AVATAR HOLDINGS INC
Form 10-Q
November 14, 2011

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

# FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

Commission File Number 001-07395

AVATAR HOLDINGS INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other Jurisdiction of Incorporation or Organization) | 23-1739078<br>(I.R.S. Employer Identification No.) |
| 395 Village Drive, Poinciana, Florida<br>(Address of Principal Executive Offices) | 34759<br>(Zip Code) |

(863) 427-7180
(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 R 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 R 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: R | 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 R

15,251,129 shares of Avatar's common stock ($1.00 par value) were outstanding as of October 31, 2011.

AVATAR HOLDINGS INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

Table of Contents

PART I -- FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)
(in thousands, except share amounts)

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $134,427 | $115,502 |
| Restricted cash | 7,835 | 8,422 |
| Land and other inventories | 196,808 | 262,455 |
| Receivables, net | 5,563 | 6,434 |
| Income tax receivable | 1,416 | 1,766 |
| Property and equipment, net | 38,512 | 39,290 |
| Poinciana Parkway | 8,452 | 8,452 |
| Investments in and notes receivable from unconsolidated entities | 861 | 5,194 |
| Prepaid expenses and other assets | 11,815 | 10,242 |
| Goodwill | - | 17,215 |
| Assets held for sale | 30,117 | 70,479 |
| Total Assets | $435,806 | $545,451 |
| | | |
| Liabilities and Stockholders' Equity | | |
| | | |
| Liabilities | | |
| Accounts payable | $2,195 | $3,743 |
| Accrued and other liabilities | 10,030 | 6,929 |
| Customer deposits and deferred revenues | 1,973 | 2,557 |
| Estimated development liability for sold land | 34,192 | 31,843 |
| Earn-out liability | 0 | 4,388 |
| Notes, mortgage notes and other debt: | | |
| Corporate | 105,402 | 64,445 |
| Real estate | 9,933 | 12,612 |
| Total Liabilities | 163,725 | 126,517 |
| | | |
| | | |
| Stockholders' Equity | | |
| Common Stock, par value $1 per share | | |
| Authorized: 50,000,000 shares | | |
| Issued: 15,364,489 shares at September 30, 2011 and 15,562,732 shares at December 31, 2010 | 15,365 | 15,563 |
| Additional paid-in capital | 307,432 | 305,672 |
| Retained earnings | 28,081 | 176,265 |
| | 350,878 | 497,500 |
| Treasury stock: at cost, 2,664,592 shares at September 30, 2011 and 2,662,106 shares at December 31, 2010 | (79,049) | (79,010) |
| Total Avatar stockholders' equity | 271,829 | 418,490 |

| | | |
|---|---|---|
| Non-controlling interest | 252 | 444 |
| Total Equity | 272,081 | 418,934 |
| | | |
| Total Liabilities and Stockholders' Equity | $435,806 | $545,451 |

See accompanying Notes to Consolidated Financial Statements

Table of Contents

AVATAR HOLDINGS INC. AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)
(in thousands except per-share amounts)

| | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 |
|---|---|---|---|---|
| Revenues | | | | |
| Real estate revenues | $53,964 | $35,326 | $13,986 | $9,389 |
| Interest income | 395 | 401 | 95 | 147 |
| Other | 922 | 771 | 622 | 37 |
| Total revenues | 55,281 | 36,498 | 14,703 | 9,573 |
| | | | | |
| Expenses | | | | |
| Real estate expenses | 60,772 | 45,224 | 19,152 | 13,530 |
| Impairment charges | 126,486 | 204 | 112,389 | 36 |
| General and administrative expenses | 12,865 | 12,641 | 5,093 | 4,796 |
| Change in fair value of contingent consideration | (4,388) | - | (3,366) | - |
| Loss on extinguishment of debt | 211 | - | - | - |
| Interest expense | 7,230 | 4,288 | 2,437 | 1,126 |
| Total expenses | 203,176 | 62,357 | 135,705 | 19,488 |
| | | | | |
| Earnings (loss) from unconsolidated entities, net | (326) | (331) | (341) | (124) |
| | | | | |
| Loss before income taxes | (148,221) | (26,190) | (121,343) | (10,039) |
| Income tax benefit | (350) | 375 | (350) | 375 |
| | | | | |
| Net loss | (148,571) | (25,815) | (121,693) | (9,664) |
| | | | | |
| Less: Net loss attributable to non-controlling interests | (387) | (417) | (132) | (145) |
| | | | | |
| Net loss attributable to Avatar | $(148,184) | $(25,398) | $(121,561) | $(9,519) |
| | | | | |
| Basic and diluted Loss Per Share | $(11.91) | $(2.26) | $(9.76) | $(0.84) |

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AVATAR HOLDINGS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

| | Nine Months Ended September 30, 2011 | Nine Months Ended September 30 2010 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss (including net loss attributable to non-controlling interests) | $ (148,571) | $ (25,815) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 2,831 | 3,562 |
| Amortization of stock-based compensation | 1,508 | 763 |
| Impairment of land and other inventories | 109,271 | 204 |
| Impairment of Goodwill | 17,215 | - |
| Change in fair value of contingent consideration | (4,388) | - |
| Distribution of earnings | (338) | (32) |
| Equity in (earnings) losses of unconsolidated entities | 326 | 331 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | 587 | (22,573) |
| Receivables, net | 1,221 | 370 |
| Income tax receivable | - | 33,252 |
| Land and other inventories | (287) | (7,483) |
| Prepaid expenses and other assets | 3,054 | 1,250 |
| Accounts payable and accrued and other liabilities | 305 | 3,030 |
| Customer deposits and deferred revenues | (584) | 170 |
| Net cash used in operating activities | (17,850) | (12,971) |
| | | |
| INVESTING ACTIVITIES | | |
| Investment in property and equipment | (862) | (79) |
| Return from Poinciana Parkway | - | 30 |
| Investment in unconsolidated entities | (83) | (82) |
| Notes receivable from unconsolidated affiliates | 3,957 | - |
| Return of capital from unconsolidated joint venture | 471 | - |
| Net cash provided by (used in) investing activities | (3,483) | (131) |
| | | |
| FINANCING ACTIVITIES | | |
| Proceeds from issue of 7.50% Convertible Notes | 100,000 | - |
| Principal payments of real estate borrowings | (2,679) | (55,881) |
| Repurchase 4.50% Convertible Notes | (59,402) | - |
| Debt issuance costs | (4,627) | - |
| Net cash provided by (used in) financing activities | 33,292 | (55,881) |
| | | |
| Net increase (decrease) in cash and cash equivalents | 18,925 | (68,983) |
| Cash and cash equivalents at beginning of period | 115,502 | 217,132 |
| | | |
| Cash and cash equivalents at end of period | $ 134,427 | $ 148,149 |

See accompanying Notes to Consolidated Financial Statements.

