AVATAR HOLDINGS INC
Form 10-K
March 17, 2008

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

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

For the fiscal year ended December 31, 2007

OR

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

Commission File Number 0-7616

AVATAR HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**23-1739078**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
201 Alhambra Circle, Coral Gables, Florida	**33134**
(Address of principal executive offices)	*(Zip code)*

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 Par Value	**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 o No þ

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 o No þ

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. þ

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 definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $468,330,241 as of June 29, 2007.

As of March 13, 2008, there were 8,535,412 shares of common stock, $1.00 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for its 2008 Annual Meeting of Stockholders are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

Certain statements discussed in Item 1 (Business), Item 3 (Legal Proceedings), Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations), and elsewhere in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others: international, national and local market conditions and events such as the oversupply of existing homes caused by the number of investor and speculator resale homes for sale in our communities and in the geographic areas in which we develop and sell homes; tightening of the credit market and the reduced availability and more stringent financing requirements of residential mortgage financing in general and sub prime financing in particular; interest rates; mortgage rates; employment levels; income levels; consumer confidence; the successful implementation of Avatar s business strategy; shifts in demographic trends affecting demand for active adult and primary housing; the level of immigration and in-migration into the areas in which we conduct real estate activities; the level of competition in geographic areas in which we do business; Avatar s access to financing; geopolitical risks; changes in, or the failure or inability to comply with, government regulations; and other factors as are described in Item 1A (Risk Factors) of this Form 10-K. Active adult homes are intended for occupancy by at least one person 55 years or older.

Dollar amounts specified herein are in thousands, except for per share amounts or as otherwise indicated.

PART I

Item 1 . Business

General

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 development activities include the development of active adult and primary residential communities. We also engage in a variety of other real estate related 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.

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Item 1. Business continued

Business Strategy

Our primary business strategy continues to be the development of lifestyle communities, including active adult and primary residential communities, as well as development and construction of housing on scattered lots. From time to time we dispose of non-core assets.

We are actively pursuing other business opportunities. Future opportunities may be in those real estate businesses in which we are presently engaged or may extend to other real estate activities or unrelated businesses.

Real Estate Operations

We are primarily engaged in real estate operations as summarized below. For further information please see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Active Adult Community Development

Within the Central Florida master-planned community of Poinciana we are developing the highly-amenitized active adult communities of Solivita and Solivita West. 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 approximately 126,000 square feet of recreation facilities including a recently-completed 19,000 square foot clubhouse, as well as two 18-hole golf courses and an active park housing a variety of sporting and games facilities.

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.

Primary Residential Community Development

Our primary residential community development business includes construction of homes, both on scattered lots and on contiguous parcels as part of planned communities, in Florida and Rio Rico, Arizona.

In addition to ongoing development at our various communities within Florida, during the fourth quarter of 2007, we commenced closings at Terralargo, our single-family community in Lakeland, Florida.

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.

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Item 1. Business continued

Real Estate Operations continued

Poinciana Parkway and Toll Road

In December 2006, we entered into agreements (the County Agreements) with Osceola and Polk Counties in Florida for us to develop and construct a 9.66 mile four-lane road in Osceola and Polk Counties, to be known as the Poinciana Parkway (the Parkway). It will include a 4.15 mile segment to be operated as a private toll road. We will pay the costs associated with the right-of-way acquisition, development and construction of the Parkway. Except for the toll road, the Parkway will be owned, maintained and operated by the Counties upon completion. We will own the private toll road, and under the County Agreements we have the right to sell it to a third party together with our rights to operate the toll road. We have retained an investment banking firm to identify potential investors in the toll road.

Under the County Agreements, we were to complete the Parkway by October 31, 2008, subject to delays beyond our control, including permitting delays. While we have acquired most of the rights-of-way and all of the primary permits necessary to construct the Parkway, we have notified the Counties that the completion of construction will be delayed at least until February 28, 2010, pending further required governmental action. It is our understanding that the delays that we have encountered are contemplated by the County Agreements and entitle us to the extension.

In order to address environmental concerns of various governmental agencies and environmental organizations, we changed the plans for the Parkway to include 4,200 linear feet of trestles, which will result in increased construction costs. Our current estimate of the right-of-way acquisition, development and construction costs for the Parkway approximate $170,000 to $200,000. However, no assurance of the ultimate amount can be given at this stage. As of December 31, 2007, approximately $32,000 has been expended.

