain of approximately \$1,365 (which is included in Other Revenues in the consolidated statements of operations for the six and three months ended March 31, 2009). On June 19, 2009, we repurchased \$6,576 principal amount of the 4.50% Notes for approximately \$5,658, including accrued interest. As of June 30, 2010, \$64,804 principal amount of the 4.50% Notes remain outstanding.

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

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

As of June 30, 2010 and December 31, 2009, the 4.50% Notes and the equity component associated with the 4.50% Notes were comprised of the following:

	June 30, 2010	December 31, 2009
4.50% Notes		
Principal amount	\$ 64,804	\$ 64,804
Unamortized discount	(1,076)	(1,794)
Net carrying amount	\$ 63,728	\$ 63,010
Equity Component, net of income tax benefit	\$ 13,737	\$ 13,737

The discount on the liability component of the 4.50% Notes is amortized using the effective interest method based on an effective rate of 7.5%, which is the estimated market interest rate for similar debt without a conversion option on the issuance date. The discount is amortized from the issuance date in 2004 through April 1, 2011, the first date that holders of the 4.50% Notes can require us to repurchase the 4.50% Notes. As of June 30, 2010, the remaining

expected life over which the unamortized discount will be recognized is less than 1 year. We recognized \$718 and \$359 in non-cash interest charges related to the amortization of the discount during the six and three months ended June 30,

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Notes, Mortgage Notes and Other Debt continued**

2010, respectively. We recognized \$832 and \$347 in non-cash interest charges related to the amortization of the discount during the six and three months ended June 30, 2009, respectively.

On March 27, 2008, we entered into an Amended and Restated Credit Agreement, by and among our wholly-owned subsidiary, Avatar Properties Inc., as borrower, Wachovia Bank, National Association (as a lender and as administrative agent on behalf of the lenders), and certain financial institutions as lenders (the Amended Unsecured Credit Facility ). This agreement amended and restated the Credit Agreement, dated as of September 20, 2005, as amended.

On May 3, 2010, we paid in full the outstanding principal and accrued interest of \$55,979 under our Amended and Restated Credit Agreement. In addition, on May 4, 2010, we deposited \$22,035 with Wells Fargo, N.A., successor by merger with Wachovia Bank, N.A., to collateralize letters of credit outstanding under the credit facility. In connection with such payment and deposit, we notified our administrative agent that we were exercising our right to reduce our commitment amount under the facility to zero dollars (\$0), which had the effect of terminating all parties' obligations under the credit facility, effective as of May 17, 2010.

The following table represents interest incurred, interest capitalized, and interest expense for the six and three months ended June 30, 2010 and 2009:

	Six Months		Three Months	
	2010	2009	2010	2009
Interest incurred	\$ 3,219	\$ 3,809	\$ 1,528	\$ 1,836
Interest capitalized	(57)	(259)	(42)	(123)
Interest expense	\$ 3,162	\$ 3,550	\$ 1,486	\$ 1,713

We made interest payments of \$2,114 and \$2,731 during the six months ended June 30, 2010 and 2009, respectively.

**Warranty Costs**

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

During the six and three months ended June 30, 2010 and 2009 changes in the warranty reserve consisted of the following:

	Six Months		Three Months	
	2010	2009	2010	2009
Accrued warranty reserve, beginning of period	\$ 458	\$ 468	\$ 397	\$ 421
Estimated warranty expense	257	337	174	242
Amounts charged against warranty reserve	(231)	(292)	(87)	(150)
Accrued warranty reserve, end of period	\$ 484	\$ 513	\$ 484	\$ 513

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Loss Per Share**

We present loss per share in accordance with ASC 260, *Earnings Per Share*. Basic earnings (loss) per share is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of Avatar. In accordance with ASC 260, the computation of diluted earnings (loss) per share for the six and three months ended June 30, 2010 and 2009 did not assume the effect of restricted stock units, employee stock options or the 4.50% Notes because the effects were antidilutive.

The weighted average number of shares outstanding in calculating basic loss per share includes the issuance of 28,900 shares of our common stock for the six and three months ended June 30, 2010. The weighted average number of shares outstanding in calculating basic loss per share includes the issuance of 7,264 shares of our common stock for the six and three months ended June 30, 2009. In accordance with ASC 260, nonvested shares are not included in basic earnings per share until the vesting requirements are met.

The following table represents the net loss and weighted average shares outstanding for the calculation of basic and diluted loss per share for the six and three months ended June 30, 2010 and 2009:

	Six Months		Three Months	
	2010	2009	2010	2009
Numerator:				
Basic and diluted loss per share net loss	(\$15,879)	(\$18,371)	(\$5,743)	(\$9,777)
Denominator:				
Basic and diluted weighted average shares outstanding	11,245,520	8,654,284	11,250,226	8,655,811

**Repurchase of Common Stock**

On October 13, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$9,864 previously authorized. On October 17, 2008, we repurchased \$35,920 principal amount of the 4.50% Notes for approximately \$28,112 including accrued interest. On December 12, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$1,888 remaining after the October 2008 activities. On March 30, 2009, we repurchased \$7,500 principal amount of the 4.50% Notes for approximately \$6,038 including accrued interest. On June 19, 2009, we repurchased \$6,576 principal amount of the 4.50% Notes for approximately \$5,658 including accrued interest. As of June 30, 2010, the remaining authorization is \$18,304.

**Non-controlling Interest**

Avatar has consolidated certain LLCs, which qualify as variable interest entities ( VIEs ) because we determined that Avatar is the primary beneficiary. Therefore, the LLCs financial statements are consolidated in Avatar s consolidated financial statements and the other partners equity in each of the LLCs is recorded as non-controlling interest as a component of consolidated stockholders equity. At June 30, 2010 and December 31, 2009, non-controlling interest was \$746 and \$1,018, respectively. The decrease in non-controlling interest of \$272 is a result of the losses generated from these LLCs.

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

**Comprehensive Loss**

Net loss and comprehensive loss are the same for the six and three months ended June 30, 2010 and 2009.

**Share-Based Payments and Other Executive Compensation**

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

As of June 30, 2010, an aggregate of 637,016 shares of our Common Stock, subject to certain adjustments, were available for issuance under the Incentive Plan, including an aggregate of 143,669 options and stock units granted. There were 493,347 shares available for grant at June 30, 2010.

Compensation expense related to the stock option and restricted stock unit awards during the six months ended June 30, 2010 and 2009 was \$528 and \$921, respectively, all of which relates to restricted stock units. Compensation expense related to the stock option and restricted stock unit awards during the three months ended June 30, 2010 and 2009 was \$264 and \$466, respectively, all of which relates to restricted stock units. During the six months ended June 30, 2010, we granted 4,935 restricted stock units, which have a weighted average grant date fair value of \$20.68 per share. During the six months ended June 30, 2009, we granted 5,880 restricted stock units, which have a weighted average grant date fair value of \$17.44 per share.

As of June 30, 2010, there was \$495 of unrecognized compensation expense related to unvested restricted stock units. That expense is expected to be recognized over a weighted-average period of less than one year.

**Income Taxes**

Income tax receivable as of June 30, 2010 and December 31, 2009 consists of \$1,391 and \$35,018, respectively, in income tax refunds. During the three months ended June 30, 2010 we received tax refunds of \$33,627.

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

In accordance with ASC 740, Avatar evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a more likely than not standard. During 2008, we established a valuation allowance against our deferred tax assets. Our cumulative loss position over the evaluation period and the uncertain and volatile market conditions provided significant evidence supporting the need for a valuation allowance as a result of increases in deferred tax assets from our net operating losses. During the six months ended June 30, 2010 we recognized an increase of \$6,078 in the valuation allowance. As of June 30, 2010, our deferred tax asset valuation allowance was \$16,497. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Income Taxes continued**

In 2006, we closed on substantially all of the land sold under the threat of condemnation, and in 2007 we closed on the remainder. We believe these transactions entitled us to defer the payment of income taxes of \$24,355 from the gain on these sales. During October 2009, we received from the Internal Revenue Service a final extension until December 31, 2010 to obtain replacement property to defer the entire payment of income taxes. It is our intention to acquire replacement property by December 31, 2010. It is possible that we may not identify and purchase adequate replacement property within the required time period, which would require us to make this income tax payment plus interest of approximately \$7,000 as of December 31, 2010. We believe the tax planning strategy is prudent and feasible, and we have the ability and intent to purchase and sell, if necessary, replacement property to realize these deferred tax assets.

**Fair Value Disclosures**

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

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

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

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

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

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

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

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

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Fair Value Disclosures continued**

Avatar's assets measured at fair value as of June 30, 2010 and losses for the quarter ended June 30, 2010 on a nonrecurring basis are summarized below:

	Fair Value Hierarchy	Fair Value at June 30, 2010	Losses
Non-financial Assets			
Homes completed or under construction	Level 2	\$ 1,493	\$0

The carrying amounts and fair values of our financial instruments at June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 160,266	\$ 166,266	\$ 217,132	\$ 217,132
Restricted cash	\$ 23,080	\$ 23,080	\$ 699	\$ 699
Receivables, net	\$ 6,841	\$ 6,841	\$ 6,656	\$ 6,656
Income tax receivable	\$ 1,391	\$ 1,391	\$ 35,018	\$ 35,018
Notes, mortgage notes and other debt:				
Corporate:				
4.50% Notes	\$ 63,728	\$ 63,994	\$ 63,010	\$ 61,969
Real estate:				
5.50% Term Bonds payable	\$ 111	\$ 108	\$ 111	\$ 105
Amended Unsecured Credit Facility	\$	\$	\$ 55,881	\$ 54,750

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

*Cash and cash equivalents and Restricted cash:* The carrying amount reported in the consolidated balance sheets for cash and cash equivalents and restricted cash approximates their fair value.

*Receivables, net and Income tax receivable:* The carrying amount reported in the consolidated balance sheets for receivables, net and income tax receivable approximates their fair value.

*4.50% Notes:* At June 30, 2010 and December 31, 2009, the fair value of the 4.50% Notes is estimated, based on quoted or estimated market prices.

*Real Estate Notes Payable:* The fair values of the Amended Unsecured Credit Facility and 5.50% term bonds payable as of June 30, 2010 and December 31, 2009 are estimated using discounted cash flow analysis based on the current incremental borrowing rates for similar types of borrowing arrangements.



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

**Variable Interest Entities**

ASC 810, *Consolidation* ( ASC 810 ), requires a variable interest entity ( VIE ) to be consolidated in the financial statements of a company if that company is the primary beneficiary of the VIE. Under ASC 810, the primary beneficiary of a VIE is the entity which absorbs a majority of the VIE 's expected losses, receives a majority of the VIE 's expected residual returns, or both. Entities determined to be VIEs, for which we are not the primary beneficiary, are accounted for under the equity method.

We participate in entities with equity interests ranging from 20% to 50% for the purpose of acquiring and/or developing land in which we may or may not have a controlling interest. These entities are VIEs and our investments in these entities, along with other arrangements represent variable interests, depending on the contractual terms of the arrangement. We analyze these entities in accordance with ASC 810 when they are entered into or upon a reconsideration event.

**Consolidation of Variable Interest Entities**

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

In accordance with ASC 810, we determined that these entities qualify as VIEs which require consolidation by the entity determined to be the primary beneficiary. The primary beneficiary is the entity determined to absorb the majority of the VIE 's expected losses, receives a majority of the VIE 's expected residual returns, or both. As a result of our analyses, we hold a variable interest in the VIEs through the purchase money notes, the land option contracts and an economic interest in these LLCs. As of June 30, 2010, our consolidated balance sheets include \$3,440 in land and other inventories and \$1,130 in property and equipment from these LLC 's.

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

As of June 30, 2010, these consolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners.

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Variable Interest Entities continued****Unconsolidated Variable Interest Entities**

We participate in entities with equity interests ranging from 20% to 50% for the purpose of acquiring and/or developing land in which we do not have a controlling interest. We analyze these entities in accordance with ASC 810 when they are entered into or upon a reconsideration event. For entities determined to be VIEs, we are not the primary beneficiary if we do not absorb a majority of the VIEs' expected losses or receive a majority of the VIEs' expected residual returns. All of such entities in which we had an equity interest at June 30, 2010 and December 31, 2009 are accounted for under the equity method.

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

During 2009 and 2008, we entered into various transactions with unaffiliated third parties providing for the formation of LLCs; and we subsequently sold developed and partially-developed land to each of the newly-formed LLCs. We acquired a minority ownership interest in each of the LLCs and share in the management of each of the LLCs. Avatar made contributions totaling \$115 and \$126 to its unconsolidated entities during the six months ended June 30, 2010 and 2009, respectively.

As of June 30, 2010, these unconsolidated entities were financed by partner equity and do not have third-party debt. In addition, we have not provided any guarantees to these entities or our equity partners.

The following are the consolidated condensed balance sheets of our unconsolidated entities as of June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Assets:		
Cash	\$ 393	\$ 243
Land and other inventory	11,574	11,573
Other assets		25
Total assets	\$ 11,967	\$ 11,841
Liabilities and Partners' Capital:		
Accounts payable and accrued liabilities	\$ 1,275	\$ 893
Notes and interest payable to Avatar	3,724	3,724
Partners' Capital of:		
Avatar	1,504	1,597
Equity partner	5,464	5,627
Total liabilities and partners' capital	\$ 11,967	\$ 11,841

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Variable Interest Entities continued**

The following are the consolidated condensed statements of operations of our unconsolidated entities for the six and three months ended June 30, 2010 and 2009:

	Six Months		Three Months	
	2010	2009	2010	2009
Revenues	\$ 5	\$ 31	\$ 5	\$ 16
Costs and expenses	627	397	323	226
Net loss from unconsolidated entities	(\$622)	(\$366)	(\$318)	(\$210)
Avatar's share of loss from unconsolidated entities	(\$207)	(\$148)	(\$117)	(\$86)

**Recently Issued Accounting Pronouncements**

In June 2009, the FASB issued ASC 810. This guidance requires an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. ASC 810 requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. ASC 810 is effective for all variable interest entities and relationships with variable interest entities existing as of January 1, 2010. We adopted this standard on January 1, 2010, which did not have an impact on our consolidated financial position, results of operations or cash flows.