5

Table of Contents

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands except share and per share data)

Basis of Presentation and 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. has a controlling interest (collectively "Avatar", "we", "us", "our" or "the Company"). Our investments in unconsolidated entities in which we have less than a controlling interest are accounted for using the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for the fair presentation of such financial statements have been included. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The consolidated balance sheet as of December 31, 2010 was derived from audited consolidated financial statements included in our 2010 Annual Report on Form 10-K but does not include all disclosures required by GAAP. These consolidated financial statements should be read in conjunction with our December 31, 2010 audited consolidated financial statements in our 2010 Annual Report on Form 10-K and the notes to the consolidated financial statements included therein.

Certain prior period amounts have been reclassified to conform to the current year presentation. At September 30, 2011, Avatar designated certain land holdings totaling $30,117 as available for sale, these assets were carried in land and other inventories in the amount of $70,479 at December 31, 2011.

Restatement of Prior Financial Statements

We undertook an analysis of the development liabilities associated with certain legacy assets. As a result, we identified certain errors in the estimated development liability. Our analysis of our Rio Rico property resulted in an increase to the estimated liability of $12,136 as of December 31, 2010. This liability relates to our obligation to install utilities under individual Rio Rico lot sale agreements we entered into during the 1960s and through the mid-1970s. The increase in liability can be attributed to (a) an increase in unit costs, (b) the correction of an error in the total water pipeline mileage required to be constructed, (c) the addition of costs to bring utility services from the street pipeline to the sold lots (previous estimates only included utility pipeline and other infrastructure), and (d) a reduction in water infrastructure costs. Additionally, we determined that we no longer have any liability relating to the land development at Poinciana other than the extension of utility services as all development was completed several years ago, resulting in an overstatement of the estimated development liability of $1,374 as of December 31, 2010. The overall increase in the estimated development liability related to correction of errors will result in a prior period adjustment of $11,555 at December 31, 2010.

In accordance with applicable accounting guidance, an adjustment to the financial statements for each individual prior period presented is required to reflect the correction, if material. Based on our evaluation of relevant quantitative and qualitative factors, we determined the identified corrections are immaterial to the Company's individual prior period consolidated financial statements; however, the cumulative correction of the prior period errors would be material to our current year Consolidated Statements of Operations. Consequently, we have restated the accompanying Consolidated Balance Sheet as of December 30, 2010 appearing herein, from amounts previously reported to correct the prior period errors.

Table of Contents

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

Restatement of Prior Financial Statements - continue

The impact of these misstatements to our 2010 and 2009 statements of operations is inconsequential for restatement and, accordingly, such amounts have not been restated and instead been corrected in the three months ended September 30. 2011. Additionally, there is no impact of these misstatements to our 2010 and 2009 statements of cash flows as the impact to individual line items within operating activities is not material and there was no impact to net cash provided by (used in) operating, investing, or financing activities.

The tables below summarize the effect of the restatement of previously reported consolidated financial statements for the periods that will be presented in our 2011 Annual report on Form 10-K:

| | As of December 31, 2010 | | |
|---|---|---|---|
| | As Previously Reported | Adjustment | As Restated |
| Consolidated Balance Sheet | | | |
| Estimated Development Liability | 20,288 | 11,555 | 31,843 |
| Total Liabilities | 114,962 | 11,555 | 126,517 |
| Retained Earnings | 187,820 | (11,555 ) | 176,265 |
| Total Avatar stockholders' equity | 430,045 | (11,555 ) | 418,490 |
| Total stockholders' equity | 430,489 | (11,555 ) | 418,934 |
| Total liabilities and stockholders' equity | 545,451 | (11,555 ) | 545,451 |

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 a title insurance agency we owned as cash equivalents, which were $0 and $725 as of September 30, 2011 and December 31, 2010, respectively. As of September 30, 2011, our cash and cash equivalents were invested primarily in money market accounts that invest in U.S. government securities. Due to the short maturity period of the cash equivalents, the carrying amount of these instruments approximates their fair values.

Restricted cash includes deposits of $7,835 and $8,422 as of September 30, 2011 and December 31, 2010, respectively. The balance as of September 30, 2011 is comprised of $3,615 on deposit with Wells Fargo, N.A. to collateralize outstanding letters of credit, $4,056 of land deposits and $164 of housing deposits from customers that will become available when the housing contracts close. We held escrow funds of $0 and $100 as of September 30, 2011 and December 31, 2010, respectively, which are not considered assets of ours and are therefore excluded from restricted cash in the accompanying consolidated balance sheets.

Income Tax Receivable

Income tax receivable consists of tax refunds we expect to receive within one year. Income tax receivables were $1,416 and $1,766 at September 30, 2011 and December 31, 2010, respectively.

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 and Other Inventories

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

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

For assets held and used, if indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the estimated future undiscounted cash flows to be generated by the asset to its carrying value. If such cash flows are less than the asset's carrying value, the carrying value is written down to its estimated fair value. Generally, fair value is determined by discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. The discount rate used in the determination of fair value would range between 15 and 30% depending on the stage of development. Assumptions and estimates used in the determination of the estimated future cash flows are based on expectations of future operations and economic conditions and certain factors described below. Changes to these assumptions could significantly affect the estimates of future cash flows which could affect the potential for future impairments. Due to the uncertainties of the estimation process, actual results could differ significantly from such estimates.

For assets held for sale (such as homes completed or under construction or vacant land parcels available for sale), we perform an impairment test in which the asset is reviewed for impairment by comparing the fair value (estimated sales price) less cost to sell the asset to its carrying value. We also obtain independent appraisals where appropriate when conducting our impairment analysis. 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.

In recognition of ongoing and difficult market conditions in the homebuilding industry, we undertook a strategic planning effort, supported by market research, to improve our market positioning and find ways of reducing cash burn. After carefully evaluating each of our assets, we determined that some assets no longer fit with our plans. Specifically, we are no longer holding some of our assets for future development and, instead, intend to offer such assets for sale. We intend to market those assets in an orderly manner to generate cash flow, reduce carry costs and allow for reinvestment consistent with our longer term strategy. Therefore those assets have been reclassified as assets held for sale for all periods presented and are accounted for at fair value if less than carrying value at September 30, 2011. Additionally, we have modified plans for other assets that we continue to hold resulting in additional impairment charges. Total impairment charges were recorded during the nine and three months ended September 30, 2011 of $109,271 and $95,174, respectively, which included approximately $1,483 and $486, respectively, in impairment charges related to homes completed or under construction and approximately $107,788 and $94,688, respectively in impairment charges for land developed and/or held for future development or sale. During the nine and three months ended September 30, 2010, our impairment assessment resulted in impairment charges of $204 and $36, respectively, which related to homes completed or under construction. As of September 30, 2011, other than the Land and Other Inventories that we determined to be impaired, we had no long-lived assets that had undiscounted cash flows within 25% of their carrying values.

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

Table of Contents

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

Land and Other Inventories – continued

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 nine months ended September 30, 2011 and 2010 include operating expenses relating to the operation of the amenities in our communities as well as divisional overhead allocated among several communities.