Commercial and Industrial and Other Operations

We also generate revenues through the sale of commercial and industrial land for third-party development, primarily in Poinciana, as well as other operations, including title insurance agency operations.

Real Estate Assets

Our assets consist primarily of real estate in the states of Florida and Arizona. During December 2006, we closed on the sale of our approximately 4,400-acre property known as Ocala Springs in Marion County, Florida (the Ocala Property). As of December 31, 2007, we owned more than 17,000 acres of developed, partially developed or developable residential, commercial and industrial property. Some portion of these acres may be developed as roads, retention ponds, parks, school sites, community amenities and 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.

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.

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Item 1. Business continued

Title Insurance Agency

Prominent Title Insurance Agency, Inc., a subsidiary of Avatar Properties Inc., maintains operations at our headquarters in Coral Gables, Florida, as well as in Poinciana, Florida. Services are offered to purchasers of homes from Avatar as well as unrelated parties.

Business Segment Information

Our business segment information regarding revenues, results of operations and assets is incorporated herein by reference to Note P to the Consolidated Financial Statements included in Item 8 of Part II of this Report.

Employees

As of December 31, 2007, we employed approximately 321 individuals on a full-time or part-time basis, compared to 483 individuals as of December 31, 2006 and 585 as of December 31, 2005. We also utilize on a daily basis such additional personnel as may be required in connection with various activities. Relations with our employees are satisfactory and there have been no work stoppages.

Investor Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 (the Exchange Act). Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy materials that we have filed with the SEC at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

You can access financial and other information on our website, at www.avatarholdings.com. We make available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise with the SEC. You may download this information from our website or may request us to mail specific information to you. Information regarding equity transactions by our directors, officers and 10% holders may also be obtained on our website.

Regulation

Our business is subject to extensive federal, state and local statutes, ordinances and regulations that affect every aspect of our business such as environmental, hazardous waste and land use requirements and can result in substantial expense to the company. By way of example, should hazardous waste be discovered on land that we own, we could incur the expense of removal and remediation.

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Item 1. Business continued

Competition

Our residential homebuilding, planned community development and other real estate operations, particularly in the state of Florida, are subject to significant competition. In the sales of housing units, we compete, as to price and product, with several national and regional homebuilding companies. In recent years, there has been extensive residential development by other developers in the geographic areas in which we operate; and we currently compete with resales by investors, speculators and residents in our communities. It has also become necessary to reduce prices and offer additional sales incentives in order to maintain a competitive position within our markets.

Item 1A. Risk Factors

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and our company could materially impact our future performance and results. We have provided below a list of these risk factors. These are not all the risks we face, and other factors, including those currently considered immaterial or unknown to us, may impact our future operations.

Our access to financing may be limited

Our business is capital intensive and requires expenditures for land and infrastructure development, housing construction, working capital and new development opportunities. Accordingly, we anticipate incurring indebtedness to fund real estate development activities. As of December 31, 2007, total consolidated indebtedness was $130,766, including $114,800 principal amount of our 4.50% Convertible Senior Notes due 2024 (the 4.50% Notes). We also had $103,181 in availability under our Unsecured Credit Facility (defined below). We may not sustain profitability or positive cash flows from operating activities. We anticipate, but cannot assure, that the amounts available from internally generated funds, cash on hand, the sale of non-core assets, and existing and future financing will be sufficient to fund the anticipated operations, meet debt service and working capital requirements, and provide sufficient liquidity to develop and build the Poinciana Parkway. We may seek additional capital in the form of equity or debt financing from a variety of potential sources, including additional bank financing and sales of debt or equity securities. However, as the capital markets have become more problematic, we cannot assure that such financing will be available or, if available, will be on favorable terms. In addition, from time to time we have obtained amendments to our Unsecured Credit Facility. There can be no assurance that we will be able to obtain future amendments at favorable terms and costs. If we are not successful in obtaining sufficient capital to fund our business strategy and other expenditures, development projects may be delayed or abandoned. Any such delay or abandonment could result in a reduction in sales and would adversely affect future results of operations.

