AVATAR HOLDINGS INC
Form 10-Q
May 10, 2010

Table of Contents

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010
OR

o **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	**23-1739078**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
201 Alhambra Circle, Coral Gables, Florida	**33134**
(Address of Principal Executive Offices)	*(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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: o Accelerated filer: þ Non-accelerated filer: o Smaller reporting company: o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
11,355,451 shares of Avatar s common stock ($1.00 par value) were outstanding as of April 30, 2010.

AVATAR HOLDINGS INC. AND SUBSIDIARIES
INDEX

		PAGE
PART I.	**Financial Information**	3
Item 1.	**Financial Statements (Unaudited):**	
	Consolidated Balance Sheets March 31, 2010 and December 31, 2009	3
	Consolidated Statements of Operations Three months ended March 31, 2010 and 2009	4
	Consolidated Statements of Cash Flows Three months ended March 31, 2010 and 2009	5
	Notes to Consolidated Financial Statements	6
Item 2.	**Management s Discussion and Analysis of Financial Condition and Results of Operations**	23
Item 3.	**Quantitative and Qualitative Disclosure About Market Risk**	40
Item 4.	**Controls and Procedures**	40
PART II.	**Other Information**	
Item 2.	**Unregistered Sales of Equity Securities and Use of Proceeds**	41
Item 5.	**Other Information**	41
Item 6.	**Exhibits**	42

EX-10.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AVATAR HOLDINGS INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands)

	March 31, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 213,233	$ 217,132
Restricted cash	1,019	699
Receivables, net	6,800	6,656
Income tax receivable	35,018	35,018
Land and other inventories	260,903	264,236
Property and equipment, net	47,255	48,010
Poinciana Parkway	8,452	8,482
Investment in and notes receivable from unconsolidated entities	5,263	5,321
Prepaid expenses and other assets	8,495	9,165
Total Assets	**$ 586,438**	**$ 594,719**
Liabilities and Stockholders Equity		
Liabilities		
Accounts payable	$ 1,389	$ 2,014
Accrued and other liabilities	7,006	5,293
Customer deposits and deferred revenues	3,243	2,874
Estimated development liability for sold land	20,347	20,417
Notes, mortgage notes and other debt:		
Corporate	63,369	63,010
Real estate	55,953	55,992
Total Liabilities	**151,307**	**149,600**
Commitments and Contingencies		
Stockholders Equity		
Common Stock, par value $1 per share		
Authorized: 50,000,000 shares		
Issued: 14,013,912 shares at March 31, 2010 and December 31, 2009	14,014	14,014
Additional paid-in capital	286,377	286,096
Retained earnings	212,792	222,928
	513,183	523,038
	(78,937)	(78,937)

Treasury stock: at cost, 2,658,461 shares at March 31, 2010 and December 31, 2009		
Total Avatar stockholders equity	434,246	444,101
Non-controlling interest	885	1,018
Total Equity	435,131	445,119
Total Liabilities and Stockholders Equity	**$ 586,438**	**$ 594,719**

See notes to consolidated financial statements.

Table of Contents

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three months ended March 31, 2010 and 2009
(Unaudited)
(Dollars in thousands except per-share amounts)

	Three Months	
	2010	2009
Revenues		
Real estate revenues	$ 9,442	$ 13,751
Interest income	122	199
Other	59	1,397
Total revenues	9,623	15,347
Expenses		
Real estate expenses	13,875	17,457
Impairment charges	168	748
General and administrative expenses	4,083	4,667
Interest expense	1,676	1,837
Total expenses	19,802	24,709
Equity losses from unconsolidated entities	(90)	(62)
Loss before income taxes	(10,269)	(9,424)
Income tax benefit		830
Net loss (including net loss attributable to non-controlling interests)	(10,269)	(8,594)
Less: Net loss attributable to non-controlling interests	(133)	
Net loss attributable to Avatar	($10,136)	($8,594)
Basic and Diluted Loss Per Share	($0.90)	($0.99)

See notes to consolidated financial statements.

Table of Contents

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31, 2010 and 2009
(Dollars in Thousands)

	2010	2009
OPERATING ACTIVITIES		
Net loss (including net loss attributable to non-controlling interests)	($10,269)	($8,594)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,230	1,386
Amortization of stock-based compensation	281	475
Impairment of land and other inventories	168	430
Impairment of the Poinciana Parkway		318
Gain from repurchase of 4.50% Notes		(1,365)
Return of earnings from an unconsolidated entity	(32)	(57)
Equity losses from unconsolidated entities	90	62
Deferred income taxes		(830)
Changes in operating assets and liabilities:		
Restricted cash	(320)	503
Receivables, net	(144)	(609)
Land and other inventories	3,189	3,950
Prepaid expenses and other assets	670	1,104
Accounts payable and accrued and other liabilities	898	310
Customer deposits and deferred revenues	369	83
NET CASH USED IN OPERATING ACTIVITIES	(3,870)	(2,834)
INVESTING ACTIVITIES		
Investment in property and equipment	(20)	(77)
Return from (investment in) Poinciana Parkway	30	(7)
Investment in unconsolidated entities		(23)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	10	(107)
FINANCING ACTIVITIES		
Principal payments of real estate borrowings	(39)	(25)
NET CASH USED IN FINANCING ACTIVITIES	(39)	(25)
DECREASE IN CASH AND CASH EQUIVALENTS	(3,899)	(2,966)
Cash and cash equivalents at beginning of period	217,132	175,396
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 213,233	$ 172,430

See notes to consolidated financial statements.

Table of Contents

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
March 31, 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 March 31, 2010 and December 31, 2009, and the related consolidated statements of operations for the three months ended March 31, 2010 and 2009 and the consolidated statements of cash flows for the three months ended March 31, 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

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 $385 and $330 as of March 31, 2010 and December 31, 2009, respectively. As of March 31, 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.