**Estimated Development Liability for Sold Land**

The estimated development liability consists primarily of utilities improvements in Poinciana and Rio Rico for more than 8,000 homesites previously sold and is summarized as follows:

	June 30,	December
	2010	31,
		2009
Gross estimated unexpended costs	\$ 26,254	\$ 26,389
Less costs relating to unsold homesites	(5,907)	(5,972)
Estimated development liability for sold land	\$ 20,347	\$ 20,417

The estimated development liability for sold land is reduced by actual expenditures and is evaluated and adjusted, as appropriate, to reflect management's estimate of anticipated costs. In addition, we obtain quarterly third-party engineer evaluations and adjust this liability to reflect changes in the estimated costs. During the six and three months ended June 30, 2010 we did not record charges associated with these obligations. Charges of approximately \$723 and \$178 were recorded during the six and three months ended June 30, 2009, respectively. Future increases or decreases of costs for construction, material and labor as well as other land development and utilities infrastructure costs may have a significant effect on the estimated development liability.

**Table of Contents****Notes to Consolidated Financial Statements (dollars in thousands except share and per share data) (Unaudited)**  
**continued****Commitments and Contingencies**

We are involved in various pending litigation matters primarily arising in the normal course of our business. These cases are in various procedural stages. Although the outcome of these matters cannot be determined, Avatar believes it is probable in accordance with ASC 450-20, *Loss Contingencies*, that certain claims may result in costs and expenses estimated at approximately \$128 and \$334, which have been accrued in the accompanying consolidated balance sheets as of June 30, 2010 and December 31, 2009, respectively. Liabilities or costs arising out of these and other currently pending litigation is not expected to have a material adverse effect on our business, consolidated financial position or results of operations.

Performance bonds, issued by third party entities, are used primarily to guarantee our performance to construct improvements in our various communities. As of June 30, 2010, we had outstanding performance bonds of approximately \$3,009. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

**Financial Information Relating To Reportable Segments**

The following table summarizes Avatar's information for reportable segments for the six and three months ended June 30, 2010 and 2009:

	Six Months		Three Months	
	2010	2009	2010	2009
Revenues:				
Segment revenues				
Primary residential	\$ 8,315	\$ 11,840	\$ 3,693	\$ 6,304
Active adult communities	17,053	17,676	12,375	11,478
Commercial and industrial and other land sales	23	2,064	23	239
Other operations	599	531	408	303
	25,990	32,111	16,499	18,324
Unallocated revenues				
Interest income	254	378	132	179
Gain on repurchase of 4.50% Notes		1,783		418
Other	681	430	671	434
Total revenues	\$ 26,925	\$ 34,702	\$ 17,302	\$ 19,355
Operating income (loss):				
Segment operating income (loss)				
Primary residential	(\$2,503)	(\$4,259)	(\$861)	(\$2,361)
Active adult communities	(1,478)	(2,253)	535	(821)
Commercial and industrial and other land sales	(27)	1,987	10	209
Other operations	270	105	279	94
	(3,738)	(4,420)	(37)	(2,879)
Unallocated income (expenses)				
Interest income	254	378	132	179
Gain on repurchase of 4.50% Notes		1,783		418
Equity loss from unconsolidated entities	(207)	(148)	(117)	(86)
Net loss attributable to non-controlling interests	272		139	

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General and administrative expenses	(7,845)	(9,011)	(3,762)	(4,344)
Interest expense	(3,162)	(3,550)	(1,486)	(1,713)
Other real estate expenses	(1,453)	(3,785)	(612)	(1,222)
Impairment of the Poinciana Parkway		(448)		(130)
Loss before income taxes	(\$15,879)	(\$19,201)	(\$5,743)	(\$9,777)

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data)**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

In the preparation of our financial statements, we apply United States generally accepted accounting principles. The application of generally accepted accounting principles may require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying results. For a description of our accounting policies, refer to Avatar Holdings Inc.'s 2009 Annual Report on Form 10-K.

Certain statements discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", and elsewhere in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others: the stability of certain financial markets; disruption of the credit markets and reduced availability and more stringent financing requirements for commercial and residential mortgages of all types; the number of investor and speculator resale homes for sale and homes in foreclosure in our communities and in the geographic areas in which we develop and sell homes; the increased level of unemployment; the decline in net worth and/or of income of potential buyers; the decline in consumer confidence; the failure to successfully implement our business strategy; shifts in demographic trends affecting demand for active adult and primary housing; the level of immigration and migration into the areas in which we conduct real estate activities; our access to financing; construction defect and home warranty claims; changes in, or the failure or inability to comply with, government regulations; and other factors as are described in Avatar's filings with the Securities and Exchange Commission, including under the caption "Risk Factors" included in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. At least 80% of active adult homes are intended for occupancy by at least one person 55 years or older.

**EXECUTIVE SUMMARY**

We are engaged in the business of real estate operations in Florida and Arizona. Our residential community development activities have been adversely affected in both markets, bringing development in our active adult and primary residential communities to a low level. We also engage in other real estate activities, such as the operation of amenities, the sale for third-party development of commercial and industrial land and the operation of a title insurance agency, which activities have also been adversely affected by economic conditions.

Our primary business strategy continues to be the development of lifestyle communities, including active adult and primary residential communities, as well as the development and construction of housing on scattered lots. However, due to the significant deterioration in the economy and the residential real estate business, we have focused on maintaining the integrity of our balance sheet through preservation of capital, sustaining liquidity and reduction of overhead. Our development activities have been minimal as we work through the negative impacts on the homebuilding industry. We continue to evaluate the economic feasibility of other real estate activities or unrelated businesses. While our homebuilding operations are at a low level, our business remains capital intensive and requires or may require expenditures for replacement land for the Ocala sale, land and infrastructure development, housing construction, funding of operating deficits and working capital, as well as potential new acquisition and development opportunities.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued**

**EXECUTIVE SUMMARY continued**

We remain focused on maintaining sufficient liquidity. We continue to carefully manage our inventory levels through curtailing land development and monitoring home starts. We are currently in the preliminary planning and permitting phase for new products at Bellalago and Solivita in Central Florida and at Estancias del Corazon in Arizona. These new products will include smaller and less amenitized houses to enable us to sell homes at lower price points as the market recovers. In the areas in which our developments are located, we believe that for the foreseeable future there may be more demand for smaller and less amenitized homes than in prior years.

On September 24, 2009, we acquired 87 completed and partially completed homes, 267 developed lots, 364 partially developed lots and approximately 400 undeveloped master planned lots in a residential community known as Seasons at Tradition in St. Lucie County, Florida. As of June 30, 2010, we entered into 47 sales contracts representing an aggregate dollar value of approximately \$7,516. During the six months ended June 30, 2010, at Seasons at Tradition, we had 42 closings with an aggregate dollar value of approximately \$6,766. As of June 30, 2010, we have 45 completed homes remaining to close.

On June 1, 2010, we acquired approximately 1,064 residential lots in a community known as Tortosa in Maricopa, Arizona (approximately 35 miles southeast of Phoenix) for a purchase price of \$5,683. On August 5, 2010, we acquired 368 residential lots in a planned development known as Turtle Creek located in St. Cloud (Osceola County), Florida for a purchase price of \$7,000. We continue to focus on acquiring real estate or real estate related assets as the fallout from the deleveraging of the economy continues to adversely affect real estate values.