Further decline in the capital markets or fluctuations in interest rates could have an adverse effect on our business

A significant majority of the purchasers of our homes finance their purchases through third-party lenders providing mortgage financing or, to some extent, rely upon investment income. In general, housing demand is dependent on home equity, consumer savings and third-party financing and could be adversely affected by less favorable mortgage terms, including requirements for higher deposits and higher credit scores, the tightening of underwriting standards for mortgage loans, decreases in investment income, unavailability of mortgage financing, increasing housing costs and declining employment and income levels. The amount or value of discretionary income and savings, including retirement assets, available to home purchasers can be affected by a decline in the capital markets. Lenders, particularly subprime lenders, are imposing more stringent credit requirements. If lending restrictions continue to be tightened or the capital markets continue to decline, the ability of prospective buyers to finance home purchases may be further adversely affected, resulting in further adverse effects on our business.

Item 1A. Risk Factors continued

Our success significantly depends on our key personnel and our ability to attract and retain personnel

Our real estate business strategy requires, among other things, the retention of experienced management personnel and employees. The loss of the services of certain members of the senior and middle management team, or the inability to attract new personnel, could have a material adverse effect on the success of our real estate business strategy and on our ability to expand our operations.

We may not succeed in obtaining new development, investment and business opportunities

We have under development or in the planning process a substantial portion of Avatar s historical landholdings that we believe can be profitably developed over time. Although we are actively pursuing other development and business opportunities, we cannot assure that we will succeed in our efforts to obtain additional development and business opportunities.

Our industry is highly cyclical and is affected by general economic conditions and other factors beyond our control

The real estate industry is highly cyclical and is affected by changes in national, global and local economic conditions and events, such as employment and income levels, availability of financing, interest rates, consumer confidence and the demand for housing and other types of construction. As a real estate developer we are subject to various risks, many of which are outside our control, including real estate market conditions (both where communities and homebuilding operations are located and in areas where potential customers reside), changing demographic conditions, adverse weather conditions and natural disasters, such as hurricanes, tornadoes and wildfires, delays in construction schedules, cost overruns, changes in government regulations or requirements, increases in real estate taxes and other local government fees, and availability and cost of land, materials and labor. The occurrence of any of the foregoing has resulted and could result in a further reduction in or cancellation of sales and/or lower gross margins for sales. Lower than expected sales as a result of these occurrences could have a material adverse effect on the level of our profits and the timing and amounts of our cash flows. We are in the midst of a severe downturn in the real estate market. The market for new single-family and multi-family residences began to weaken in the third quarter of 2005, continued to weaken through February 2008 and may not improve during fiscal 2008.

Further decline of the residential real estate market could result in future impairment (as defined by Statement of Financial Accounting Standards No. 144) to certain of our land assets acquired in recent years. A substantial portion of our landholdings has been owned for many years and is carried at book values which we believe are below current market values and, therefore, in our opinion less likely to be adversely affected. However, certain of our recent acquisitions of land and our standing inventory of unsold homes, both completed and under construction, could be subject to impairment charges if the residential real estate market continues to decline.

We are concentrated geographically, which could adversely affect our business

Our land and development activities are located in Florida and Arizona, which are among the states most adversely affected by the downturn in the residential real estate market. Development activities depend to a significant degree on the levels of immigration to Florida from outside the United States, migration to Florida from within the United States and purchases in Florida of second and/or vacation homes, in addition to other local market conditions. Our geographic concentration may create increased vulnerability during regional economic downturns or other Florida-related events which may result in reduced levels of profitability or reduced cash flows and adversely affect our financial condition. Commencing in the second half of 2005 and continuing through February 2008, our ability to sell new homes in Florida and Arizona and the level of cancellations of executed contracts were negatively impacted by the condition of the markets in which we are located.

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Item 1A. Risk Factors continued

If we are unable to develop and market our communities, our cash flow could decline

Our communities will be developed over time. Therefore, our medium- and long-term future is dependent on our ability to develop and market existing and future communities successfully. Committing the financial and managerial resources to develop a community involves significant risks. Before a community generates any revenues, material expenditures are required, among other things, to obtain development approvals to construct project infrastructure, model homes and sales facilities. It generally requires several years for a community development to achieve cumulative positive cash flow. No assurance can be given that we will successfully develop and market communities in the future. In addition, appropriate roadway routes and levels of vehicular traffic contribute to the success of our marketing of existing and future communities, and accordingly, inadequate road capacity could adversely affect sales. For example, if vehicular traffic congestion in and around Poinciana, Florida, were to reach unacceptable levels, our revenues could be materially adversely affected. Our inability to develop and market our communities successfully and to generate positive cash flows from such operations in a timely manner would have an adverse effect on the ability to meet debt and working capital requirements.