Income Tax Receivable

Income tax receivable consists of tax refunds we expect to receive within one year. As of March 31, 2010 and December 31, 2009, there was $35,018 of income tax receivables of which $32,933 was received during April 2010.

Table of Contents

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

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 three months ended March 31, 2010 and 2009, our impairment assessment resulted in impairment charges of $168 and $430, 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 as of March 31, 2010. As of March 31, 2010, other than the Land and Other Inventories that we determined to be impaired and accordingly wrote down to their carrying value, we had no long-lived assets 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 inventory. During 2009 and the first quarter of 2010, 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, other than Seasons at Tradition. During the quarter ended March 31, 2010, at Seasons at Tradition, we entered into 28 sales contracts representing an aggregate dollar value of approximately $4,377. Closings of homes at Seasons at Tradition commenced during April 2010.

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:

Table of Contents

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

Land and Other Inventories continued

The average price on sales closed from primary residential homebuilding operations has decreased approximately 8% from $213 during the first quarter 2009 to $197 during the first quarter of 2010. Our average sales price on sales contracts entered into during the first quarter of 2010 was $179 compared to $178 during the first quarter of 2009. Additionally, the average contribution margin on closings from primary residential homebuilding operations has declined from approximately 8% during the first quarter of 2009 to approximately (5%) during the first quarter of 2010.

The average price on sales closed from active adult homebuilding operations has decreased approximately 26% from $256 during the first quarter of 2009 to $190 during the first quarter of 2010. Our average sales price on sales contracts entered into during the first quarter of 2010 increased approximately 12% to $211 from $188 during the first quarter of 2009. Additionally, the average contribution margin on closings from active adult homebuilding operations has declined from approximately 19% during the first quarter of 2009 to approximately 4% during the first quarter of 2010.

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 three months ended March 31, 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 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.

Table of Contents

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

Land and Other Inventories continued

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. We anticipate these future communities will be large master-planned communities similar to our current 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:

	March 31, 2010	December 31, 2009
Land developed and in process of development	$ 136,210	$ 136,578
Land held for future development or sale	98,790	98,818
Homes completed or under construction	25,090	27,971
Other	813	869
	$ 260,903	$ 264,236

During the three months ended March 31, 2010, we did not have sales of commercial, industrial and other land. During the three months ended March 31, 2009, pre-tax profits from sales of commercial, industrial and other land were $1,778 on revenues of $1,825. For the three months ended March 31, 2009, pre-tax profits from commercial and industrial land were $1,758 on aggregate revenues of $1,785. For the three months ended March 31, 2009, pre-tax profits from other land sales were $20 on aggregate revenues of $40.

See Financial Information Relating to Reportable Segments below.

Table of Contents

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

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 three months ended March 31, 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 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.

Table of Contents

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

Poinciana Parkway continued

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 March 31, 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, 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 three months ended March 31, 2010. During the three months ended March 31, 2009, we recognized impairment losses of $318. In addition, non-capitalizable expenditures of $208 and $341 related to the Poinciana Parkway were expensed during the three months ended March 31, 2010 and 2009, respectively. At March 31, 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% 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 first quarter of 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 first quarter of 2010. During 2007, $200 principal amount of the 4.50% Notes were converted into 3,800 shares of Avatar common stock. 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

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

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

	March 31, 2010	December 31, 2009
4.50% Notes		
Principal amount	$ 64,804	$ 64,804
Unamortized discount	(1,435)	(1,794)
Net carrying amount	$ 63,369	$ 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 March 31, 2010, the remaining expected life over which the unamortized discount will be recognized is 1.0 year. We recognized $359 and $485 in non-cash interest charges related to the amortization of the discount during the three months ended March 31, 2010 and 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.

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

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 secure the retirement of 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 has the effect of terminating all parties obligations under the credit facility, effective no later than May 17, 2010. As of May 4, 2010, we had unrestricted cash and cash equivalents of approximately $161,000 and restricted cash of $22,035 deposited as security for the letters of credit.

As of March 31, 2010, the principal terms of the Amended Unsecured Credit Facility were as follows:

the amount of the facility was $100,000 (the facility was expandable up to $150,000, subject to certain conditions and lender approval);

financing for the Poinciana Parkway was permitted up to $140,000, subject to certain conditions;

certain covenants included: (i) the minimum adjusted EBITDA/Debt Service ratio (as defined) was 2.0, and provided for an alternative requirement of maintaining a maximum leverage ratio and minimum liquidity level if the minimum adjusted EBITDA/Debt Service ratio could not be maintained; (ii) the Leverage Ratio (as defined) was 1.75, and allowed us to net unrestricted cash in excess of $35,000 against outstanding debt in determining total liabilities; and (iii) we had no financial covenant as to the number of speculative homes and models if we maintained a Leverage Ratio (as defined) of 1.0 or less, however, if our Leverage Ratio exceeded 1.0, the number of speculative homes and models could not exceed 35% of unit closings for the trailing twelve month period; and

the pricing of the facility included: (i) the LIBOR Margin was a range of 2.0% to 2.75%, and depended on our EBITDA/Debt Service ratio, our rate on outstanding borrowings could have been increased up to an additional 50 basis points; (ii) our fee for outstanding letters of credit was 50 basis points below our LIBOR Margin; and (iii) our unused fee was a range of 25 basis points to 50 basis points, depending on our usage.

On November 7, 2008, Franklin Bank SSB (Franklin Bank), one of the participating financial institutions in our amended unsecured credit facility, was closed by the Texas Department of Savings and Mortgage Lending and the Federal Deposit Insurance Corporation (FDIC) was named receiver. On January 13, 2010, we received notification from the FDIC that Franklin Bank is no longer a participant in our amended unsecured credit facility. Franklin Bank was a 20% participant thus the principal amount of the Amended Unsecured Credit Facility is reduced to $80,000.