Our active adult and primary residential communities are generally large master-planned communities in Florida and in Arizona. Several of these communities are long term projects on land we have owned for many years. In reviewing each of our communities, we determine if potential impairment indicators exist by reviewing actual contribution margins on homes closed in recent months, projected contribution margins on homes in backlog, projected contribution margins on speculative homes, average selling prices, sales activities and local market conditions. If indicators are present, the asset is reviewed for impairment. In determining estimated future cash flows for purposes of the impairment test, the estimated future cash flows are significantly impacted by specific community factors such as: (i) sales absorption rates; (ii) estimated sales prices and sales incentives; and (iii) estimated cost of home construction, estimated land development costs, interest costs, indirect construction and overhead costs, and selling and marketing costs. In addition, our estimated future cash flows are also impacted by general economic and local market conditions, competition from other homebuilders, foreclosures and depressed home sales in the areas in which we build and sell homes, product desirability in our local markets and the buyers' ability to obtain mortgage financing. Except for those primary residential communities acquired in conjunction with a portfolio of real estate assets in Arizona and Florida acquired in October 2010 (the "JEN Transaction), build-out of our active adult and primary residential communities generally exceeds five years. Our current assumptions are based on current activity and recent trends at our active adult and primary residential communities. There are a significant number of assumptions with respect to each analysis. Many of these assumptions extend over a significant number of years. The substantial number of variables to these assumptions could significantly affect the potential for future impairments.

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

Land developed and/or held for future development or sale: Our land developed and/or held for future development or sale represents land holdings for the potential development of future active adult, and/or primary residential communities, commercial and industrial uses. For land developed and/or held for future development or sale, indicators of potential impairment include changes in use, changes in local market conditions, declines in the selling prices of similar assets and increases in costs. If indicators are present, the asset is reviewed for impairment. In determining estimated future cash flows for purposes of the impairment test, the estimated future cash flows are significantly impacted by specific community factors such as: (i) sales absorption rates; (ii) estimated sales prices and sales incentives; and (iii) estimated costs of home construction, estimated land and land development costs, interest costs, indirect construction and overhead costs, and selling and marketing costs. In addition, our estimated future cash flows are also impacted by general economic and local market conditions, competition from other homebuilders, foreclosures and depressed home sales in the areas where we own land for future development, product desirability in our local markets and the buyers' ability to obtain mortgage financing. Factors that we consider in determining the appropriateness of moving forward with land development or whether to write-off the related amounts capitalized include: our current inventory levels, local market economic conditions, availability of adequate resources and the estimated future net cash flows to be generated from the project. Except for those primary residential communities acquired in the JEN Transaction, build-out of our active adult and primary residential communities 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.

Table of Contents

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

Land and Other Inventories – continued

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:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Land developed and in process of development | $106,933 | $137,074 |
| Land held for future development or sale | 64,827 | 98,845 |
| Homes completed or under construction | 24,725 | 24,320 |
| Other | 323 | 1,474 |
| | $196,808 | $261,713 |

See "Financial Information Relating to Reportable Segments".

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, such as club facilities on properties owned by us. The cost of these 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.

We review our Property and Equipment quarterly 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. We did not write down the value of our amenities held in Property and Equipment in the nine or three months ended September 30, 2011.

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 (including a 4.15 mile private toll section) in Osceola and Polk Counties to be known as the Poinciana Parkway (the "Poinciana Parkway"). Such agreements have been amended so that we are required to obtain financing and commence construction of the Parkway by February 14, 2012 and complete such construction by May 7, 2014, subject to extension for force majeure. We have acquired all of the rights of way necessary to construct the Poinciana Parkway and have obtained all material permits for construction. Such permits do not expire until February, 2018.

If funding and commencement of construction of the Poinciana Parkway is not achieved by February 14, 2012, the Counties have no right to obtain damages or seek specific performance against Avatar; however, (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 we otherwise might have been obligated to build or fund if we had not agreed to construct the Poinciana Parkway.

Osceola County and Avatar are still attempting to locate governmental funds for development of the Poinciana Parkway. We cannot predict whether any governmental funds will be available. We intend to seek extensions of the deadlines in our agreements with Polk and Osceola Counties.

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

Table of Contents

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

Poinciana Parkway - continued

Our estimate of the right-of-way acquisition, development and construction costs for the Poinciana Parkway approximates $175,000 to $200,000. However, no assurance of the ultimate costs can be given at this stage. As of September 30, 2011, approximately $47,400 has been expended. During fiscal years 2009 and 2008, we recorded impairment charges of $8,108 and $30,228, respectively, 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 September 30, 2011, 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 nine and three months ended September 30, 2011. Subsequent to September 30, 2011, we were informed that a real estate transaction occurred in the second quarter of 2011 affecting property immediately adjacent to a portion of the right-of-way comprising the Poinciana Parkway that was not reflected in the Public Records. This transaction, once made public and analyzed by the Company, may result in impairment of the Poinciana Parkway in the fourth quarter of 2011. The amount of this potential impairment, which cannot exceed the $8,452 carry value, is not presently determinable. Non-capitalizable expenditures of $46 and $0 related to the Poinciana Parkway were expensed during the nine and three months ended September 30, 2011, respectively, and $287 and $22 during the nine and three months ended September 30, 2010, respectively. At September 30, 2011, the carrying value of the Poinciana Parkway is $8,452.

Goodwill

In accordance with ASC 350, we review the carrying value of goodwill and other intangible assets of each of our reporting units on an annual basis as of December 31, or more frequently upon the occurrence of certain events or substantive changes in circumstances, based on a two-step impairment test. At September 30, 2011, we determined that circumstances existed (specifically the change in the fair value of the JEN earnout liability) that would require us to perform an interim analysis of the goodwill on our books. We performed a goodwill impairment test by comparing the fair value of the Active Adult reporting unit (the business unit for which the goodwill was assigned) with its carrying amount including goodwill. We determined that the fair value was less than the carrying value of this reporting unit and further determined that the goodwill should be fully written off as of September 30, 2011 in the amount of $17,215.

Notes, Mortgage Notes and Other Debt

4.50% Convertible Senior Notes

In March, 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.

12

Table of Contents



Notes, Mortgage Notes and Other Debt – continued

Each $1 in principal amount of the 4.50% Notes is convertible, at the option of the holder, at a conversion price of $52.63, or 19.0006 shares of our common stock, upon the satisfaction of one of the following conditions: a) during any calendar quarter (but only during such calendar quarter) commencing after June 30, 2004 if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 120% of the conversion price per share of common stock on such last day; or b) during the five business day period after any five-consecutive-trading-day period in which the trading price per $1 principal amount of the 4.50% Notes for each day of that period was less than 98% of the product of the closing sale price for our common stock for each day of that period and the number of shares of common stock issuable upon conversion of $1 principal amount of the 4.50% Notes, provided that if on the date of any such conversion that is on or after April 1, 2019, the closing sale price of Avatar's common stock is greater than the conversion price, then holders will receive, in lieu of common stock based on the conversion price, cash or common stock or a combination thereof, at our option, with a value equal to the principal amount of the 4.50% Notes plus accrued and unpaid interest, as of the conversion date. During the first, second and third quarters of 2007, the 4.50% Notes were convertible; and $200 principal amount were converted into 3,800 shares of Avatar's common stock. During 2007, Avatar repurchased $5,000 principal amount of the 4.50% Notes; during 2008, we repurchased $35,920 principal amount; and during 2009, we repurchased $14,076 principal amount. In February 2011, we repurchased $17,765 principal amount of the 4.50% Notes which was accounted for as an extinguishment of debt in accordance with Financial Accounting Standards Board ("FASB") ASC Subtopic 470-20, Debt with Conversion Options – Cash Conversion ("ASC 470-20"). In April 2011, holders of $41,637 principal amount exercised their right to repurchase.