Our joint ventures and partnerships may not achieve anticipated results

In connection with our business strategy, we may seek additional joint venture or partnership arrangements. A joint venture or other partnership may involve special risks associated with the possibility that a partner or partnership at any time (i) may have economic or business interests or goals that are inconsistent with ours, (ii) may take actions contrary to our instructions or requests or contrary to our policies or objectives with respect to our real estate investments or (iii) could experience financial difficulties. Actions by a partner may have the result of subjecting property owned by the joint venture or partnership to liabilities in excess of those contemplated by the terms of the joint venture or partnership agreement or have other adverse consequences. We cannot assure that any joint venture or partnership arrangements will achieve the results anticipated or otherwise prove successful.

The results of our operations are subject to fluctuations, which could hinder our ability to service debt and meet working capital requirements

Our real estate projects are long-term in nature. Sales activity at active adult and other community and real estate developments varies from period to period, and the ultimate success of any community cannot be determined from results in any particular period or periods. A community may generate significantly higher sales levels at inception (whether because of local pent-up demand or other reasons) than it does during later periods. Revenues and earnings will also be affected by period-to-period fluctuations in the mix of product, subdivisions and home closings among our homebuilding operations. Thus, the timing and amount of revenues are subject to considerable uncertainty. The inability to manage effectively the cash flows from operations could have an adverse effect on our ability to service debt and to meet working capital requirements.

Our business is subject to substantial competition

Our homebuilding, planned community development and other real estate operations are subject to substantial existing and potential competition (including competition from a number of national homebuilders). Some current and potential competitors have longer operating histories and greater financial, sales, marketing, technical and other resources than we have and offer significant discounts and incentives due to the current weak market conditions. Competition within the geographic locations of our developments extends from price and design of products, to the ability to acquire diminishing supplies of land, to retain and employ experienced real estate development, management and sales personnel and to contract with development and construction firms. We cannot assure that we will have sufficient resources to compete successfully in our market or against our competitors. Accordingly, we may lose market share to existing and new competitors. In addition, we currently compete with resales by real estate investors and speculators.

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Item 1A. Risk Factors continued

We are subject to extensive governmental regulation and environmental considerations

Our business is subject to extensive federal, state and local statutes, ordinances and regulations that affect every aspect of our business such as environmental, hazardous waste and land use requirements and can result in substantial expense to the company. By way of example, should hazardous waste be discovered on land that we own, we could incur the expense of removal and remediation.

Certain events could trigger the acceleration of payment of the 4.50% Notes

Certain events, including cessation of trading of our common stock, failure to pay interest when due on our 4.50% Notes, final judgment(s) for the payment of money in excess of $20,000 rendered against us or any of our subsidiaries if not discharged for any periods of 30 consecutive days during which a stay of enforcement is not in effect, could result in a default under our 4.50% Notes. Such default would result in the requirement for payment of the 4.50% Notes prior to the due date thereof. Our inability to make such accelerated payment could have a material adverse effect upon our business.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Avatar s real estate operations are summarized in Item 1. Business above and described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. Land developed and in the process of being developed, or held for investment and/or future development, is set forth in Note C of the Notes to Consolidated Financial Statements in Item 8.

Our corporate headquarters are located at 201 Alhambra Circle, Coral Gables, Florida, in 26,300 square feet of leased office space. For additional information concerning properties leased by Avatar, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Item 8. Notes to Consolidated Financial Statements.

Item 3 . Legal Proceedings

The information set forth in Note N (Commitments and Contingencies) of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report is incorporated herein by reference.

We are involved in various pending litigation matters primarily arising in the normal course of business. Although the outcome of these matters cannot be determined, management believes that the resolution of these matters will not have a material effect on our business or financial statements.

We have no tax-related penalties required to be disclosed in this Item 3 pursuant to Section 6707A(e) of the Internal Revenue Code.

Item 4 . Submission of Matters to a Vote of Security Holders

None.