The Amended Unsecured Credit Facility included a $50,000 sublimit for the issuance of standby letters of credit. The maturity date of the Amended Unsecured Credit Facility was September 20, 2010. As of March 31, 2010, we had borrowings of approximately $55,842 outstanding under the Amended Unsecured Credit Facility and had letters of credit totaling $22,351, of which $20,869 were financial/maintenance letters of credit and $1,482 was a performance letter of credit. Under the Amended Unsecured Credit Facility, performance letters of credit did not count against our availability for borrowing. Our borrowing rate under the Amended Unsecured Credit Facility was 2.75% as of March 31, 2010. Our availability was approximately $3,289 as of March 31, 2010.

Also on March 27, 2008, in connection with the Amended Unsecured Credit Facility, Avatar Holdings Inc., as guarantor, entered into a Second Restated Guaranty Agreement with Wachovia Bank, National Association (as administrative agent and lender), in favor of certain financial institutions as lenders (Second Restated Guaranty Agreement). This agreement amended and restated the Restated Guaranty Agreement, dated as of October 21, 2005. Payments of all amounts due under the Amended Unsecured Credit Facility were guaranteed by Avatar Holdings Inc. pursuant to the Second Restated Guaranty Agreement.

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

Under the terms of the Amended Unsecured Credit Facility, we were required, among other things, to maintain a Minimum Tangible Net Worth (as defined) and certain financial covenant ratios. The Minimum Tangible Net Worth was increased quarterly by 25% of positive net income for the most recently ended fiscal quarter and 75% of the aggregate proceeds from any equity offerings during the most recently ended fiscal quarter. There was no decrease when we had net losses.

Financial covenant ratios required under the Amended Unsecured Credit Facility consisted of maintaining at the end of each fiscal quarter a Leverage Ratio (as defined) of not more than 1.75 to 1, 1.50 to 1, 1.25 to 1, or 1.00 to 1; an Adjusted EBITDA/Debt Service Ratio (as defined) that was equal to or greater than 2.00 to 1; and a Notes Coverage Ratio (as defined) that was greater than or equal to 2.00 to 1.

If we did not meet the minimum required Adjusted EBITDA/Debt Service Ratio, we could alternatively comply by maintaining a reduced maximum Leverage Ratio and a minimum ACFFO (Adjusted Cash Flow from Operations, as defined) Ratio or Liquidity (as defined) requirement. The AFFCO Ratio requirement was greater than or equal to 1.50 to 1. If we did not meet the minimum required Adjusted EBITDA/Debt Service Ratio and ACFFO Ratio requirement, we could alternatively comply with a minimum Liquidity requirement of $50,000 (of which $25,000 is cash) when the EBITDA/Debt Service Ratio was greater than or equal to 1.00 to 1 and the Leverage Ratio was less than or equal to 1.25 to 1 or we could alternatively comply with a minimum Liquidity requirement of $75,000 (of which $35,000 is cash) when the EBITDA/Debt Service Ratio was less than 1.00 to 1 and the Leverage Ratio was less than or equal to 1.00 to 1.

The Amended Unsecured Credit Facility also contained limitations on investments relating to real estate related joint ventures; and restrictions on raw land, land under development and developed lots. Investments relating to real estate related joint ventures could not exceed 25% of Tangible Net Worth (as defined). The net book value of raw land, land under development and developed lots could not exceed 150% of Tangible Net Worth.

As of March 31, 2010, we were in compliance with the covenants of the Amended Unsecured Credit Facility.

The following table represents interest incurred, interest capitalized, and interest expense for the three months ended March 31, 2010 and 2009:

	2010	2009
Interest incurred	$ 1,691	$ 1,973
Interest capitalized	(15)	(136)
Interest expense	$ 1,676	$ 1,837

We made interest payments of $395 and $461 during the three months ended March 31, 2010 and 2009, respectively.

Table of Contents

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

Warranty Costs

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

During the three months ended March 31, 2010 and 2009 changes in the warranty reserve consisted of the following:

	Three Months	
	2010	2009
Accrued warranty reserve, beginning of period	$ 458	$ 468
Estimated warranty expense	83	95
Amounts charged against warranty reserve	(144)	(142)
Accrued warranty reserve, end of period	$ 397	$ 421

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 three months ended March 31, 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 zero shares of our common stock for both the three months ended March 31, 2010 and 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 three months ended March 31, 2010 and 2009:

	Three Months	
	2010	2009
Numerator:		
Basic and diluted loss per share net loss	($10,136)	($8,594)
Denominator:		
Basic and diluted weighted average shares outstanding	11,240,760	8,652,740

Table of Contents

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

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 March 31, 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 March 31, 2010 and December 31, 2009, non-controlling interest was $885 and $1,018, respectively. The decrease in non-controlling interest of $133 is a result of the losses generated from these LLCs.

Comprehensive Loss

Net loss and comprehensive loss are the same for the three months ended March 31, 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 March 31, 2010, an aggregate of 642,896 shares of our Common Stock, subject to certain adjustments, were available for issuance under the Incentive Plan, including an aggregate of 167,798 options and stock units granted. There were 475,098 shares available for grant at March 31, 2010.

Compensation expense related to the stock option and restricted stock unit awards during the three months ended March 31, 2010 and 2009 was $264 and $455, respectively, all of which relates to restricted stock units. No restricted stock units awards or stock options were granted during the three months ended March 31, 2010 and 2009.

As of March 31, 2010, there was $656 of unrecognized compensation expense related to unvested restricted stock units. That expense is expected to be recognized over a weighted-average period of one year.

Table of Contents

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

Income Taxes

Income tax receivable as of March 31, 2010 and December 31, 2009 consists of $35,018 in income tax refunds of which $32,933 was received during April 2010.

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. During the three months ended March 31, 2010 we recognized an increase of $3,882 in the valuation allowance. As of March 31, 2010, our deferred tax asset valuation allowance was $14,301. 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.

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:

Table of Contents

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

Fair Value Disclosures continued

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.

Avatar s assets measured at fair value as of March 31, 2010 and losses for the three months ended March 31, 2010 on a nonrecurring basis are summarized below:

Non-financial Assets	Fair Value Hierarchy	Fair Value at March 31, 2010	Losses
Homes completed or under construction	Level 2	$ 8,057	$ 168

In accordance with ASC 360-10, homes completed or under construction that were impaired were written down to their fair value of $8,057 resulting in impairment charges of $168 for the three months ended March 31, 2010.

For assets held for sale (such as homes completed or under construction), 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.

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

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 213,233	$ 213,233	$ 217,132	$ 217,132
Restricted cash	$ 1,019	$ 1,019	$ 699	$ 699
Receivables, net	$ 6,800	$ 6,800	$ 6,656	$ 6,656
Income tax receivable	$ 35,018	$ 35,018	$ 35,018	$ 35,018
Notes, mortgage notes and other debt:				
Corporate:				
4.50% Notes	$ 63,369	$ 63,832	$ 63,010	$ 61,969
Real estate:				
5.50% Term Bonds payable	$ 111	$ 107	$ 111	$ 105
Amended Unsecured Credit Facility	$ 55,842	$ 55,080	$ 55,881	$ 54,750

Table of Contents

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

Fair Value Disclosures continued

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 March 31, 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 March 31, 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.

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 March 31, 2010, our consolidated balance sheets include $3,440 in land and other inventories and $1,158 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 March 31, 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 March 31, 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 $33 and $57 to its unconsolidated entities during the three months ended March 31, 2010 and 2009, respectively.

As of March 31, 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 March 31, 2010 and December 31, 2009:

	March 31 2010	December 31 2009
Assets:		
Cash	$ 187	$ 243
Land and other inventory	11,573	11,573
Other assets	17	25
Total assets	$ 11,777	$ 11,841
Liabilities and Partners Capital:		
Accounts payable and accrued liabilities	$ 1,069	$ 893
Notes and interest payable to Avatar	3,724	3,724
Partners Capital of:		
Avatar	1,539	1,597
Equity partner	5,445	5,627
Total liabilities and partners capital	$ 11,777	$ 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 three months ended March 31, 2010 and 2009:

	2010	2009
Revenues	$	$ 15
Costs and expenses	304	171
Net loss from unconsolidated entities	($304)	($156)
Avatar s share of loss from unconsolidated entities	($90)	($62)

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:

	March 31, 2010	December 31, 2009
Gross estimated unexpended costs	$ 26,256	$ 26,389
Less costs relating to unsold homesites	(5,909)	(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. We recorded charges associated with these obligations of approximately $0 and $545 during the three months ended March 31, 2010 and 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 $395 and $334, which have been accrued in the accompanying consolidated balance sheets as of March 31, 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 March 31, 2010, we had outstanding performance bonds of approximately $3,011. 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 three months ended March 31, 2010 and 2009:

	Three Months	
	2010	2009
Revenues:		
Segment revenues		
Primary residential	$ 4,622	$ 5,536
Active adult communities	4,678	6,198
Commercial and industrial and other land sales		1,825
Other operations	191	228
	9,491	13,787
Unallocated revenues		
Interest income	122	199
Other	10	1,361
Total revenues	$ 9,623	$ 15,347
Operating income (loss):		
Segment operating income (loss)		
Primary residential	($1,642)	($1,898)
Active adult communities	(2,013)	(1,432)
Commercial and industrial and other land sales	(37)	1,778
Other operations	(9)	11
	(3,701)	(1,541)
Unallocated income (expenses)		
Interest income	122	199
Gain on repurchase of 4.50% Notes		1,365
Equity loss from unconsolidated entities	(90)	(62)

Net loss attributable to non-controlling interests	133	
General and administrative expenses	(4,083)	(4,667)
Interest expense	(1,676)	(1,837)
Other real estate expenses	(841)	(2,563)
Impairment of the Poinciana Parkway		(318)
Loss before income taxes	($10,136)	($9,424)

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)

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 land and infrastructure development, housing construction, funding of operating deficits and working capital, as well as potential new acquisition and development opportunities.

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

We remain focused on maintaining sufficient liquidity. It is our intention to continue to monetize our inventory of unsold homes in anticipation of introducing new homes and models. We expect that 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.

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.

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 March 31, 2010, our investment was approximately $7,800. As of April 30, 2010, we have entered into sales contracts on 37 homes with an aggregate sales price of approximately $5,934. Closings of homes commenced during April 2010.

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. We have evaluated a substantial number of residential real estate properties in Florida and Arizona that we believe could represent attractive opportunities to acquire real estate, or debt secured by real estate.

We have an experienced residential real estate development group which is able to expeditiously underwrite portfolios of residential real estate ranging from large undeveloped/unentitled parcels of land to finished lots, and acquire these properties or the debt secured by these properties from financial institutions or others. We believe our cash position and our ability to plan, permit, develop and sell land, as well as to design, permit and build out highly amenitized residential communities enable us to have a competitive advantage in buying such properties over financial buyers and developers not having extensive experience in Florida or Arizona. However, we compete for opportunities to acquire real estate or real estate related assets and there can be no assurance that we will identify and be able to acquire such assets or that any such assets we were to acquire would result in a desirable return on our investment.

Land Inventory

Our assets consist primarily of real estate in the states of Florida and Arizona. As of March 31, 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 land holdings (not including our housing inventory) as of March 31, 2010 (dollars in thousands):

		Estimated Planned Lots/Units (1)				
Acquisition Date	**Contract Date**	**Developed**	**Partially Developed**	**Raw (2)**	**Total**	**Book Value**
Residential						
Osceola County, Florida						
Pre-1980		200		2,200	2,400	$ 5,199
1999-2001		500	700		1,200	45,135
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	19,256
Total Osceola County		700	700	6,200	7,600	96,777
Polk County, Florida						
Pre-1980		900	1,000	2,400	4,300	19,852
2003	2002-2003	900		100	1,000	32,840
2004	2002-2003			2,500	2,500	19,966
Total Polk County		1,800	1,000	5,000	7,800	72,658
St. Lucie County, Florida						
2009	2009	267	364	400	1,031	2,020
Hernando County, Florida						
2004-2005	2003		5		5	30
Collier County, Florida						
Pre-1980		50			50	191
Highlands County, Florida						
Pre-1980		40		40	80	102
Santa Cruz County, (Rio Rico), Arizona						
Pre-1980		600	300	3,700	4,600	10,117
Pima County, Arizona						
2009	2009	86			86	3,725
Total Residential		3,543	2,369	15,340	21,252	$ 185,620

***Consolidated LLCs* (4)**

Polk County, Florida					
2005	2004	200	300	500	$ 1,774
Martin County, Florida					
1981-1987		75	200	275	1,666
Total Consolidated LLCs		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
Commercial/Industrial/Institutional			
Florida			
Pre-1980		1,300	$ 7,105
2004 (3)	2004	300	14,787
2005 (3)	2004	400	15,758
Total Florida		2,000	37,650
Arizona			
Pre-1980		200	267
Total Commercial/Industrial/Institutional		2,200	$ 37,917
Other			
Preserves, wetlands, open space			
Pre-1980			3,176
Other			4,847
Total Other			$ 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.

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

During the three months ended March 31, 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 three months ended March 31, 2010, we recorded impairment charges of $168 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 first quarter of 2010, 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, other than Seasons at Tradition. During the quarter ended March 31, 2010, at Seasons at Tradition, we entered into 28 sales contracts representing an aggregate dollar value of approximately $4,377. Closings of homes at Seasons at Tradition commenced during April 2010.

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 reduced our headcount by 62% to 224 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 three months ended March 31, 2010 and 2009:

	Three Months	
	2010	2009
Operating income (loss):		
Primary residential		
Revenues	$ 4,622	$ 5,536
Expenses	6,264	7,434
Segment operating loss	(1,642)	(1,898)
Active adult communities		
Revenues	4,678	6,198
Expenses	6,691	7,630
Segment operating loss	(2,013)	(1,432)
Commercial and industrial and other land sales		
Revenues		1,825
Expenses	37	47
Segment operating income (loss)	(37)	1,778
Other operations		
Revenues	191	228
Expenses	200	217
Segment operating loss	(9)	11
Operating income (loss)	(3,701)	(1,541)
Unallocated income (expenses):		
Interest income	122	199
Gain on repurchase of 4.50% Notes		1,365
Equity loss from unconsolidated entities	(90)	(62)
Net loss attributable to non-controlling interests	133	
General and administrative expenses	(4,083)	(4,667)
Interest expense	(1,676)	(1,837)
Other real estate expenses	(841)	(2,563)
Impairment of the Poinciana Parkway		(318)
Loss before income taxes	(10,136)	(9,424)
Income tax benefit		830

Net loss	($10,136)	($8,594)

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 three months ended March 31, 2010 and 2009 is summarized as follows:

For the three months ended March 31,	Number of Units	Revenues	Average Price Per Unit
2010			
Primary residential	20	$ 3,931	$ 197
Active adult communities	8	1,520	$ 190
Total	28	$ 5,451	$ 195
2009			
Primary residential	22	$ 4,684	$ 213
Active adult communities	12	3,071	$ 256
Total	34	$ 7,755	$ 228

Data from contracts signed for the primary residential and active adult homebuilding segments for the three months ended March 31, 2010 and 2009 is summarized as follows:

For the three months ended March 31,	Gross Number of Contracts Signed	Cancellations	Contracts Signed, Net of Cancellations	Dollar Value	Average Price Per Unit
2010					
Primary residential	20	(4)	16	$ 2,865	$ 179
Active adult communities	47	(3)	44	9,289	$ 211
Total	67	(7)	60	$ 12,154	$ 203
2009					
Primary residential	48	(9)	39	$ 6,951	$ 178
Active adult communities	23	(5)	18	3,387	$ 188
Total	71	(14)	57	$ 10,338	$ 181

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

Backlog for the primary residential and active adult homebuilding segments as of March 31, 2010 and 2009 is summarized as follows:

As of March 31,	Number of Units	Dollar Volume	Average Price Per Unit
2010			
Primary residential	12	$ 2,157	$ 180
Active adult communities	45	10,015	$ 223
Total	57	$ 12,172	$ 214
2009			
Primary residential	33	6,868	$ 208
Active adult communities	46	11,793	$ 256
Total	79	$ 18,661	$ 236

The number of net housing contracts signed during the three months ended March 31, 2010 compared to the same period in 2009 increased 5.3% and the dollar value of housing contracts signed increased 17.6%, including 28 sales contracts representing an aggregate dollar value of approximately $4,377 in Seasons at Tradition. The low volume of housing contracts signed for the three months ended March 31, 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 assets being sold by lenders, and continued use of various sales incentives by residential builders in our markets, including Avatar. During the three months ended March 31, 2010, cancellations of previously signed contracts totaled 7 compared to 14 during the three months ended March 31, 2009. As a percentage of the gross number of contracts signed, this represents 10% and 20%, respectively.

As of March 31, 2010, our inventory of unsold (speculative) homes, both completed and under construction, was 122 units compared to 144 units as of December 31, 2009. As of March 31, 2010, approximately 79% of unsold homes were completed compared to approximately 83% as of December 31, 2009.

During the three months ended March 31, 2010 compared to the three months ended March 31, 2009, the number of homes closed decreased by 17.6%, from 34 to 28, and the related revenues decreased by 29.7%, from $7,755 to $5,451. Our average sales price for homes closed during the three months ended March 31, 2010 declined to $195 compared to $228 for the three months ended March 31, 2009. We anticipate that we will close in excess of 80% of the homes in backlog as of March 31, 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.

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

Net loss for the three months ended March 31, 2010 and 2009 was ($10,136) or ($0.90) per basic and diluted share and ($8,594) or ($0.99) per basic and diluted share, respectively. The increase in net loss for the three months ended March 31, 2010 compared to the same period in 2009 was primarily due to decreased pre-tax profits from commercial and industrial and other land sales as well as increased losses from our primary residential and active adult operations. In addition, the increase in pre-tax loss for the three months ended March 31, 2010 compared to the same period in 2009 was partially due to the pre-tax gain on the repurchase of the 4.50% Notes in 2009.

Revenues from primary residential operations decreased $914, or 16.5%, for the three months ended March 31, 2010 compared to the same period in 2009. Expenses from primary residential operations decreased $1,170, or 15.7%, for the three months ended March 31, 2010 compared to the same period in 2009. The decrease in revenues is primarily attributable to decreased closings and average sales prices in our primary residential homebuilding communities. The decrease in expenses is attributable to lower volume of closings. During the three months ended March 31, 2010 and 2009, we recorded impairment charges in our primary residential operations of approximately $168 and $373, respectively, from homes completed or under construction. The average sales price on closings from primary residential homebuilding operations for the three months ended March 31, 2010 was $197 compared to $213 for the same period in 2009. The average contribution margin (excluding impairment charges) on closings from primary residential homebuilding operations for the three months ended March 31, 2010 was approximately (5%) compared to approximately 8% for the same period 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 $1,520, or 24.5%, for the three months ended March 31, 2010 compared to the same period in 2009. Expenses from active adult operations decreased $939, or 12.3%, for the three months ended March 31, 2010 compared to the same period 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 partially offset by expenditures incurred during the first quarter of 2010 for the recently acquired Seasons at Tradition. The average sales price on closings from active adult homebuilding operations for the three months ended March 31, 2010 was $190 compared to $256 for the same period in 2009. The average contribution margin (excluding impairment charges) on closings from active adult homebuilding operations for the three months ended March 31, 2010 was approximately 4% compared to approximately 19% for the same period in 2009. 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 three months ended March 31, 2010, we did not have sales of commercial, industrial and other land. During the three months ended March 31, 2009, pre-tax profits from sales of commercial, industrial and other land were $1,778 on revenues of $1,825.

For the three months ended March 31, 2009, pre-tax profits from commercial and industrial land were $1,758 on aggregate revenues of $1,785. For the three months ended March 31, 2009, pre-tax profits from other land sales were $20 on aggregate revenues of $40.

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

Revenues from other operations decreased $37, or 16.2%, for the three months ended March 31, 2010 compared to the same period in 2009. Expenses from other operations decreased $17, or 7.8%, for the three months ended March 31, 2010 compared to the same period in 2009. The decreases in revenues and expenses are primarily attributable to decreased operating results from our title insurance agency operations due to lower volume of real estate transactions.

Interest income decreased $77, or 38.7%, for the three months ended March 31, 2010 compared to the same period in 2009. The decrease was primarily attributable to decreased interest rates earned on our cash and cash equivalents during 2010 as compared to 2009.

During the three months ended March 31, 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 during the first quarter of 2009 of approximately $1,365, which is included in Other Revenues in the consolidated statements of operations for the three months ended March 31, 2009 including the write-off of approximately $63 of deferred finance costs.

General and administrative expenses decreased $584, or 12.5%, for the three months ended March 31, 2010 compared to the same period in 2009. The decrease was primarily due to decreases in compensation expense, share-based compensation expense and professional fees.

Interest expense decreased $161, or 8.8%, for the three months ended March 31, 2010 compared to the same period 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.

Other real estate expenses, net, represented by real estate taxes, property maintenance and miscellaneous income not allocable to specific operations, decreased by $1,722, or 67.2%, for the three months ended March 31, 2010 compared to the same period 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 three months ended March 31, 2010 and 2009, we recognized charges of $0 and $545, 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 three months ended March 31, 2010 and 2009 are non-capitalizable expenditures of $208 and $341, respectively, related to the Poinciana Parkway.

The income tax benefit of $830 for the three months ended March 31, 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 three months ended March 31, 2010 we recognized an increase of $3,882 in the valuation allowance. As of March 31, 2010, our deferred tax asset valuation allowance was $14,301. 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

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 March 31, 2010, our cash and cash equivalents totaled $213,233. As of March 31, 2010, we had borrowings of $55,842 outstanding under the Amended Unsecured Credit Facility, and the principal amount of the 4.50% Notes outstanding was $64,804.

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.

For the three months ended March 31, 2010, net cash used in operating activities amounted to $3,870, primarily to fund our operating losses. Net cash provided by investing activities amounted to $10 due to a refund received from previous expenditures of $30 on the Poinciana Parkway offset by expenditures of $20 for investments in property and equipment. Net cash used by financing activities of $39 was attributable to payment of principal under the Amended Unsecured Credit Facility.

For the three months ended March 31, 2009, net cash used in operating activities amounted to $2,834, primarily to fund our operating losses. Net cash used in investing activities amounted to $107 as a result of expenditures of $77 for investments in property and equipment, expenditures of $7 on the Poinciana Parkway and investment in unconsolidated entities of $23. Net cash used by financing activities of $25 was attributable to payment of principal under the Amended Unsecured Credit Facility.