Holders may require us to repurchase the remaining 4.50% Notes for cash on 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. 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. In each case, we will pay a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. As of September 30, 2011, $5,402 principal amount of the 4.50% Notes remained outstanding.

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. ASC 470-20 applies to the 4.50% Notes, however bifurcation of the 7.50% Notes (described below) is not required since the instrument does not have a cash settlement option upon conversion.

The discount on the liability component of the 4.50% Notes was amortized using the effective interest method based on an effective rate of 7.5%, which was the estimated market interest rate for similar debt without a conversion option on the issuance date. The discount was amortized from the issuance date in 2004 through April 1, 2011, the first date that holders of the 4.50% Notes could require us to repurchase the 4.50% Notes. We recognized $293 and $0 in non-cash interest charges related to the amortization of the discount during the nine and three months ended September 30, 2011, respectively. We recognized $1,076 and $359 in non-cash interest charges related to the amortization of the discount during the nine and three months ended September 30, 2010, respectively.

Table of Contents



Notes, Mortgage Notes and Other Debt – continued

JEN Transaction Notes

In conjunction with the JEN Transaction, we entered into two separate note payable agreements with JEN. Each note is for $6,000 bearing interest at 6% with maturity dates of October 25, 2011 and October 25, 2012. Principal payments of $769 and $1,529 were made in August and May, 2011, respectively, on the note which matures on October 25, 2011. As of September 30, 2011, $9,702 principal amount of these notes remained outstanding.

7.50% Senior Convertible Notes

On January 31, 2011, Avatar and Avatar Properties Inc. ("API"), entered into an Underwriting Agreement (the "Underwriting Agreement") with Barclays Capital Inc. (the "Underwriter"). Pursuant to the Underwriting Agreement, Avatar agreed to issue and sell to the Underwriter, and the Underwriter agreed to purchase for sale in an underwritten public offering, $100,000 aggregate principal amount of 7.50% Senior Convertible Notes due 2016 (the "7.50% Notes"). The 7.50% Notes were sold to the Underwriter at 95.75% of the principal amount of the 7.50% Notes, and were sold to the public at a purchase price of 100% of the principal amount of the 7.50% Notes, plus accrued interest, if any, from February 4, 2011.

The Underwriting Agreement includes customary representations, warranties, conditions to closing, and covenants. The Underwriting Agreement also provides for customary indemnification by each of Avatar, API and the Underwriter against certain liabilities. The 7.50% Notes are governed by a Base Indenture and Supplemental Indenture (in each case, as defined below), the principal terms of which are discussed below.

The sale of the 7.50% Notes was registered pursuant to a Registration Statement on Form S-3 (No. 333-161498), filed by Avatar with the Securities and Exchange Commission on August 21, 2009 (the "Registration Statement"). Net proceeds to Avatar from the sale of the 7.50% Notes were approximately $95,373 after deducting the Underwriter's discount of 4.25% and expenses of $377. Avatar intends to use the proceeds from the sale of the 7.50% Notes for general corporate purposes, including, without limitation, the repayment of debt, including Avatar's 4.50% Notes and potential new acquisitions of real estate and real estate-related assets.

The 7.50% Notes are governed by a base indenture (the "Base Indenture") and first supplemental indenture (the "Supplemental Indenture," and together with the Base Indenture, the "Indenture"), both dated as of February 4, 2011, between Avatar and Wilmington Trust FSB, as trustee, and include the following terms:

Interest: Interest on the 7.50% Notes is 7.50% per year, payable semi-annually in arrears in cash on February 15 and August 15 of each year, beginning on August 15, 2011. In August, 2011, we made an interest payment of $3,979 on the 7.50% Notes.

Conversion: Holders may convert the 7.50% Notes into shares of Avatar's common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date. The 7.50% Notes are convertible at an initial conversion rate of 33.3333 shares of common stock per $1 principal amount of the 7.50% Notes (equivalent to an initial conversion price of approximately $30.00 per share). The conversion rate, and thus the conversion price, may be adjusted under certain circumstances, including upon the occurrence of a "non-stock change of control" as such term is defined in the Indenture. Upon any conversion, subject to certain exceptions, holders will not receive any cash payment representing accrued and unpaid interest.

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

Financial covenants: The Indenture includes the following financial covenants:

- until February 15, 2014, Avatar will maintain, at all times, cash and cash equivalents of not less than $20,000;
- until the second anniversary of the original issuance date of the 7.50% Notes, Avatar's total consolidated indebtedness (as "indebtedness" is defined in the Indenture) may not exceed $150,000 at any time;
- until the second anniversary of the original issuance date of the 7.50% Notes, Avatar's total consolidated indebtedness (as "indebtedness" is defined in the Indenture) shall not exceed $50,000 at any time, excluding for purposes of this covenant: (a) the 7.50% Notes and (b) any indebtedness with a maturity date after February 15, 2014, which indebtedness does not provide the holder with a unilateral put right prior to February 15, 2014.

Repurchase Right: Holders of the 7.50% Notes have the right to require Avatar to repurchase the Notes on February 15, 2014; or upon the occurrence of a breach of any of the financial covenants, a "fundamental change" (as defined in the Indenture), or an event of default (as described in the Indenture).

Redemption Right: Avatar may, at any time on or after February 15, 2014, at its option, redeem for cash all or any portion of the outstanding 7.50% Notes, but only if the last reported sale price of Avatar's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day before the date Avatar provides the notice of redemption to holders exceeds 130% of the conversion price in effect on each such trading day and certain other conditions described in the Indenture are met.

Real Estate

As of September 30, 2011, we have approximately $120 outstanding from secured obligations related to the JEN Transaction. We had a $3,000 construction loan facility with Mutual of Omaha bearing interest at prime plus 2% with a minimum floor of 5.50% which matured on May 12, 2011, on which date we modified the facility capacity to $6,000, bearing interest at prime plus 2% with a minimum floor of 5.50%, maturing May 12, 2012. This facility was paid in full in the third quarter of 2011.

The following table represents interest incurred, interest capitalized, and interest:

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Interest incurred | $ 7,560 | $ 4,386 | $ 2,549 | $ 1,167 |
| Interest capitalized | (330) | (98) | (112) | (41) |
| Interest expense | $ 7,230 | $ 4,288 | $ 2,437 | $ 1,126 |

We made interest payments of $5,552 and $2,114 during the nine months ended September 30, 2011 and 2010, respectively.