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Executive Officers of the Registrant

Pursuant to General Instruction G(3) to Form 10-K, the following list is included as an unnumbered item in Part I of this report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 29, 2008.

The following is a list of names and ages of all of the executive officers of Avatar, indicating principal positions and offices with Avatar or a subsidiary held by each such person and each such person s principal occupation(s) or employment during the past five years unless otherwise indicated. Officers of Avatar have been elected to serve until the next annual election of officers (which is expected to occur on May 29, 2008), when they are re-appointed or their successors are elected or until their earlier resignation or removal.

Name	Age	Office and Business Experience
Gerald D. Kelfer	62	President since February 1997, Chief Executive Officer since July 1997, Chairman of the Executive Committee since May 1999, Vice Chairman of the Board since December 1996, and a member of the Board of Directors since October 1996; and holds various positions with subsidiaries.
Jonathan Fels	55	President, Avatar Properties Inc., since December 1997; and holds various positions with other subsidiaries.
Michael Levy	49	Executive Vice President and Chief Operating Officer, Avatar Properties Inc., since December 1997; and holds various positions with other subsidiaries.
Patricia Kimball Fletcher	50	Executive Vice President and General Counsel since January 2007; formerly Partner and Chair of Florida Real Estate and Finance Department, Duane Morris LLP, from January 2002 to December 2006; and holds various positions with subsidiaries.
Randy L. Kotler	42	Executive Vice President and Chief Financial Officer since July 2007 and Treasurer since August 2007; formerly Chief Accounting Officer of TOUSA, Inc., from May 2002 to June 2007; Senior Vice President from May 2006 to June 2007; Interim Chief Financial Officer, from May 2006 to January 2007; and Vice President from May 2002 to May 2006; and holds various positions with subsidiaries.
Juanita I. Kerrigan	61	Vice President and Secretary since September 1980; and holds various positions with subsidiaries.

The above executive officers have held their present positions with Avatar for more than five years, except as otherwise noted. No executive officer of Avatar has any family relationship with any other executive officer or director of Avatar.

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PART II

Item 5 . Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Common Stock of Avatar Holdings Inc. is traded through The Nasdaq Stock Market LLC under the symbol AVTR. There were 4,551 record holders of Common Stock at February 29, 2008.

High and low quotations, as reported, for the last two years were:

	Quotations			
Quarter Ended	2007		2006	
	High	Low	High	Low
March 31	$85.43	$61.00	$61.00	$54.35
June 30	$83.81	$68.82	$63.37	$50.64
September 30	$79.30	$49.30	$60.48	$50.02
December 31	$55.95	$38.06	$84.54	$58.34

Avatar has not declared any cash dividends on Common Stock since its issuance and has no present intention to pay cash dividends.

For the three months ended December 31, 2007, Avatar did not repurchase shares under the stock repurchase authorization as reflected in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program (1)	Maximum Amount That May Yet Be Purchased Under the Plan or Program (1)
October 1, 2007 to October 31, 2007				$ 14,864
November 1, 2007 to November 30, 2007				$ 9,864
December 1, 2007 to December 31, 2007				$ 9,864
Total				

(1) On March 20, 2003, Avatar s Board of Directors authorized the expenditure of up to $30,000 to purchase, from time to time, shares of its

common stock and/or 7% Convertible Subordinated Notes due April 2005 (the 7% Notes), which were subsequently called for redemption, in the open market, through privately negotiated transactions or otherwise, depending on market and business conditions and other factors. On June 29, 2005, Avatar s Board of Directors amended the March 20, 2003 repurchase authorization to include the 4.50% Notes in addition to shares of its common stock. During the three months ended December 31, 2007, Avatar repurchased $5,000 principal amount of the 4.50% Notes. As of December 31, 2007, the remaining authorization for purchase of shares of Avatar s

common stock
and/or 4.50%
Notes was
$9,864.

Item 6 . Selected Financial Data

FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA
Dollars in thousands (except share and per share data)

	At or for the Years ended December 31				
	2007	2006	2005	2004(1)	2003(1)
Statement of Income Data					
Revenues	$ 291,416	$ 835,079	$ 516,848	$ 334,205	$ 248,966
Income from continuing operations before income taxes and discontinued operations	$ 34,680	$ 258,752	$ 87,189	$ 37,956	$ 10,013
Income tax (expense) benefit	(13,297)	(84,026)	(29,990)	(12,678)	8,515
Income from continuing operations	21,383	174,726	57,199	25,278	18,528
Discontinued operations:					
Income (loss) from discontinued operations (including gain on disposal of $8,322 and $6,465 for 2005 and 2004, respectively)			9,562	6,905	(104)
Income tax (expense) benefit			(3,634)	(2,624)	39
Income (loss) on discontinued operations			5,928	4,281	(65)
Net income	$ 21,383	$ 174,726	$ 63,127	$ 29,559	$ 18,463
Basic Per Share Data					
Income from continuing operations	$ 2.57	$ 21.33	$ 7.10	$ 2.98	$ 2.14
Income (loss) on discontinued operations			0.73	0.51	(0.01)
Net income	$ 2.57	$ 21.33	$ 7.83	$ 3.49	$ 2.13
Diluted Per Share Data					
Income from continuing operations	$ 2.22	$ 16.59	$ 5.72	$ 2.69	$ 2.12
Income (loss) on discontinued operations			0.56	0.41	(0.01)
Net income	$ 2.22	$ 16.59	$ 6.28	$ 3.10	$ 2.11

Balance Sheet Data					
Total assets	$ 706,541	$ 751,072	$ 626,410	$ 508,264	$ 365,551
Notes, mortgage notes and other debt	$ 130,766	$ 136,925	$ 144,107	$ 139,384	$ 19,771
Stockholders equity	$ 527,703	$ 505,356	$ 312,892	$ 246,235	$ 265,899
Shares outstanding	8,525,412	8,193,736	8,179,463	8,058,129	9,389,772
Stockholders equity per share	$ 61.90	$ 61.68	$ 38.25	$ 30.56	$ 28.32

(1) During the fourth quarter of 2005, we sold our utility operations in Arizona, our shopping center in Poinciana and our mini storage facility in Poinciana. As a result of these sales, the results of operations have been reclassified as discontinued operations to conform to the 2005 presentation.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data)

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Selected Financial Data and our audited consolidated financial statements and accompanying notes included elsewhere in this document.

FORWARD-LOOKING STATEMENTS

Certain statements discussed under the captions Business, Risk Factors, Legal Proceedings, Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others, those contained under the caption Risk Factors in Item 1A.

OVERVIEW

We are engaged in the business of real estate operations in Florida and Arizona. Our residential community development activities include the development of active adult and primary residential communities. We also engage in a variety of other real estate related 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.

Our real estate business strategy is designed to emphasize higher profit margin businesses by concentrating on the development and management of active adult communities, production homes and communities, and utilizing third-party commercial and industrial development to maximize the value of our residential community developments. We also seek to identify additional sites that are suitable for development consistent with our business strategy and anticipate that we will acquire or develop them directly or through joint venture, partnership or management arrangements. Our primary business activities are capital intensive in nature. Significant capital resources are required to finance planned primary residential and active adult communities, homebuilding construction in process, community infrastructure, selling expenses, new projects and working capital needs, including funding of debt service requirements, operating deficits and the carrying cost of land.

Our assets consist primarily of real estate in the states of Florida and Arizona. During December 2006, we closed on the sale of our approximately 4,400-acre property known as Ocala Springs in Marion County, Florida (the Ocala Property). As of December 31, 2007, we owned more than 17,000 acres of developed, partially developed or developable residential, commercial and industrial property. Some portion of these acres may be developed as roads, retention ponds, parks, school sites, community amenities and 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.

Residential Real Estate

Revenues and sales data derived from primary and active adult homebuilding operations for the years ended December 31, 2007, 2006 and 2005 are summarized under Results of Operations.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

Residential Community Development

Active Adult Communities

Our active adult communities of Solivita and Solivita West are located in Poinciana, Florida, approximately 21 miles south of Orlando and 20 miles from Walt Disney World. At Solivita and Solivita West, we have developed approximately 126,000 square feet of recreation facilities including a recently-completed 19,000 square foot clubhouse. These communities contain a fitness center, a golf clubhouse, restaurants, arts and crafts rooms, a café, other meeting and ballroom facilities, and two 18-hole golf courses. The community s active park houses a variety of sporting and games facilities, including an official softball field, half-court basketball court, five pickleball courts and five tennis courts. There are four more tennis courts and four more pickleball courts located throughout the communities.

Solivita opened during the second quarter of 2000. During December 2004, we commenced the development of an expansion of Solivita, Solivita West, on 907 acres of land in Poinciana acquired in 2003. Sales of single-family units commenced during the first quarter of 2005 and closings commenced during 2006.

From inception, we have closed 3,191 homes in Solivita and Solivita West, and approximately 5,500 individuals resided in the communities as of December 31, 2007.

During 2007, we signed 103 contracts, net of cancellations, at Solivita and Solivita West, with net sales value of approximately $31,707 (see Results of Operations).

Primary Residential Development

Our primary residential development includes construction of homes, both on scattered lots and in planned communities primarily at Poinciana and Bellalago in central Florida near Orlando; Terralargo in Lakeland, Florida; and at Rio Rico, south of Tucson, Arizona. During the fourth quarter of 2007, we commenced closings at Terralargo, where we commenced sales in 2006 and development in 2005.

During January 2006, we closed for a cash purchase price of approximately $18,300 on 1,288 acres, the remaining phases of land for community development in Poinciana which we contracted to acquire in October 2003. We have not contracted to option or purchase land for community development since January 2005.

Additionally, we have other residential communities which are in various stages of planning and development. We also have several communities nearing close-out.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

Poinciana Parkway and Toll Road

In December 2006, we entered into agreements (the County Agreements) with Osceola and Polk Counties in Florida for us to develop and construct a 9.66 mile four-lane road in Osceola and Polk Counties, to be known as the Poinciana Parkway (the Parkway). It will include a 4.15 mile segment to be operated as a private toll road. We will pay the costs associated with the right-of-way acquisition, development and construction of the Parkway. Except for the toll road, the Parkway will be owned, maintained and operated by the Counties upon completion. We will own the private toll road, and under the County Agreements we have the right to sell it to a third party together with our rights to operate the toll road. We have retained an investment banking firm to identify potential investors in the toll road.

Under the County Agreements, we were to complete the Parkway by October 31, 2008, subject to delays beyond our control, including permitting delays. While we have acquired most of the rights-of-way and all of the primary permits necessary to construct the Parkway, we have notified the Counties that the completion of construction will be delayed at least until February 28, 2010, pending further required governmental action. It is our understanding that the delays that we have encountered are contemplated by the County Agreements and entitle us to the extension.

In order to address environmental concerns of various governmental agencies and environmental organizations, we changed the plans for the Parkway to include 4,200 linear feet of trestles, which will result in increased construction costs. Our current estimate of the right-of-way acquisition, development and construction costs for the Parkway approximate $170,000 to $200,000. However, no assurance of the ultimate amount can be given at this stage. As of December 31, 2007, approximately $32,000 has been expended.

Commercial and Industrial and Other Land Sales

We also generate revenues through the sale of commercial and industrial land for third-party development, primarily in Poinciana.

For the year ended December 31, 2007, pre-tax profits from sales of commercial, industrial and other land were $21,870 on revenues of $27,476. For the year ended December 31, 2007, pre-tax profits from commercial and industrial land were $19,939 on aggregate revenues of $23,577. Pre-tax profits on sales of other land during the year ended December 31, 2007 were $1,931 on aggregate revenues of $3,899.

For the year ended December 31, 2006, pre-tax profits on sales of commercial and industrial land were $39,927 on aggregate sales of $44,110. Also during 2006, pre-tax profits on sales of other land were $64,051 on aggregate sales of $76,171. Included in other land sales is the sale of our approximately 4,400-acre property known as Ocala Springs in Marion County, Florida (the Ocala Property). The aggregate sales price for the Ocala Property was $75,122 which resulted in pre-tax profit of approximately $62,800. We also realized, during 2006, pre-tax profits of $4,327 from the collection of a promissory note and accrued interest totaling $13,185 from the sale of our equity interest in the Regalia Joint Venture which was sold on June 30, 2005.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

During the year ended December 31, 2005, pre-tax profits on sales of commercial and industrial land were $9,469 on aggregate sales of $13,145. Also during 2005, pre-tax profits on sales of other land were $12,170 on aggregate sales of $21,423. