

AVATAR HOLDINGS INC  
Form 10-K  
March 16, 2011

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

FORM 10-K

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

For the fiscal year ended December 31, 2010

OR

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  
(State or other jurisdiction of incorporation or organization)

23-1739078  
(I.R.S. Employer Identification No.)

201 Alhambra Circle, Coral Gables, Florida  
(Address of principal executive offices)

33134  
(Zip code)

Registrant's telephone number, including area code (305) 442-7000

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

Title of each class  
Common Stock, \$1.00 Par Value

Name of each exchange on which registered  
The NASDAQ Stock Market LLC

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

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

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

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$170,329,083 as of June 30, 2010.

As of March 16, 2011, there were 12,900,626 shares of common stock, \$1.00 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2011 Annual Meeting of Stockholders are incorporated by reference into Part III.

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AVATAR HOLDINGS INC.  
2010 FORM 10-K ANNUAL REPORT  
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General

Unless otherwise indicated or the context otherwise requires, all references in this Annual Report on Form 10-K to “we,” “us,” “our,” “Avatar,” or the “Company” refer to Avatar Holdings Inc. and its consolidated subsidiaries. Dollar amounts specified herein are in thousands, except per share amounts or as otherwise indicated.

PART I

Item 1. Business

The following business description should be read in conjunction with our audited consolidated financial statements and accompanying notes thereto appearing elsewhere in this Annual Report on Form 10-K.

Company Overview

Avatar Holdings Inc. was incorporated in the state of Delaware in 1970. Our principal executive offices are located at 201 Alhambra Circle, Coral Gables, Florida 33134 (telephone (305) 442-7000).

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

Our assets consist primarily of real estate in the states of Florida and Arizona. As of December 31, 2010, we own more than 17,000 acres and through partnerships in several limited liability companies (“LLCs”) have a minority ownership interest in an additional 830 acres of developed, partially developed or developable residential, commercial and industrial property. Avatar is required to consolidate these LLCs in accordance with authoritative accounting guidance. Some portion of these acres may be developed as roads, retention ponds, parks, school sites, community amenities or for other similar uses.

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

We have federally registered trademarks and service marks or pending applications for federal registration for several of our entities, operations and communities, including, but not limited to: Avatar®, Stonegate®, Solivita™, CantaMia™, The Younger Next Year Community™, YNY™, YNY by Avatar™, and two (2) design marks of a reverse clock face.

Business Strategy

Our primary business strategy is the development of active adult communities, and we remain opportunistic about the development of primary residential communities. We believe the demographics are good for active adult development. Solivita and CantaMia, our active adult communities in Central Florida and Goodyear, Arizona, respectively, will initially serve as our flagship communities as we pursue our active adult business strategy. 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 continue to carefully manage our inventory levels through monitoring land development and home starts.



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Item 1. Business – continued

Recent Developments

7.50% Convertible Notes Offering

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.

On February 4, 2011, Avatar completed the sale of the 7.50% Notes in accordance with the terms of the Underwriting Agreement. The sale of the 7.50% Notes is registered pursuant to a Registration Statement on Form S-3 (No. 333-161498), filed by Avatar with the Securities and Exchange Commission (the “SEC”) on August 21, 2009 (the “Registration Statement”). Net proceeds to Avatar from the sale of the 7.50% Notes is approximately \$95,350 after deducting the Underwriter’s discount of 4.25% and expenses estimated at approximately \$400. 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% Convertible Senior Notes due 2024 (the “4.50% Notes”), which notes may be put to Avatar pursuant to the terms thereof on each of April 1, 2011, April 1, 2014, and April 1, 2019, or called by Avatar at any time on or after April 5, 2011, and potential new acquisitions of real estate and real estate-related assets. On February 4, 2011, we purchased \$17,765 principal amount of the 4.50% Notes, and as of March 16, 2011, \$47,039 principal amount remains outstanding.

Real Estate Operations

We are engaged in real estate operations as summarized below. For further information regarding our financial condition and results of operations please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Active Adult Community Development

Our primary business strategy being development of active adult communities, we continue to seek and evaluate opportunities to expand our active adult operations.