**Land Inventory**

Our assets consist primarily of real estate in the states of Florida and Arizona. As of June 30, 2010, we own more than 16,000 acres and have a minority ownership interest through limited liability companies (LLCs) in an additional 830 acres of developed, partially developed or developable residential, commercial and industrial property. Avatar is required to consolidate these LLCs in accordance with authoritative accounting guidance. Some portion of these acres may be developed as roads, retention ponds, parks, school sites, community amenities or for other similar uses.

Within Florida and Arizona we also own more than 15,000 acres of preserves, wetlands, open space and other areas that at this time are not developable, permitable and/or economically feasible to develop, but may at some future date have an economic value for preservation or conservation purposes.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued****EXECUTIVE SUMMARY continued****Land Inventory continued**

The following is a breakdown of our estimated land holdings (not including our housing inventory) as of June 30, 2010 (dollars in thousands):

Acquisition Date	Contract Date	Estimated Planned Lots/Units (1)			Total	Book Value
		Developed	Partially Developed	Raw (2)		
<i>Residential</i>						
<i>Osceola County, Florida</i>						
Pre-1980		200		2,200	2,400	\$ 5,198
1999-2001		500	700		1,200	45,018
2003	2002-2003			1,000	1,000	7,880
2004	2002-2003			1,400	1,400	19,307
2006	2002-2003			1,600	1,600	19,281
Total Osceola County		700	700	6,200	7,600	96,684
<i>Polk County, Florida</i>						
Pre-1980		900	1,000	2,400	4,300	20,914
2003	2002-2003	900		100	1,000	30,732
2004	2002-2003			2,500	2,500	19,966
Total Polk County		1,800	1,000	5,000	7,800	71,612
<i>St. Lucie County, Florida</i>						
2009	2009	267	364	400	1,031	2,416
<i>Hernando County, Florida</i>						
2004-2005	2003		5		5	30
<i>Collier and Lee Counties, Florida</i>						
Pre-1980		50			50	187
<i>Highlands County, Florida</i>						
Pre-1980		40		40	80	102
<i>Santa Cruz County, (Rio Rico), Arizona</i>						
Pre-1980		600	300	3,700	4,600	10,446
<i>Pinal County, Arizona</i>						
2010	2010			1,064	1,064	5,683
<i>Pima County, Arizona</i>						
2009	2009	86			86	3,725



<i>Total Residential</i>		3,543	2,369	16,404	22,316	\$ 190,885
<b><i>Consolidated LLCs (4)</i></b>						
<i>Polk County, Florida</i>						
2005	2004	200		300	500	\$ 1,774
<i>Martin County, Florida</i>						
1981-1987		75		200	275	1,666
<b><i>Total Consolidated LLCs</i></b>		275		500	775	\$ 3,440

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued****EXECUTIVE SUMMARY continued****Land Inventory continued**

	Acquisition Date	Contract Date	Estimated Acres	Book Value
<b>Commercial/Industrial/Institutional</b>				
<i>Florida</i>				
Pre-1980			1,300	\$ 7,105
2004 (3)		2004	300	14,790
2005 (3)		2004	400	15,948
Total Florida			2,000	37,843
<i>Arizona</i>				
Pre-1980			200	267
<b>Total Commercial/Industrial/Institutional</b>			2,200	\$ 38,110
<b>Other</b>				
<i>Preserves, wetlands, open space</i>				
Pre-1980				3,176
<i>Other</i>				4,847
<b>Total Other</b>				\$ 8,023

- (1) Estimated planned lots/units are based on historical densities for our land. New projects may ultimately be developed into more or less than the number of lots/units stated.
- (2) We anticipate that with respect to our inventory of undeveloped land, new lots developed over the next several years are likely to be developed at greater density per acre than the density per acre we have undertaken over the past several years. We anticipate evolving market demand for smaller, less amenitized and/or more affordable homes.

Accordingly, the number of lots we ultimately develop per acre from our inventory of raw land may exceed the units set forth in this schedule.

- (3) During the fourth quarter 2008, our plans for this property changed from developing it as single family housing to permitting as commercial/industrial/institutional land.
- (4) These landholdings were sold during 2009 to two newly formed LLCs in which we own a minority interest. These LLCs are consolidated for accounting purposes. As a result, the transactions did not qualify as sales for financial reporting purposes.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued**

**EXECUTIVE SUMMARY continued**

For the six months ended June 30, 2010, our homebuilding results reflect the difficult conditions in our Florida and Arizona markets characterized by record levels of homes available for sale and diminished buyer confidence. The number of foreclosure sales as well as investor-owned units for sale; the number of foreclosures, pending foreclosures and mortgage defaults; the availability of significant discounts; the difficulty of potential purchasers in selling their existing homes at prices they are willing to accept; the significant amount of standing inventory and competition continue to adversely affect both the number of homes we are able to sell and the prices at which we are able to sell them. As a result, our communities continue to experience low traffic, significant discounts, low margins, and continued high delinquencies on homeowner association and club membership dues. In addition, our business is affected to some extent by the seasonality of home sales which are generally higher during the months of November through April in the geographic areas in which we conduct our business. During the six and three months ended June 30, 2010, we recorded impairment charges of \$168 and \$0, respectively, for housing communities relating to homes completed or under construction. We believe that housing market conditions will continue to be difficult during 2010. During 2009 and the six months ended June 30, 2010, other than Seasons at Tradition, most of our sales contracts were signed at selling prices that have resulted or will result in losses upon closing when factoring in operating costs such as sales and marketing and divisional overhead.

While the level and duration of the downturn currently cannot be predicted, we anticipate that these conditions will continue to have an adverse effect on our operations during 2010. We anticipate that we will continue to generate operating losses during 2010. We believe that we have sufficient available cash to fund these losses for 2010.

We have taken steps to decrease operating expenses including the consolidation of field operations and a reduction of staff. Since December 31, 2005, we have reduced our headcount by 62% to 223 full-time and part-time employees (almost half of whom are support staff for amenity operations and maintenance) from 585 full-time and part-time employees.

We continue to manage Avatar and its assets for the long-term benefit of our shareholders. We remain focused on maintaining sufficient liquidity. We continue to carefully manage our inventory levels through curtailing land development and monitoring home starts. Our strategy also includes the monetization of commercial and industrial land and other assets, and the possible sale of certain residential land to bring forward future cash flows that would otherwise constitute long-term developments.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) - continued****RESULTS OF OPERATIONS**

The following table provides a comparison of certain financial data related to our operations for the six and three months ended June 30, 2010 and 2009:

	Six Months		Three Months	
	2010	2009	2010	2009
Operating income (loss):				
Primary residential				
Revenues	\$ 8,315	\$ 11,840	\$ 3,693	\$ 6,304
Expenses	10,818	16,099	4,554	8,665
Segment operating loss	(2,503)	(4,259)	(861)	(2,361)
Active adult communities				
Revenues	17,053	17,676	12,375	11,478
Expenses	18,531	19,929	11,840	12,299
Segment operating loss	(1,478)	(2,253)	535	(821)
Commercial and industrial and other land sales				
Revenues	23	2,064	23	239
Expenses	50	77	13	30
Segment operating income	(27)	1,987	10	209
Other operations				
Revenues	599	531	408	303
Expenses	329	426	129	209
Segment operating income (loss)	270	105	279	94
Operating income (loss)	(3,738)	(4,420)	(37)	(2,879)
Unallocated income (expenses):				
Interest income	254	378	132	179
Gain on repurchase of 4.50% Notes		1,783		418
Equity loss from unconsolidated entities	(207)	(148)	(117)	(86)
Net loss attributable to non-controlling interests	272		139	
General and administrative expenses	(7,845)	(9,011)	(3,762)	(4,344)
Interest expense	(3,162)	(3,550)	(1,486)	(1,713)
Other real estate expenses	(1,453)	(3,785)	(612)	(1,222)
Impairment of the Poinciana Parkway		(448)		(130)
Loss before income taxes	(15,879)	(19,201)	(5,743)	(9,777)
Income tax benefit		830		