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.

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 March 31, 2010, the amount of our borrowings totaled $119,322 compared to our borrowings of $119,002 as of December 31, 2009. At March 31, 2010, our borrowings of $119,322 consisted of $63,369 carrying amount of the 4.50% Notes, $55,842 outstanding under the Amended Unsecured Credit Facility and $111 of 5.50% community development district term bond obligations due 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.

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 first quarter of 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 first quarter of 2010. During 2007, $200 principal amount of the 4.50% Notes were converted into 3,800 shares of Avatar common stock. 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 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 March 31, 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.

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

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

	March 31, 2010	December 31, 2009
4.50% Notes		
Principal amount	$ 64,804	$ 64,804
Unamortized discount	(1,435)	(1,794)
Net carrying amount	$ 63,369	$ 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 March 31, 2010, the remaining expected life over which the unamortized discount will be recognized is 1.0 year. We recognized $359 and $485 in non-cash interest charges related to the amortization of the discount during the three months ended March 31, 2010 and 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 secure the retirement of 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 has the effect of terminating all parties obligations under the credit facility, effective no later than May 17, 2010. As of May 4, 2010, we had unrestricted cash and cash equivalents of approximately $161,000 and restricted cash of $22,035 deposited as security for the letters of credit.

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 March 31, 2010, the principal terms of the Amended Unsecured Credit Facility were as follows:

the amount of the facility was $100,000 (the facility was expandable up to $150,000, subject to certain conditions and lender approval);

financing for the Poinciana Parkway was permitted up to $140,000, subject to certain conditions;

certain covenants included: (i) the minimum adjusted EBITDA/Debt Service ratio (as defined) was 2.0, and provided for an alternative requirement of maintaining a maximum leverage ratio and minimum liquidity level if the minimum adjusted EBITDA/Debt Service ratio could not be maintained; (ii) the Leverage Ratio (as defined) was 1.75, and allowed us to net unrestricted cash in excess of $35,000 against outstanding debt in determining total liabilities; and (iii) we had no financial covenant as to the number of speculative homes and models if we maintained a Leverage Ratio (as defined) of 1.0 or less, however, if our Leverage Ratio exceeded 1.0, the number of speculative homes and models could not exceed 35% of unit closings for the trailing twelve month period; and

the pricing of the facility included: (i) the LIBOR Margin was a range of 2.0% to 2.75%, and depended on our EBITDA/Debt Service ratio, our rate on outstanding borrowings could have been increased up to an additional 50 basis points; (ii) our fee for outstanding letters of credit was 50 basis points below our LIBOR Margin; and (iii) our unused fee was a range of 25 basis points to 50 basis points, depending on our usage.

On November 7, 2008, Franklin Bank SSB (Franklin Bank), one of the participating financial institutions in our amended unsecured credit facility, was closed by the Texas Department of Savings and Mortgage Lending and the Federal Deposit Insurance Corporation (FDIC) was named receiver. On January 13, 2010, we received notification from the FDIC that Franklin Bank is no longer a participant in our amended unsecured credit facility. Franklin Bank was a 20% participant thus the principal amount of the Amended Unsecured Credit Facility is reduced to $80,000.

The Amended Unsecured Credit Facility included a $50,000 sublimit for the issuance of standby letters of credit. The maturity date of the Amended Unsecured Credit Facility was September 20, 2010. As of March 31, 2010, we had borrowings of approximately $55,842 outstanding under the Amended Unsecured Credit Facility and had letters of credit totaling $22,351 of which $20,869 were financial/maintenance letters of credit and $1,482 was a performance letter of credit. Under the Amended Unsecured Credit Facility, performance letters of credit did not count against our availability for borrowing. Our borrowing rate under the Amended Unsecured Credit Facility was 2.75% as of March 31, 2010. Our availability was approximately $3,289 as of March 31, 2010.

Also on March 27, 2008, in connection with the Amended Unsecured Credit Facility, Avatar Holdings Inc., as guarantor, entered into a Second Restated Guaranty Agreement with Wachovia Bank, National Association (as administrative agent and lender), in favor of certain financial institutions as lenders (Second Restated Guaranty Agreement). This agreement amended and restated the Restated Guaranty Agreement, dated as of October 21, 2005. Payments of all amounts due under the Amended Unsecured Credit Facility were guaranteed by Avatar Holdings Inc. pursuant to the Second Restated Guaranty Agreement.

Under the terms of the Amended Unsecured Credit Facility, we were required, among other things, to maintain a Minimum Tangible Net Worth (as defined) and certain financial covenant ratios. The Minimum Tangible Net Worth was increased quarterly by 25% of positive net income for the most recently ended fiscal quarter and 75% of the aggregate proceeds from any equity offerings during the most recently ended fiscal quarter. There was no decrease when we had net losses. As of March 31, 2010, our Minimum Tangible Net Worth requirement was $292,174.

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

Financial covenant ratios required under the Amended Unsecured Credit Facility consisted of maintaining at the end of each fiscal quarter a Leverage Ratio (as defined) of not more than 1.75 to 1, 1.50 to 1, 1.25 to 1, or 1.00 to 1; an Adjusted EBITDA/Debt Service Ratio (as defined) that was equal to or greater than 2.00 to 1; and a Notes Coverage Ratio (as defined) that was greater than or equal to 2.00 to 1.