To further enhance the lifestyle and offer more choices at our active adult communities, we established an exclusive partnership with Younger Next Year authors Chris Crowley and Dr. Henry Lodge, whose New York Times best-selling book is based on a popular approach to living for those over 50. The Younger Next Year (“YNY”) lifestyle is based upon choices in living that will enhance the participants’ quality of life. The four key pillars of this lifestyle are: community, exercise, nutrition, and finance.

Solivita

On February 1, 2011, we initiated our YNY program at Solivita and Solivita West, our Central Florida active adult communities located within the master-planned community of Poinciana. The YNY pillars of community, exercise, nutrition, and finance are reflected in the wealth of activities offered to Solivita residents through the community’s Lifestyles program. Activities and clubs abound at Solivita, ranging from photography to softball to scrap-booking

and motorcycle riding. Additionally, we have introduced new exercise equipment and programs, as well as added YNY nutritional choices to our Grille menu.

Solivita and Solivita West incorporate the natural topography of the land, including more than 1,200 acres of wetlands and an oak hammock. These communities currently include more than 148,000 square feet of recreation facilities, as well as two 18-hole golf courses and an active park housing a variety of sporting and games facilities.

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Item 1. Business – continued

Real Estate Operations – continued

CantaMia

A 1,781-unit active adult community located in the Estrella Mountain Ranch Master Plan Community in Goodyear, Arizona, CantaMia is composed of three phases. On October 25, 2010, we acquired phase 1 consisting of 593 partially or fully developed lots, 29 houses under construction, a recreation center scheduled to open during March 2011 and a fully finished sales center; and an option for phases 2 and 3 consisting of 1,138 undeveloped lots. The option price for phases 2 and 3 approximates \$9,600, of which \$1,000 was paid during December 2010.

Seasons

On September 24, 2009, we acquired 87 completed and partially completed homes, 267 developed lots, 364 partially developed lots and approximately 400 undeveloped master planned lots in an active adult community named Seasons at Tradition located in St. Lucie County, Florida. We are actively marketing the sale of the inventory homes in Seasons, and are evaluating our opportunities regarding the build out of the remainder of the community.

Primary Residential Community Development

We continue to search for primary community development opportunities. We are currently building in our recently acquired primary residential communities in Arizona and are developing new products to be introduced at the Isles of Bellalago in Central Florida. However, due to unfavorable market conditions, we have substantially curtailed our primary residential homebuilding operations in Poinciana, Florida and Rio Rico, Arizona.

Information relating to our backlog is incorporated herein by reference to Item 7 of Part II of this Report under the heading "Results of Operations."

Poinciana Parkway and Toll Road

In December 2006, we entered into agreements with Osceola County, Florida and Polk County, Florida for us to develop and construct at our cost a 9.66 mile four-lane road in Osceola and Polk Counties, to be known as the Poinciana Parkway (the "Poinciana Parkway"). The Poinciana Parkway is to include a 4.15 mile segment to be operated as a toll road. We have acquired right-of-way and federal and state environmental permits necessary to construct the Poinciana Parkway. We will need to permit an interchange between the Poinciana Parkway and U.S. 17/92 in Polk County prior to commencing construction of the road. We have obtained an extension of our South Florida Water Management District permit to February 14, 2012. In July 2008 and August 2008, we entered into amended and restated agreements with Osceola County and Polk County. Pursuant to the amendments to our agreements with Osceola County in December 2010 and the amendment to our agreement with Polk County in October 2010, funding for the Poinciana Parkway is to be obtained by and construction of the Poinciana Parkway is to be commenced by February 14, 2012. Pursuant to the amendments to our agreements with both Counties, construction of the Poinciana Parkway is to be completed by May 7, 2014, subject to extension for Force Majeure. We advised the Counties that the current economic downturn has resulted in our inability to: (i) conclude negotiations with potential investors; or (ii) obtain financing for the construction of the Poinciana Parkway.