Net loss	(\$15,879)	(\$18,371)	(\$5,743)	(\$9,777)
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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued****RESULTS OF OPERATIONS** continued

Data from closings for the primary residential and active adult homebuilding segments for the six and three months ended June 30, 2010 and 2009 is summarized as follows:

	Number of Units	Revenues	Average Price Per Unit
<i>For the six months ended June 30,</i>			
2010			
Primary residential	35	\$ 7,112	\$ 203
Active adult communities	60	11,093	\$ 185
Total	95	\$ 18,205	\$ 192
2009			
Primary residential	56	\$ 10,255	\$ 183
Active adult communities	48	11,800	\$ 246
Total	104	\$ 22,055	\$ 212
<i>For the three months ended June 30,</i>			
2010			
Primary residential	15	\$ 3,181	\$ 212
Active adult communities	52	9,573	\$ 184
Total	67	\$ 12,754	\$ 190
2009			
Primary residential	34	\$ 5,571	\$ 164
Active adult communities	36	8,728	\$ 242
Total	70	\$ 14,299	\$ 204

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued**

Data from contracts signed for the primary residential and active adult homebuilding segments for the six and three months ended June 30, 2010 and 2009 is summarized as follows:

	Gross Number of Contracts		Contracts Signed, Net of		Dollar Value	Average Price Per
	Signed	Cancellations	Cancellations	Unit		
<i>For the six months ended June 30,</i>						
2010						
Primary residential	34	(7)	27	\$	6,392	\$ 237
Active adult communities	78	(7)	71		14,393	\$ 203
Total	112	(14)	98	\$	20,785	\$ 212
2009						
Primary residential	108	(19)	89	\$	14,506	\$ 163
Active adult communities	41	(8)	33		6,690	\$ 203
Total	149	(27)	122	\$	21,196	\$ 174
<i>For the three months ended June 30,</i>						
2010						
Primary residential	14	(3)	11	\$	3,527	\$ 321
Active adult communities	31	(4)	27		5,104	\$ 189
Total	45	(7)	38	\$	8,631	\$ 227
2009						
Primary residential	60	(10)	50	\$	7,555	\$ 151
Active adult communities	18	(3)	15		3,303	\$ 220
Total	78	(13)	65	\$	10,858	\$ 167

Backlog for the primary residential and active adult homebuilding segments as of June 30, 2010 and 2009 is summarized as follows:

	Number of Units	Dollar Volume	Average Price
			Per Unit
<i>As of June 30,</i>			
2010			



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Primary residential	8	\$	2,502	\$	313
Active adult communities	20		5,546	\$	277
Total	28	\$	8,048	\$	287
2009					
Primary residential	49	\$	8,853	\$	181
Active adult communities	25		6,367	\$	255
Total	74	\$	15,220	\$	206

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued****RESULTS OF OPERATIONS** continued

The number of net housing contracts signed during the six months ended June 30, 2010 compared to the same period in 2009 decreased 20% and the dollar value of housing contracts signed decreased 2%, including 47 sales contracts representing an aggregate dollar value of approximately \$7,516 in Seasons at Tradition. The low volume of housing contracts signed for the six and three months ended June 30, 2010 continues to reflect the weak market for new residences in the geographic areas where our communities are located. Our communities are located in areas of Florida and Arizona where there is an excess of units for sale, including foreclosures and houses being sold by lenders, and continued use of various sales incentives by residential builders in our markets, including Avatar. During the six and three months ended June 30, 2010, cancellations of previously signed contracts totaled 14 and 7 compared to 27 and 13 during the six and three months ended June 30, 2009. As a percentage of the gross number of contracts signed, this represents 13% and 16% for the six and three months ended June 2010, respectively. As a percentage of the gross number of contracts signed, this represents 18% and 17% for the six and three months ended June 30, 2009, respectively.

As of June 30, 2010, our inventory of unsold (speculative) homes, both completed and under construction, was 91 units compared to 144 units as of December 31, 2009. As of June 30, 2010, approximately 80% of unsold homes were completed compared to approximately 83% as of December 31, 2009.

During the six months ended June 30, 2010 compared to the six months ended June 30, 2009, the number of homes closed decreased by 9%, from 104 to 95, and the related revenues decreased by 18%, from \$22,055 to \$18,205. Our average sales price for homes closed during the six months ended June 30, 2010 declined to \$192 compared to \$212 for the six months ended June 30, 2009. We anticipate that we will close in excess of 80% of the homes in backlog as of June 30, 2010 during the subsequent 12-month period, subject to cancellations by purchasers prior to scheduled delivery dates. We do not anticipate a meaningful improvement in our markets in the near term.

Net loss for the six and three months ended June 30, 2010 was (\$15,879) or (\$1.41) per basic and diluted share and (\$5,743) or (\$0.51) per basic and diluted share, respectively, compared to net loss of (\$18,371) or (\$2.12) per basic and diluted share and (\$9,777) or (\$1.13) per basic and diluted share, respectively, for the comparable periods in 2009. The decrease in net losses for the six and three months ended June 30, 2010 compared to the same period in 2009 was primarily due to decreased pre-tax losses from our primary residential and active adult operations as well as decreased general and administrative expenses and other real estate expenses.

Revenues from primary residential operations decreased \$3,525 or 29.8% and \$2,611 or 41.4%, respectively, for the six and three months ended June 30, 2010 compared to the same periods in 2009. Expenses from primary residential operations decreased \$5,281 or 32.8% and \$4,111 or 47.4%, respectively, for the six and three months ended June 30, 2010 compared to the same periods in 2009. The decrease in revenues is primarily attributable to decreased closings and average sales prices. The decrease in expenses is attributable to lower volume of closings. During the six and three months ended June 30, 2010, we recorded impairment charges in our primary residential operations of approximately \$168 and \$0, respectively, from homes completed or under construction. During the six and three months ended June 30, 2009, we recorded impairment charges in our primary residential operations of approximately \$976 and \$619, respectively, from homes completed or under construction. The average sales price on closings from primary residential homebuilding operations for the six and three months ended June 30, 2010 was \$203 and \$212, respectively, compared to \$183 and \$164, respectively, for the same periods in 2009. The average contribution margin (excluding impairment charges) on closings from primary residential homebuilding operations for the six and

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued****RESULTS OF OPERATIONS** continued

three months ended June 30, 2010 was approximately 2% and 10%, respectively, compared to 5% and 0.1%, respectively, for the same periods in 2009. Included in the results from primary residential operations are divisional overhead not specifically allocated to specific communities and our amenity operations. We have been experiencing increased defaults in payments of club dues for our amenities compared to previous years.