Table of Contents

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

Earn-Out Liability

During October 2010, we acquired from entities affiliated with JEN Partners LLC a portfolio of real estate assets in Arizona and Florida. The purchase price was approximately $62,000, consisting of cash, stock and promissory notes, plus an earn-out of up to $8,000 in common stock. Each quarter, we perform an analysis of the earn-out liability. At September 30, 2011, we performed an analysis of the value of the earn-out (in accordance with the terms of the agreement) and determined that the fair value is $0.

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 certain claims relating to workmanship and materials. Warranty reserves are included in Accrued and Other Liabilities in the consolidated balance sheets.

Changes in the warranty reserve consisted of the following:

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Accrued warranty reserve, beginning of period | $ 477 | $ 458 | $ 422 | $ 484 |
| Estimated warranty expense | 335 | 319 | 164 | 62 |
| Amounts charged against warranty reserve | (331) | (345) | (105) | (114) |
| Accrued warranty reserve, end of period | $ 481 | $ 432 | $ 481 | $ 432 |

Restructuring

In response to the difficult operating environment due to the downturn in the homebuilding industry, in July of 2011 we undertook a strategic planning effort to improve our market position and to reduce our operating costs. As a result of this effort, in the third quarter of 2011, we took further steps to reduce staffing, cut salaries, and we negotiated a lease termination associated with the planned closing of our corporate office in Coral Gables, Florida. Restructuring costs include employee severance benefits, corporate office lease exit costs, and other costs related to the closure of the Coral Gables office, and are summarized below:

| | Three and Nine Months Ended September 30, 2011 |
|---|---|

| | | |
|---|---|---|
| Employee severance benefits | $ | 486 |
| Lease exit costs | | 952 |
| Other | | 59 |
| Total restructuring charges | $ | 1,497 |

The restructuring costs reflected in the above table are included within general and administrative expenses in our Consolidated Statements of Operations. Liabilities for employee severance benefits totaled $245 at September 30, 2011. Substantially all of these costs will be paid in 2011.

Table of Contents

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

(Loss) 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.

Basic and diluted (loss) earnings per share were calculated as follows:

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Basic weighted average shares outstanding | 12,444,422 | 11,254,591 | 12,450,961 | 11,272,437 |
| Common stock equivalents (a) | - | (2,573,718 ) | 106,150 | (2,433,104 ) |
| Diluted weighted average shares outstanding | 12,444,422 | 8,680,873 | 12,557,111 | 8,839,333 |
| Net earnings (loss) | $(148,184 ) | $(25,398 ) | $(121,561 ) | $(9,519 ) |
| Basic earnings (loss) per share | $(11.91 ) | $(2.26 ) | $(9.76 ) | $(0.84 ) |
| Diluted earnings (loss) per share (a) | $(11.91 ) | $(2.26 ) | $(9.76 ) | $(0.84 ) |

(a) For periods with a net loss, any incremental shares are considered to be antidilutive, and therefore the number of basic weighted average shares outstanding are used for diluted calculations, as required by ACS 260, Earnings Per Share.

Repurchase of Notes and/or Common Stock

On October 13, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to $30,000, including the $9,864 previously authorized. On October 17, 2008, we repurchased $35,920 principal amount of the 4.50% Notes for approximately $28,112 including accrued interest. On December 12, 2008, our Board of Directors amended its June 2005 authorization to purchase the 4.50% Notes and/or common stock to allow expenditures up to $30,000, including the $1,888 remaining after the October 2008 activities. In 2009, we repurchased $14,076 principal amount of the 4.50% Notes for approximately $11,696 including accrued interest. As of September 30, 2011, 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 September 30, 2011 and December 31, 2010, non-controlling interest was $252 and $444, respectively. The decrease in non-controlling interest of $192 is a result of the losses generated from these LLCs.

Table of Contents

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

Comprehensive Loss

Net loss and comprehensive loss are the same for the nine months ended September 30, 2011 and 2010.

Share-Based Payments and Other Executive Compensation

On June 2, 2011, the stockholders of Avatar approved the Amended and Restated 1997 Incentive and Capital Accumulation Plan (2011 Restatement) (the "Incentive Plan") to, among other things, increase the aggregate number of shares of Avatar's common stock, par value $1.00 per share, authorized for issuance under the Incentive Plan by 700,000 shares from 1,500,000 shares to 2,200,000 shares and extend the term of the Incentive Plan until October 25, 2020. The Incentive Plan provides for the grant of stock options, stock appreciation rights, stock awards, performance awards, and stock units to officers, employees and directors of Avatar. The exercise price of stock options may not be less than the stock exchange closing price of our common stock on the date of grant. Stock option awards under the Incentive Plan generally expire 10 years after the date of grant.

As of September 30, 2011, an aggregate of 1,319,022 shares of our Common Stock, subject to certain adjustments, were reserved for issuance under the Incentive Plan, including an aggregate of 690,874 options, restricted stock units and stock units granted. There were 628,148 shares available for grant at September 30, 2011.

Compensation expense related to restricted stock and restricted stock unit awards during the nine months ended September 30, 2011 and 2010 was $1,509 and $691, respectively. Compensation expense related to restricted stock and restricted stock unit awards during the three months ended September 30, 2011 and 2010 was $921 and $163, respectively. During the nine months ended September 30, 2011, we reversed approximately $450 of previously recognized compensation expense related to 293,178 shares of restricted stock which were forfeited due to the resignation of our former CEO on June 15, 2011. During this quarter, Avatar entered into an Amended and Restated Employment Agreement with one of its Executive Vice Presidents. Under the terms of this agreement, 180,000 shares granted on October 22, 2010, were cancelled and replaced with new awards. During the nine months ended September 30, 2011, we granted 552,660 restricted stock and restricted stock units, which have a weighted average grant date fair value of $9.03 per share. During the nine months ended September 30, 2010, we granted 8,935 restricted stock units, which have a weighted average grant date fair value of $14.79 per share.

As of September 30, 2011, there was $5,582 of unrecognized compensation expense related to unvested restricted stock and restricted stock units. That expense is expected to be recognized over a weighted-average period of 1.83 years.

Income Taxes

Income tax receivable as of September 30, 2011 and December 31, 2010 consists of $1,416 and $1,766, respectively, in anticipated income tax refunds.

In October, 2010, we received notification from the Internal Revenue Service that our federal income tax returns for tax years 2004, 2005, 2006 and 2009 are being examined. At this time it is not determinable as to the outcome of their examination, as the IRS review is still in process.

18

Table of Contents

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

Income Taxes - continued

In 2006, we closed on substantially all of the land sold under the threat of condemnation, and in 2007 we closed on the remainder. We believe these transactions entitled us to defer the payment of income taxes of $24,355 from the gain on these sales. In 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. As a result of the property acquisitions during 2009 and 2010, including the JEN Transaction, we believe the properties acquired will satisfy the required replacement property; however, we are uncertain as to the final determination. If it is determined that we have not acquired a sufficient amount of replacement property, we may be required to make an income tax payment plus interest on the portion determined not to have been replaced as of December 31, 2010.

Fair Value Disclosures

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

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

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

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

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

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

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

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

Table of Contents

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

Fair Value Disclosures – continued

Avatar's assets measured at fair value as of September 30, 2011 and gains (losses) for the quarter ended September 30, 2011 on a nonrecurring basis are summarized below:

| Non-financial Assets/Liabilities | Fair Value Hierarchy | Fair Value at September 30, 2011 | Gains/ (Losses) |
|---|---|---|---|
| Homes completed or under construction | Level 2 | $ 5,713 | $ (1,483) |
| Land and other inventories | Level 3 | $ 38,258 | $ 53,881 |
| Assets held for sale | Level 2 | $ 30,117 | $ 53,907 |
| Earn-out liability related to the JEN Transaction | Level 3 | $ 0 | $ 4,388 |

For assets held for sale (such as homes completed or under construction or vacant land parcels available for sale), we perform an impairment test in which the asset is reviewed for impairment by comparing the fair value (estimated sales price) less cost to sell the asset to its carrying value. If such fair value less cost to sell is less than the asset's carrying value, the carrying value is written down to its estimated fair value less cost to sell.

For assets held and used, if indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the estimated future undiscounted cash flows to be generated by the asset to its carrying value. If such cash flows are less than the asset's carrying value, the carrying value is written down to its estimated fair value. Generally, fair value is determined by discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. The discount rate used in the determination of fair value would range between 15 and 30% depending on the stage of development. Assumptions and estimates used in the determination of the estimated future cash flows are based on expectations of future operations and economic conditions and certain factors described below. Changes to these assumptions could significantly affect the estimates of future cash flows which could affect the potential for future impairments. Due to the uncertainties of the estimation process, actual results could differ significantly from such estimates.

Table of Contents

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

Fair Value Disclosures – continued

The carrying amounts and fair values of our financial instruments at September 30, 2011 and December 31, 2010 are as follows:

| | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | $134,427 | $134,427 | $115,502 | $115,502 |
| Restricted cash | $7,835 | $7,835 | $8,422 | $8,422 |
| Receivables, net | $5,563 | $5,563 | $6,434 | $6,434 |
| Income tax receivable | $1,416 | $1,416 | $1,766 | $1,766 |
| Notes, mortgage notes and other debt: | | | | |
| Corporate: | | | | |
| 4.50% Notes | $5,402 | $5,402 | $64,445 | $64,966 |
| 7.50% Notes | $100,000 | $95,500 | - | - |
| 6% Notes payable | $9,702 | $9,306 | $12,000 | $11,029 |
| Real estate: | | | | |
| 5.50% Term Bonds payable | $111 | $111 | $111 | $111 |
| Construction loan | - | - | $396 | $388 |
| Promissory Note Payable | $120 | $120 | $105 | $105 |

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.

7.50% Notes and 4.50% Notes: At September 30, 2011 and December 31, 2010, the fair value of the 7.50% Notes and the 4.50% Notes is estimated, based on quoted or estimated market prices.

Real estate notes payable: The fair values of the 6% notes payable and construction loan as of September 30, 2011 and December 31, 2010 are estimated using discounted cash flow analysis based on the current incremental borrowing rates for similar types of borrowing arrangements. The carrying values for the 5.50% term bonds payable and the promissory note payable approximates their fair value.

New Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update (“ASU”) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which amends ASC 820, Fair Value Measurements, (“ASC 820”), providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirement. ASU 2011-04 will be effective for the Company beginning January 1, 2012. The adoption of ASU 2011-04 is not expected to have a material effect on our consolidated financial statements or disclosures.

Table of Contents

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

New Accounting Pronouncements - continued

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, (“ASU 2011-05”). ASU 2011-05 requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. ASU 2011-05 will be effective for the Company beginning January 1, 2012. The adoption of ASU 2011-05 is not expected to have a material effect on our consolidated financial statements or disclosures.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, (“ASU 2011-08”), which amends the guidance in ASC 350-20, Intangibles – Goodwill and Other – Goodwill. Under ASU 2011-08, entities have the option of performing a qualitative assessment before calculating the fair value of the reporting unit when testing goodwill for impairment. If the fair value of the reporting unit is determined, based on qualitative factors to be more likely than not less than the carrying amount of the reporting unit, then entities are required to perform the two-step goodwill impairments test. ASU 2011- 08 will be effective for the Company’s fiscal year beginning December 1, 2012, with early adoption permitted. The adoption of ASU 2011-08 is not expected to have a material effect on our consolidated financial statements.

Variable Interest Entities

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

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

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 when they are entered into or upon a reconsideration event.

Table of Contents

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

Variable Interest Entities – continued

Consolidation of Variable Interest Entities

During 2009, we entered into two separate agreements with unrelated third parties providing for the formation of two 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.

We determined that these entities qualify as VIEs which require consolidation by the entity determined to be the primary beneficiary. As a result of our analyses, we hold a variable interest in the VIEs through the purchase money notes, the land option contracts and an economic interest in these LLCs. At September 30, 2011, our consolidated balance sheets include $3,470 in land and other inventories and $1,062 in property and equipment from these LLCs. At December 31, 2010, our consolidated balance sheets include $3,440 in land and other inventories and $1,161 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 September 30, 2011, 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.

Unconsolidated Variable Interest Entities

We participate in entities with equity interests ranging from 20% to 50% for the purpose of acquiring and/or developing land in which we do not have a controlling interest. We analyze these entities when they are entered into or upon a reconsideration event. All of such entities in which we had an equity interest at September 30, 2011 and December 31, 2010 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 $83 and $115 to its unconsolidated entities during the nine months ended September 30, 2011 and 2010, respectively.

23

Table of Contents

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

Variable Interest Entities – continued

As of September 30, 2011, 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 consolidated condensed balance sheets of our unconsolidated entities are:

| | September 30 2011 | December 31 2010 |
|---|---|---|
| Assets: | | |
| Cash | $78 | $465 |
| Land and other inventories | 6,929 | 11,574 |
| Other assets | 11 | 84 |
| Total assets | $7,018 | $12,123 |
| | | |
| Liabilities and Partners' Capital: | | |
| Accounts payable and accrued liabilities | $1,978 | $1,448 |
| Notes and interest payable to Avatar | 0 | 3,724 |
| Partners' Capital: | | |
| Avatar | 861 | 1,470 |
| Equity partner | 4,179 | 5,481 |
| Total liabilities and partners' capital | $7,018 | $12,123 |

The following are the consolidated condensed statements of operations of our unconsolidated entities:

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | $ 6,081 | $ 6 | $ 2,205 | $ 1 |
| Costs and expenses | 5,620 | 967 | 1,953 | 340 |
| Net income (loss) from unconsolidated entities | $ 461 | $ (961) | $ 252 | $ (339) |
| Avatar's share of income (loss) from unconsolidated entities | $ (326) | $ (331) | $ (341) | $ (124) |