If we did not meet the minimum required Adjusted EBITDA/Debt Service Ratio, we could alternatively comply by maintaining a reduced maximum Leverage Ratio and a minimum ACFFO (Adjusted Cash Flow from Operations, as defined) Ratio or Liquidity (as defined) requirement. The AFFCO Ratio requirement was greater than or equal to 1.50 to 1. If we did not meet the minimum required Adjusted EBITDA/Debt Service Ratio and ACFFO Ratio requirement, we could alternatively comply with a minimum Liquidity requirement of $50,000 (of which $25,000 is cash) when the EBITDA/Debt Service Ratio was greater than or equal to 1.00 to 1 and the Leverage Ratio was less than or equal to 1.25 to 1 or we could alternatively comply with a minimum Liquidity requirement of $75,000 (of which $35,000 is cash) when the EBITDA/Debt Service Ratio was less than 1.00 to 1 and the Leverage Ratio was less than or equal to 1.00 to 1.

The Amended Unsecured Credit Facility also contained limitations on investments relating to real estate related joint ventures; and restrictions on raw land, land under development and developed lots. Investments relating to real estate related joint ventures could not exceed 25% of Tangible Net Worth (as defined). The net book value of raw land, land under development and developed lots could not exceed 150% of Tangible Net Worth.

As of March 31, 2010, we were in compliance with the covenants of the Amended Unsecured Credit Facility.

The following summarizes certain financial covenant thresholds and our results pursuant to the Amended Unsecured Credit Facility as of March 31, 2010:

Financial Covenant	Covenant Requirement	Actual
Minimum Tangible Net Worth	$ 292,174	$ 435,131
Leverage Ratio (a)	Less than or equal to 1.00	(0.03)
EBITDA/Debt Service Ratio	(b)	(b)
AFFCO Ratio	(b)	(b)
Liquidity/Cash Requirements	$75,000/$35,000	$216,522/$213,233
Notes Coverage Ratio	Greater than or equal to 2.00	4.2
Investments in real estate related joint ventures (as a percent of Tangible Net Worth)	Less than or equal to 25%	1.2%
Book value of raw land, land under development and developed lots (as a percent of Tangible Net Worth)	Less than or equal to 150%	53%

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

(a) The Leverage Ratio requirement varies based on our Adjusted EBITDA/Debt Service Ratio. If our Adjusted EBITDA/Debt Service Ratio was greater than or equal to 2.00 to 1, the Leverage Ratio requirement was less than or equal to 1.75 to 1. If our Adjusted EBITDA/Debt Service Ratio was greater than or equal to 1.50 to 1, the Leverage Ratio requirement was less than or equal to 1.50 to 1. If our Adjusted EBITDA/Debt Service Ratio was greater than or equal to 1.00 to 1, the Leverage Ratio requirement was less than or equal to 1.25 to 1. If our Adjusted EBITDA/Debt Service Ratio was less than 1.00 to 1, the Leverage Ratio requirement was less than or equal to 1.00 to 1.

(b) Our Adjusted EBITDA/Debt Service Ratio of negative 5.5 was less than 1.00 to 1 as of March 31, 2010. Our AFFCO Ratio of 3.2 was more than 1.50 to 1 as of March 31, 2010. We were required to maintain Liquidity of $75,000 of which $35,000 was cash and cash equivalents.

Performance bonds, issued by third party entities, are used primarily to guarantee our performance to construct improvements in our various communities. As of March 31, 2010, we had outstanding performance bonds of approximately $3,011. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

In conjunction with the acquisition of developed land in Florida in September 2005 and September 2004, we assumed approximately $5,900 of Community Development District term bond obligations due 2010. These term bonds are secured by the land and bear an interest rate of 5.50%. As of March 31, 2010, we had $111 outstanding under these obligations.

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 March 31, 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.

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

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 March 31, 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, 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 three months ended March 31, 2010. During the three months ended March 31, 2009, we recognized impairment losses of $318. In addition, non-capitalizable expenditures of $208 and $341 related to the Poinciana Parkway were expensed during the three months ended March 31, 2010 and 2009, respectively. At March 31, 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 three months ended March 31, 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.

Table of Contents

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in Avatar s market risk during the three months ended March 31, 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 March 31, 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 March 31, 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)
January 1, 2010 to January 31, 2010				$ 18,304
February 1, 2010 to February 28, 2010				$ 18,304
March 1, 2010 to March 31, 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 March 31, 2010, the remaining authorization is $18,304.

Item 5. Other Information (dollars in thousands)

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 secure the retirement of 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 has the effect of terminating all parties

obligations under the credit facility, effective no later than May 17, 2010. As of May 4, 2010, we had unrestricted cash and cash equivalents of approximately $161,000 and restricted cash of $22,035 deposited as security for the letters of credit.

On May 6, 2010, we entered into a First Amendment to Amended and Restated Employment Agreement (the First Amendment) with Randy Kotler, our Executive Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer), which amends Mr. Kotler s employment agreement dated as of December 22, 2008 (the Employment Agreement) by, among other things, extending the term of his employment and modifying the compensation and termination provisions of the Employment Agreement. In particular, the First Amendment (1) extends the term of Mr. Kotler s employment from July 8, 2010 to December 31, 2010, (2) increases his annual base salary from $350 to $450 effective July 9, 2010, (3) eliminates the provision for payment of an annual bonus, (4) continues payment of an automobile allowance of $1 per month, and (5) provides that Mr. Kotler may terminate his employment by giving 90 days prior written notice of termination. Should Mr. Kotler be terminated Without Cause (as defined in the Employment Agreement filed as Exhibit 10.12 to Form 8-K filed with the Securities and Exchange Commission on December 30, 2008), he would continue to be compensated through December 31, 2010.

Table of Contents

Item 6. Exhibits

10.1 First Amendment to Amended and Restated Employment Agreement, dated May 6, 2010, between Avatar Holdings Inc. and Randy Kotler (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).

Table of Contents

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: May 10, 2010

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

Date: May 10, 2010

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

Table of Contents

Exhibit Index

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