Revenues from active adult operations decreased \$623 or 3.5% and increased \$897 or 7.8%, respectively, for the six and three months ended June 30, 2010 compared to the same periods in 2009. Expenses from active adult operations decreased \$1,398 or 7.0% and \$459 or 3.7%, respectively, for the six and three months ended June 30, 2010 compared to the same periods in 2009. The decrease in revenues for the six months ended June 30, 2010 is primarily attributable to decreases in closings and average sales prices from our Solivita homebuilding operations. Partially mitigating the decreases in revenues at Solivita was the commencement of closings during the three months ended June 30, 2010 at Seasons at Tradition. The closings of homes during the three months ended June 30, 2010 at Seasons at Tradition was the reason for the increase in active adult revenues during this period in 2010 compared to 2009. The decrease in expenses is attributable to lower cost product attributable to closings at Seasons at Tradition. The average sales price on closings from active adult homebuilding operations for the six and three months ended June 30, 2010 was \$185 and \$184, respectively, compared to \$246 and \$242, respectively, for the same periods in 2009. The average contribution margin (excluding impairment charges) on closings from active adult homebuilding operations for the six and three months ended June 30, 2010 was approximately 34% and 39%, respectively, compared to approximately 17% and 16%, respectively, for the same periods in 2009. The increases in average contribution margins is attributable to the closings from Seasons at Tradition as a result of our acquisition price. During the six and three months ended June 30, 2010, at Seasons at Tradition, we had 42 closings with an aggregate dollar value of approximately \$6,766. As of June 30, 2010, we have 45 completed homes remaining to close. Included in the results from active adult operations are divisional overhead not specifically allocated to specific communities and our amenity operations. We have been experiencing increased defaults in payments of club dues for our amenities compared to previous years.

The amount and types of commercial and industrial and other land sold vary from year to year depending upon demand, ensuing negotiations and the timing of the closings of these sales. During the six and three months ended June 30, 2010, we realized pre-tax profits (losses) of (\$27) and \$10, respectively, on revenues of \$23 from sales of commercial, industrial and other land.

During the six and three months ended June 30, 2009, we realized pre-tax profits of \$1,987 and \$209, respectively, on revenues of \$2,064 and \$239, respectively, from sales of commercial, industrial and other land. For the six and three months ended June 30, 2009, pre-tax profits from sales of commercial and industrial land were \$1,758 and \$0, respectively, on aggregate revenues of \$1,785 and \$0, respectively. For the six and three months ended June 30, 2009, pre-tax profits from other land sales were \$229 and \$209, respectively, on aggregate revenues of \$279 and \$239, respectively.

Revenues from other operations increased \$68 or 12.8% and \$105 or 34.7%, for the six and three months ended June 30, 2010, respectively, compared to the same periods in 2009. Expenses from other operations decreased \$97 or 22.8% and \$80 or 38.3% for the six and three months ended June 30, 2010, respectively, compared to the same periods in 2009. The increases in revenues are primarily attributable to increased operating results from our title insurance agency operations due to an increased volume of real estate transactions.

Interest income decreased \$124 or 32.8% and \$47 or 26.3% for the six and three months ended June 30, 2010, respectively, compared to the same periods in 2009. The decrease was primarily attributable to decreased interest rates earned on our cash and cash equivalents during 2010 as compared to 2009.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued****RESULTS OF OPERATIONS** continued

On March 30, 2009, we repurchased \$7,500 principal amount of the 4.50% Notes for approximately \$6,038 including accrued interest. This repurchase resulted in a pre-tax gain of approximately \$1,365 (which is included in Other Revenues in the consolidated statements of operations for the six months ended June 30, 2009). On June 19, 2009, we repurchased \$6,576 principal amount of the 4.50% Notes for approximately \$5,658 including accrued interest. This repurchase resulted in a pre-tax gain of approximately \$418 (which is included in Other Revenues in the consolidated statements of operations for the six and three months ended June 30, 2009).

General and administrative expenses decreased \$1,166 or 12.9% and \$582 or 13.4% for the six and three months ended June 30, 2010, respectively, compared to the same periods in 2009. The decrease was primarily due to decreases in compensation expense, share-based compensation expense and professional fees.

Interest expense decreased \$388 or 10.9% and \$227 or 13.3% for the six and three months ended June 30, 2010, respectively, compared to the same periods in 2009. The decrease in interest expense is primarily attributable to the decrease in outstanding indebtedness during 2010 compared to 2009 as a result of our repurchase of 4.50% Notes and repayment of the Amended and Restated Credit Agreement.

Other real estate expenses, net, represented by real estate taxes, property maintenance and miscellaneous income not allocable to specific operations, decreased by \$2,332 or 61.6% and \$610 or 49.9% for the six and three months ended June 30, 2010, respectively, compared to the same periods in 2009. The decrease is primarily attributable to the reduction in charges related to the required utilities improvements of more than 8,000 residential homesites in Poinciana and Rio Rico substantially sold prior to the termination of the retail homesite sales programs in 1996. During the six and three months ended June 30, 2010, we did not have charges to recognize compared to charges of \$723 and \$178 for the six and three months ended June 30, 2009, respectively. These charges were based on third-party engineering evaluations. Future increases or decreases of costs for construction, material and labor as well as other land development and utilities infrastructure costs may have a significant effect on the estimated development liability. Also contributing to the decrease in other real estate expenses for the six and three months ended June 30, 2010 are non-capitalizable expenditures of \$265 and \$57, respectively, compared to expenditures of \$341 for the six months ended June 30, 2009 related to the Poinciana Parkway.

The income tax benefit of \$830 for the six months ended June 30, 2009 was due to an adjustment to reduce the valuation allowance to reflect the tax effect of certain restricted stock compensation expense for which the tax deduction was taken in 2008 and is also reflected as a decrease in additional paid-in capital. In accordance with ASC 740, we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a more likely than not standard. During 2008, we established a valuation allowance against our deferred tax assets. Our cumulative loss position over the evaluation period and the uncertain and volatile market conditions provided significant evidence supporting the need for a valuation allowance. During the six months ended June 30, 2010 we recognized an increase of \$6,078 in the valuation allowance. As of June 30, 2010, our deferred tax asset valuation allowance was \$16,497. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued**  
**LIQUIDITY AND CAPITAL RESOURCES**

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

With the deterioration in the residential land and housing values in Florida and Arizona, we are focused on maintaining sufficient liquidity. As of June 30, 2010, our cash and cash equivalents totaled \$160,266. As of June 30, 2010, we had borrowings of \$63,839 outstanding of which \$63,728 represents the net carrying amount of the principal amount of the 4.50% Notes compared to borrowings of \$119,002 as of December 31, 2009. Additionally, we have \$23,080 in restricted cash of which \$22,035 is deposited to collateralize outstanding letters of credit.

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

On June 1, 2010, we acquired approximately 1,064 residential lots in a community known as Tortosa in Maricopa, Arizona (approximately 35 miles southeast of Phoenix) for a purchase price of \$5,683.

For the six months ended June 30, 2010, net cash used in operating activities amounted to \$885, as a result of \$22,035 used to collateralize outstanding letters of credit and \$12,131 of cash used to fund operating losses. Offsetting cash used was \$33,627 received in income tax refunds. Net cash used in investing activities amounted to \$100 due primarily to investments in unconsolidated entities of \$82. Net cash used by financing activities of \$55,881 was attributable to the payoff of the Amended Unsecured Credit Facility in May 2010 as described below.

For the six months ended June 30, 2009, net cash provided by operating activities amounted to \$18,689, primarily as a result of \$21,356 we received in income tax refunds. Net cash used in investing activities amounted to \$62 as a result of expenditures of \$34 for investments in property and equipment, expenditures of \$5 on the Poinciana Parkway and investment in unconsolidated entities of \$23. Net cash used by financing activities of \$11,724 resulted from the repurchase for \$11,627 of \$14,076 principal amount of the 4.50% Notes and the repayment of \$97 in real estate debt.

In 2006, we closed on substantially all of the land sold under the threat of condemnation, and in 2007 we closed on the remainder. We believe these transactions entitled us to defer the payment of income taxes of \$24,355 from the gain on these sales. During October 2009, we received from the Internal Revenue Service a final extension until December 31, 2010 to obtain replacement property to defer the entire payment of income taxes. It is our intention to acquire replacement property by December 31, 2010. It is possible that we may not identify and purchase adequate replacement property within the required time period, which would require us to make this income tax payment plus interest of approximately \$7,000 as of December 31, 2010.

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued**  
**LIQUIDITY AND CAPITAL RESOURCES continued**

Each \$1 in principal amount of the 4.50% Notes is convertible, at the option of the holder, at a conversion price of \$52.63, or 19.0006 shares of our common stock, upon the satisfaction of one of the following conditions: a) during any calendar quarter (but only during such calendar quarter) commencing after June 30, 2004 if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 120% of the conversion price per share of common stock on such last day; or b) during the five business day period after any five-consecutive-trading-day period in which the trading price per \$1 principal amount of the 4.50% Notes for each day of that period was less than 98% of the product of the closing sale price for our common stock for each day of that period and the number of shares of common stock issuable upon conversion of \$1 principal amount of the 4.50% Notes, provided that if on the date of any such conversion that is on or after April 1, 2019, the closing sale price of Avatar's common stock is greater than the conversion price, then holders will receive, in lieu of common stock based on the conversion price, cash or common stock or a combination thereof, at our option, with a value equal to the principal amount of the 4.50% Notes plus accrued and unpaid interest, as of the conversion date. The closing price of Avatar's common stock exceeded 120% (\$63.156) of the conversion price for 20 trading days out of 30 consecutive trading days as of the last trading day of the fourth quarter of 2006, as of the last trading day of the first quarter of 2007 and as of the last trading day of the second quarter of 2007. Therefore, the 4.50% Notes became convertible for the quarter beginning January 1, 2007, for the quarter beginning April 1, 2007 and for the quarter beginning July 1, 2007. During 2008, 2009 and the six months ended June 30, 2010, the closing price of Avatar's common stock did not exceed 120% (\$63.156) of the conversion price for 20 trading days out of 30 consecutive trading days; therefore, the 4.50% Notes were not convertible during 2008, 2009 and the six months ended June 30, 2010. During 2007, \$200 principal amount of the 4.50% Notes were converted into 3,800 shares of Avatar common stock. Also during 2007, Avatar repurchased \$5,000 principal amount of the 4.50% Notes for approximately \$4,984 including accrued interest. During 2008, we repurchased \$35,920 principal amount of the 4.50% Notes for approximately \$28,112 including accrued interest. On March 30, 2009, we repurchased \$7,500 principal amount of the 4.50% Notes for approximately \$6,038 including accrued interest. This repurchase resulted in a pre-tax gain of approximately \$1,365 (which is included in Other Revenues in the consolidated statements of operations for the six months ended June 30, 2009). On June 19, 2009, we repurchased \$6,576 principal amount of the 4.50% Notes for approximately \$5,658, including accrued interest. As of June 30, 2010, \$64,804 principal amount of the 4.50% Notes remain outstanding.

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

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued**  
**LIQUIDITY AND CAPITAL RESOURCES continued**

As of June 30, 2010 and December 31, 2009, the 4.50% Notes and the equity component associated with the 4.50% Notes were comprised of the following:

	June 30, 2010	December 31, 2009
4.50% Notes		
Principal amount	\$ 64,804	\$ 64,804
Unamortized discount	(1,076)	(1,794)
Net carrying amount	\$ 63,728	\$ 63,010
Equity Component, net of income tax benefit	\$ 13,737	\$ 13,737

The discount on the liability component of the 4.50% Notes is amortized using the effective interest method based on an effective rate of 7.5%, which is the estimated market interest rate for similar debt without a conversion option on the issuance date. The discount is amortized from the issuance date in 2004 through April 1, 2011, the first date that holders of the 4.50% Notes can require us to repurchase the 4.50% Notes. As of June 30, 2010, the remaining expected life over which the unamortized discount will be recognized is 1.0 year. We recognized \$718 and \$359 in non-cash interest charges related to the amortization of the discount during the six and three months ended June 30, 2010 and 2009, respectively, compared to \$832 and \$347 in non-cash interest charges related to the amortization of the discount during the six and three months ended June 30, 2009, respectively.

On March 27, 2008, we entered into an Amended and Restated Credit Agreement, by and among our wholly-owned subsidiary, Avatar Properties Inc., as borrower, Wachovia Bank, National Association (as a lender and as administrative agent on behalf of the lenders), and certain financial institutions as lenders (the Amended Unsecured Credit Facility). This agreement amended and restated the Credit Agreement, dated as of September 20, 2005, as amended.

On May 3, 2010, we paid in full the outstanding principal and accrued interest of \$55,979 under our Amended and Restated Credit Agreement. In addition, on May 4, 2010, we deposited \$22,035 with Wells Fargo, N.A., successor by merger with Wachovia Bank, N.A., as collateral for letters of credit outstanding under the credit facility. In connection with such payment and deposit, we notified our administrative agent that we were exercising our right to reduce our commitment amount under the facility to zero dollars (\$0), which had the effect of terminating all parties' obligations under the credit facility, effective as of May 17, 2010.

Performance bonds, issued by third party entities, are used primarily to guarantee our performance to construct improvements in our various communities. As of June 30, 2010, we had outstanding performance bonds of approximately \$3,009. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued**  
**LIQUIDITY AND CAPITAL RESOURCES continued**

On October 13, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$9,864 previously authorized. On October 17, 2008, we repurchased \$35,920 principal amount of the 4.50% Notes for approximately \$28,112 including accrued interest. On December 12, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$1,888 remaining after the October 2008 activities. On March 30, 2009, we repurchased \$7,500 principal amount of the 4.50% Notes for approximately \$6,038 including accrued interest. On June 19, 2009, we repurchased \$6,576 principal amount of the 4.50% Notes for approximately \$5,658 including accrued interest. As of June 30, 2010, the remaining authorization is \$18,304.

In December 2006, we entered into agreements with Osceola County, Florida and Polk County, Florida for us to develop and construct at our cost a 9.66 mile four-lane road in Osceola and Polk Counties, to be known as the Poinciana Parkway (the Poinciana Parkway). The Poinciana Parkway is to include a 4.15 mile segment to be operated as a toll road. We have acquired right-of-way and federal and state environmental permits necessary to construct the Poinciana Parkway. In July 2008 and August 2008, we entered into amended and restated agreements with Osceola County and Polk County, pursuant to which construction is to be commenced by February 14, 2011. Construction was to be completed by December 31, 2011 subject to extension for Force Majeure. We have notified the Counties that the completion date has been extended to October 14, 2013 due to Force Majeure related to the economic downturn. We advised the Counties that the current economic downturn has resulted in our inability to: (i) conclude negotiations with potential investors; or (ii) obtain financing for the construction of the Poinciana Parkway.