Table of Contents

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

Estimated Development Liability for Sold Land

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Gross estimated unexpended costs | $ 37,185 | $ 37,348 |
| Less costs relating to unsold homesites | (2,993 ) | (5,505 ) |
| | | |
| Estimated development liability for sold land | $ 34,192 | $ 31,843 |

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 periodically obtain third-party engineer evaluations and adjust this liability to reflect changes in the estimated costs. Management of the Company determined that such engineer estimates should be further evaluated by another independent engineer. The new engineer's report reflects a much greater cost to complete the utility improvements at Rio Rico as a result of more accurate measurements of linear feet of utility lines required, unit costs increases, and advanced techniques in identifying the location and number of applicable lots requiring service. The result is an overall increase to the estimated liability related to Rio Rico of $12,136 as of September 30, 2011. The increase in liability can be attributed to (a) an increase in unit costs, (b) the correction of an error in the total water pipeline mileage required to be constructed, (c) the addition of costs to bring utility services from the street pipeline to the sold lots (previously estimates only included utility pipeline and other infrastructure), and (d) a reduction in water infrastructure costs. The overall increase in liability related to correction of errors will result in a prior period adjustment of $12,930. The offsetting decrease in liability related to a change in estimated costs results in a credit to current period expenses of $794. For the nine and three months ended September 30, 2011 we had total charges associated with the estimated development obligations of $476. For the nine and three months ended September 30, 2010 we recorded charges of $137 with these obligations. 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.

Additionally, we determined that we no longer have any liability relating to the land development at Poinciana as all development was completed several years ago, resulting in an overstatement of the estimated development liablility of $1,374 as of December 31, 2010.

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 $35 and $165, which have been accrued in the accompanying consolidated balance sheets as of September 30, 2011 and December 31, 2010, 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 September 30, 2011, we had outstanding performance bonds of approximately $2,163. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

Table of Contents

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

Financial Information Relating To Reportable Segments

The following table summarizes Avatar's information for reportable segments:

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| Revenues: | 2011 | 2010 | 2011 | 2010 |
| Segment revenues | | | | |
| Active adult communities | $28,066 | $23,987 | $10,793 | $6,934 |
| Primary residential | 9,752 | 9,788 | 2,813 | 1,473 |
| Commercial and industrial and other land sales | 15,285 | 787 | 220 | 764 |
| Other operations | 851 | 708 | 147 | 109 |
| | 53,954 | 35,270 | 13,974 | 9,280 |
| Unallocated revenues | | | | |
| Interest income | 395 | 401 | 95 | 147 |
| Other | 932 | 827 | 634 | 146 |
| Total revenues | $55,281 | $36,498 | $14,703 | $9,573 |
| | | | | |
| Operating income (loss): | | | | |
| Segment operating income (loss) | | | | |
| Active adult communities | $(7,756) | $(3,280) | $(2,306) | $(1,802) |
| Primary residential | (39,864) | (3,771) | (37,650) | (1,268) |
| Commercial and industrial and other land sales | 4,984 | 28 | (1,833) | 55 |
| Other operations | 122 | 178 | 7 | (92) |
| | (42,514) | (6,845) | (41,783) | (3,107) |
| Unallocated income (expenses): | | | | |
| Interest income | 395 | 401 | 95 | 147 |
| Loss on repurchase of 4.50% Notes | (211) | - | - | - |
| Equity earnings (losses) from unconsolidated entities | (326) | (331) | (341) | (124) |
| Net loss attributable to non-controlling interests | 387 | 417 | 132 | 145 |
| General and administrative expenses | (12,865) | (12,641) | (5,093) | (4,796) |
| Change in fair value of contingent consideration | 4,388 | - | 3,366 | - |
| Interest expense | (7,230) | (4,288) | (2,437) | (1,126) |
| Other real estate expenses | (3,610) | (2,486) | (2,002) | (1033) |
| Impairment of goodwill | (17,215) | - | (17,215) | - |
| Impairment of land developed or held for future development | (69,733) | - | (56,633) | - |
| Loss before income taxes | $(148,534) | $(25,773) | $(121,911) | $(9,894) |

Table of Contents

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

Financial Information Relating To Reportable Segments -continued

| Assets: | September 30 2011 | December 31 2010 |
|---|---|---|
| Segment assets | | |
| Active adult communities | $158,246 | $184,656 |
| Primary residential | 62,744 | 73,092 |
| Commercial and industrial and other land sales | 9,092 | 10,587 |
| Poinciana Parkway | 8,452 | 8,452 |
| Assets held for sale | 30,117 | 70,479 |
| Unallocated assets | 167,155 | 198,185 |
| Total assets | $435,806 | $545,451 |

(a) Our businesses are conducted in the United States.
(b) Identifiable assets by segment are those assets that are used in the operations of each segment.
(c) No significant part of the business is dependent upon a single customer or group of customers.
(d) The caption "Unallocated assets" under the table depicting the segment assets primarily represents the following as of September 30, 2011 and 2010, respectively: cash, cash equivalents and restricted cash of $131,535 and $114,555; land inventories of $21,798 and $56,833 (a majority of which is bulk land); investment in and notes from unconsolidated entities of $861 and $5,193; receivables of $5,096 and $4,661; and prepaid expenses and other assets of $6,449 and $3,006. None of the foregoing are directly attributable to a reportable segment in accordance with ASC 280.

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 (“GAAP”). The application of GAAP 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 our Annual Report on Form 10-K for the year ended December 31, 2010.

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 contain "forward-looking statements" within the meaning of the U.S. federal securities laws, which statements may include information regarding the plans, intentions, expectations, future financial performance, or future operating performance of Avatar. Forward-looking statements are based on the expectations, estimates, or projections of management as of the date of this filing. Although our management believes these expectations, estimates, or projections to be reasonable as of the date of this filing, forward-looking statements are inherently subject to significant business risks, economic and competitive uncertainties, or other contingencies which could cause our actual results or performance to differ materially from what may be expressed or implied in the forward-looking statements. Important factors that could cause our actual results or performance to differ materially from our forward-looking statements include those set forth in the "Risk Factors" section of this Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2010 and in our other filings with the Securities and Exchange Commission. Avatar disclaims any intention or obligation to update or revise any forward-looking statements to reflect subsequent events and circumstances, except to the extent required by applicable law.

EXECUTIVE SUMMARY

The downturn in the homebuilding industry is in its fifth year and is one of the most severe in U.S. history. Minimal new home demand, oversupply of foreclosed homes and a difficult homeowner financing environment continue. It is unclear when or if these trends will reverse. We are engaged in the business of real estate operations in Florida and Arizona, two of the most negatively impacted states. In addition, our residential community activities along with other real estate activities, such as the operation of amenities and for sale holdings of commercial and industrial land, are heavily concentrated in the Poinciana, Florida submarket.

In recognition of ongoing and difficult market conditions in the homebuilding industry, we undertook a strategic planning effort, supported by market research, to improve our market positioning and find ways of reducing cash burn. After carefully evaluating each of our assets, we determined that some assets no longer fit with our plans. Specifically, we are no longer holding some of our assets for future development and, instead, intend to offer such assets for sale. We intend to market those assets in an orderly manner to generate cash flow, reduce carry costs and allow for reinvestment consistent with our longer term strategy. Therefore, those assets needed to be accounted for at fair value, if less than carrying value. During the quarter ended September 30, 2011, we analyzed each asset to determine if the fair value of the asset exceeded its carrying value. As a result of this analysis, we incurred impairment charges on land and other inventory of $95,174 for the three months ended September 30, 2011.