If funding for the Poinciana Parkway is not obtained and construction of the Poinciana Parkway cannot be commenced by February 14, 2012, the Counties have no right to obtain damages or seek specific performance. Polk County's sole remedy under its agreement with Avatar is to cancel such agreement if Avatar does not construct the



Poinciana Parkway. With respect to Osceola County, if funding and commencement of construction is not met, (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.

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Item 1. Business – continued

Real Estate Operations – continued

Osceola County and Avatar are still attempting to obtain federal and/or state funds for development of the Poinciana Parkway, including highway tax bill monies, a newly announced federal transportation grant and a federal loan. We cannot predict whether any federal or state funds will be available.

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

Our estimate of the right-of-way acquisition, development and construction costs for the Poinciana Parkway approximates \$175,000 to \$200,000. However, no assurance of the ultimate costs can be given at this stage. As of December 31, 2010, approximately \$47,449 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 during 2010, we determined the estimated future undiscounted cash flows of the Poinciana Parkway were greater than its carrying value, therefore no impairment losses were recorded during 2010. Non-capitalizable expenditures of \$324 and \$341 related to the Poinciana Parkway were expensed during 2010 and 2009, respectively. At December 31, 2010, the carrying value of the Poinciana Parkway is \$8,452.

Commercial / Industrial and Other Land Sales

We may generate revenues through the sale of commercial and industrial land for third-party development, primarily in Poinciana, and other non-core residential land.

For further description of the various communities and the operations conducted therein, please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Real Estate Assets

Our assets consist primarily of real estate in the states of Florida and Arizona. As of December 31, 2010, we own more than 17,000 acres and have a minority ownership interest in an additional 830 acres of developed, partially developed or developable residential, commercial and industrial property. Avatar is required to consolidate these LLCs in accordance with authoritative accounting guidance. Some portion of these acres may be developed as roads, retention ponds, parks, school sites, community amenities or for other similar uses.

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



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Item 1. Business – continued

Real Estate Assets - continued

Following is a breakdown of our land holdings (not including our housing inventory) as of December 31, 2010 (dollars in thousands):

Acquisition Date	Contract Date	Estimated Planned Lots/Units (1)			Total	Book Value
		Developed	Partially Developed	Raw (2)		
<b>Residential</b>						
<b>Osceola County, Florida</b>						
Pre-1980		200	-	2,200	2,400	\$ 5,206
1999-2001		500	700	-	1,200	45,085
2003	2002-2003	-	-	1,000	1,000	7,880
2004	2002-2003	-	-	1,400	1,400	19,307
2006	2002-2003	-	-	1,600	1,600	19,044
2010	2010	400	-	-	400	7,346
<b>Total Osceola County</b>		<b>1,100</b>	<b>700</b>	<b>6,200</b>	<b>8,000</b>	<b>103,868</b>
<b>Polk County, Florida</b>						
Pre-1980		900	1,000	2,400	4,300	20,686
2003	2002-2003	800	-	100	900	30,274
2004	2002-2003	-	-	2,500	2,500	19,966
<b>Total Polk County</b>		<b>1,700</b>	<b>1,000</b>	<b>5,000</b>	<b>7,700</b>	<b>70,926</b>
<b>Orange County, Florida</b>						
2010	2010	-	839	-	839	16,582
<b>St. Lucie County, Florida</b>						
2009	2009	267	364	400	1,031	2,182
<b>Hernando County, Florida</b>						
2004-2005	2003	-	5	-	5	31
<b>Collier and Lee County, Florida</b>						
Pre-1980		50	-	-	50	179
<b>Highlands County, Florida</b>						
Pre-1980		40	-	40	80	102
<b>Santa Cruz County,(Rio Rico), Arizona</b>						
Pre-1980		600	300	3,700	4,600	10,426
<b>Maricopa, Arizona</b>						
2010	2010	290	398	-	688	37,048
<b>Pinal County, Arizona</b>						

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2010	2010	-	-	1,064	1,064	5,802
Pima County, Arizona						
2009	2009	86	-	-	86	3,897
Total Residential		4,133	3,606	16,404	24,143	\$ 251,043

Acquisition Date	Contract Date	Estimated Planned Lots/Units (1)		
		Developed	Partially Developed	Raw (2)