If funding for the Poinciana Parkway is not obtained and construction of the Poinciana Parkway cannot be commenced by February 14, 2011 as required by our agreements with Osceola County and Polk County, the Counties have no right to obtain damages or sue Avatar for specific performance. Polk County's sole remedy under its agreement with Avatar is to cancel such agreement if Avatar does not construct the Poinciana Parkway. If the construction of the Parkway is not funded and commenced by February 14, 2011, (i) a portion of Avatar's land in Osceola County will become subject to Osceola traffic concurrency requirements applicable generally to other home builders in the County and (ii) Avatar will be required to contribute approximately \$1,900 towards the construction cost of certain traffic improvements in Osceola County that it otherwise might have been obligated to build or fund if it had not agreed to construct the Poinciana Parkway. Avatar is investigating the availability of an extension of the Poinciana Parkway permits and the related deadlines in its agreements with the Counties.

Osceola County and Avatar were unsuccessful in their attempt to obtain a federal grant for construction of the Parkway. Osceola County and Avatar are still attempting to obtain other federal funds for development of the Poinciana Parkway, including highway tax bill monies, a newly announced federal transportation grant and a federal loan. We cannot predict whether any federal funds will be available.

For the Poinciana Parkway, indicators of impairment are general economic conditions, rate of population growth and estimated change in traffic levels. If indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the estimated future undiscounted cash flows to be generated by the asset to its carrying value. If such cash flows are less than the asset's carrying value, the carrying value is written down to its estimated fair value. In determining estimated future cash flows for purposes of the impairment test, we incorporate current market assumptions based on general economic conditions such as anticipated estimated revenues and estimated costs. These assumptions can significantly affect our estimates of future cash flows.



**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except share and per share data) continued**  
**LIQUIDITY AND CAPITAL RESOURCES continued**

Our estimate of the right-of-way acquisition, development and construction costs for the Poinciana Parkway approximates \$175,000 to \$200,000. However, no assurance of the ultimate costs can be given at this stage. Of that amount approximately \$47,000 has been expended as of June 30, 2010. During fiscal years 2008 and 2009 we recorded cumulative impairment charges of \$38,336, associated with the Poinciana Parkway.

We review the recoverability of the carrying value of the Poinciana Parkway on a quarterly basis in accordance with authoritative accounting guidance. Based on our review as of March 31, 2010 and June 30, 2010, we determined the estimated future undiscounted cash flows of the Poinciana Parkway were greater than its carrying value, therefore no impairment losses were recorded during the six and three months ended June 30, 2010. During the six and three months ended June 30, 2009, we recognized impairment losses of \$448 and \$130, respectively. In addition, non-capitalizable expenditures of \$265 and \$57 related to the Poinciana Parkway were expensed during the six and three months ended June 30, 2010, respectively, compared to \$341 for the six months ended June 30, 2009. At June 30, 2010, the carrying value of the Poinciana Parkway is \$8,452.

Assuming that no additional significant adverse changes in our business occur, we anticipate the aggregate cash on hand, cash flow generated through homebuilding and related operations, and sales of commercial and industrial and other land, will provide sufficient liquidity to fund our business for 2010.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

There have been no significant changes to our critical accounting policies and estimates during the six months ended June 30, 2010 as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2009 Annual Report on Form 10-K.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 2009, the FASB issued ASC 810, *Consolidation* ( ASC 810 ). This guidance requires an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. ASC 810 requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. ASC 810 is effective for all variable interest entities and relationships with variable interest entities existing as of January 1, 2010. We adopted this standard on January 1, 2010, which did not have an impact on our consolidated financial position, results of operations or cash flows.

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**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

There have been no material changes in Avatar's market risk during the six months ended June 30, 2010. For additional information regarding Avatar's market risk, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2009 Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for the purpose of ensuring that material information required to be in this report is made known to our management, including our Chief Executive Officer and Chief Financial Officer, and others, as appropriate, to allow timely decisions regarding required disclosures and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have determined that, during the fiscal quarter ended June 30, 2010, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that have affected, or are reasonably likely to affect, materially, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (dollars in thousands except share and per share data)****Repurchases of Equity Securities**

For the three months ended June 30, 2010, Avatar repurchased shares as reflected in the following table:

Period	Total Number of Shares Purchased	Average Price Paid  Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program (1)	Maximum Amount That  May Yet Be Purchased Under the Plan or Program (1)
April 1, 2010 to April 30, 2010				\$ 18,304
May 1, 2010 to May 31, 2010				\$ 18,304
June 1, 2010 to June 30, 2010				\$ 18,304
Total				

(1) On October 13, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$9,864 previously authorized. On October 17, 2008, we repurchased \$35,920 principal amount of the 4.50% Notes for approximately \$28,112 including

accrued interest.  
On December 12, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to \$30,000, including the \$1,888 remaining after the October 2008 activities. On March 30, 2009, we repurchased \$7,500 principal amount of the 4.50% Notes for approximately \$6,038 including accrued interest. On June 19, 2009, we repurchased \$6,576 principal amount of the 4.50% Notes for approximately \$5,658 including accrued interest. As of June 30, 2010, the remaining authorization is \$18,304.

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**Item 6. Exhibits**

- 10.1 Director Compensation (filed herewith).
  
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
  
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
  
- 32.1 Certification of Chief Executive Officer required by 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002) (furnished herewith).
  
- 32.2 Certification of Chief Financial Officer required by 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002) (furnished herewith).
  
- 99.1 Guaranty Agreement dated May 18, 2010, executed on behalf of Avatar Holdings, Inc., a Delaware corporation, in favor of Wells Fargo Bank, N.A., successor by merger to Wachovia Bank, N.A. (filed as Exhibit 99.1 to Form 8-K dated May 24, 2010, and incorporated herein by reference).
  
- 99.2 Continuing Letter of Credit Agreement dated May 18, 2010, executed on behalf of Avatar Properties Inc., a Florida corporation, and Avatar Holdings Inc., a Delaware corporation, in favor of Wells Fargo Bank, N.A., successor by merger to Wachovia Bank, N.A. (filed as Exhibit 99.2 to Form 8-K dated May 24, 2010, and incorporated herein by reference).
  
- 99.3 Security Agreement dated May 18, 2010, executed on behalf of Avatar Properties Inc., a Florida corporation, and Avatar Holdings Inc., a Delaware corporation, in favor of Wells Fargo Bank, N.A., successor by merger to Wachovia Bank, N.A. (filed as Exhibit 99.3 to Form 8-K dated May 24, 2010, and incorporated herein by reference).

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**SIGNATURES**

Pursuant to the requirements 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.

**AVATAR HOLDINGS INC.**

Date: August 9, 2010

By: /s/ Randy L. Kotler  
Randy L. Kotler  
Executive Vice President, Chief Financial  
Officer and  
Treasurer (Principal Financial Officer)

Date: August 9, 2010

By: /s/ Michael P. Rama  
Michael P. Rama  
Controller and Chief Accounting Officer  
(Principal Accounting Officer)

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