We undertook an analysis of the development liabilities associated with certain legacy assets. The result of this analysis as it relates to our Rio Rico property resulted in an overall increase to the estimated liability of $12,136. This liability relates to our obligation to install utilities under individual Rio Rico lot sale agreements we entered into during the 1960s through the mid-1970s. The increase in liability can be attributed to (a) an increase in unit costs, (b) the correction of an error in the total water pipeline mileage required to be constructed, (c) the addition of costs to bring utility services from the street pipeline to the sold lots (previous estimates only included utility pipeline and other infrastructure), and (d) a reduction in water plan infrastructure costs.

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

The increase includes a prior period adjustment of $12,930 to account for the errors in the previous estimates, and a current period credit to expenses of $794 to account for a net decrease in the liability attributable to changes in estimates. Although we are required to include information regarding development liabilities associated with the Rio Rico property, we believe it is unlikely that we will incur any significant expenditures regarding the revised Rio Rico liabilities in the foreseeable future due to: (i) the current value of the vacant lots is significantly depressed, therefore it is unlikely that the affected lot owners will invest additional monies in such lots for new construction, (ii) the high levels of foreclosures in Rio Rico makes lot development difficult to finance, and (iii) the Rio Rico real estate market remains depressed generally.

In addition, at September 30, 2011, we evaluated the fair value of the earnout agreement associated with the JEN Transaction and concluded the value is $0. As a result of our analysis on the earnout agreement, we determined that we needed to perform an interim analysis of the goodwill on our books that was related to the JEN Transaction. We determined that the fair value of the goodwill was less than the carrying value of this reporting unit, and further determined that the goodwill should be fully written off as of September 30, 2011 in the amount of $17,215.

We continue our ongoing efforts to improve our operating efficiencies by identifying areas of our business where we can reduce our expenses. During the quarter we took steps to reduce staffing, and cut salaries, and negotiated a lease termination associated with the planned closing of our Coral Gables corporate office. We also initiated steps to outsource certain activities including golf course and homeowners association management; these activities are expected to be complete by year end. These combined steps, and other reductions in headcount, will significantly reduce our payroll costs and associated staffing from over 200 to less than 100 employees at calendar year end. Combined, our efforts to reduce operating expenses are projected to save approximately $4 million on an annualized basis.

All of these steps-- asset sales, expense reduction and redeployment of assets-- are being undertaken as part of our plan to provide a sustainable platform for growth and to achieve profitability. The asset impairment, severance and lease termination actions reflect the company’s new strategic direction and ongoing efforts to improve operating efficiencies, but have resulted in significant charges this quarter.

Our strategic plans call for transitioning the company from a local land developer and builder, to a more broad based operation with exposure to recovering markets. We believe we have good experience, and particular expertise, in the 55 plus age demographic. We have also initiated additional market research, further enhancing our knowledge of this target market. Over the next few years we expect to use this research to broaden our product offerings and enter new geographic markets. In the process, we will likely incur new costs associated with these initiatives. However, we feel it is necessary to undertake this company transformation in response to changing market conditions, and to pursue new opportunities for balanced, sustainable growth. As a part of our strategic plan, we determined that several of our land holdings are not suitable for our new development criteria and, accordingly, we have no short or long term plans to develop these holdings.

We believe the demographics for active adult homebuilding are favorable. The development of active adult communities and sales of homes within those communities is expected to remain an important component of our business strategy. Solivita and CantaMia, our active adult communities in Central Florida and Goodyear, Arizona, respectively, will initially serve as our flagship communities. We intend to expand our market presence by adding one or more actively selling communities as appropriate opportunities are presented. We have terminated the Younger Next Year branding of our active adult communities and, we are in process of identifying a new brand name for our activities in this sector as part of a marketing plan for 2012.

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 also expect to remain moderately active in the development of primary residential communities and sales of homes within those communities.  We anticipate building a new primary residential homebuilding brand under the Joseph Carl Homes name.  Currently we have four active communities, one in Central Florida and three in Arizona, all marketed under this name. We will look for other opportunistic purchases of lots to replace sold inventory and supplement our sales in this sector.

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 acquisitions of real estate and real estate-related assets. We plan to carefully manage our inventory levels through monitoring land development and home starts.  In that regard, our planned asset sales will help reduce and diversify land holdings and associated carry costs.

We anticipate that we will continue to generate operating losses during 2011 and 2012. We believe that we have sufficient available cash to fund these losses. We may be reliant upon asset sales to fund new investments or new initiatives that are consistent with our new strategy. We may also be reliant upon access to the capital markets to fund these activities and to repay debt upon maturity.

During the nine months ended September 30, 2011, our homebuilding results reflect the difficult conditions in our Florida and Arizona markets characterized by high levels of homes available for sale and diminished buyer confidence. The number of foreclosures, pending foreclosures, mortgage defaults and investor-owned units for sale; availability of significant discounts; the difficulty of potential purchasers in selling their existing homes at prices they are willing to accept; difficulty in arranging mortgage financing; 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. 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. If the real estate market declines further, it may be necessary to take additional charges against our earnings for inventory impairments or write-downs of our investments in unconsolidated entities and other assets. We continue our ongoing efforts to improve our operating efficiencies by identifying areas of our business where we can reduce our expenses. As part of this process, we will continue to examine our assets to determine which fit within our primary business strategy. These evaluations may also result in additional cash and non-cash charges or write-downs.

Table of Contents

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

RESULTS OF OPERATIONS- continued

The following table provides a comparison of certain financial data related to our operations for the nine and three months ended September 30, 2011 and 2010:

| | Nine Months | | Three Months | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Operating income (loss): | | | | |
| Active adult communities | | | | |
| Revenues | $28,066 | $23,987 | $10,794 | $6,934 |
| Expenses | 35,822 | 27,267 | 13,100 | 8,736 |
| Segment operating income (loss) | (7,756) | (3,280) | (2,306) | (1,802) |
| | | | | |
| Primary residential | | | | |
| Revenues | 9,752 | 9,788 | 2,813 | 1,473 |
| Expenses | 49,616 | 13,559 | 40,463 | 2,741 |
| Segment operating loss | (39,864) | (3,771) | (37,650) | (1,268) |
| | | | | |
| Commercial and industrial and other land sales | | | | |
| Revenues | 15,285 | 787 | 220 | 764 |
| Expenses | 10,301 | 759 | 2,053 | 709 |
| Segment operating income (loss) | 4,984 | 28 | (1,833) | 55 |
| | | | | |
| Other operations | | | | |
| Revenues | 851 | 708 | 147 | 109 |
| Expenses | 729 | 530 | 140 | 201 |
| Segment operating income (loss) | 122 | 178 | 7 | |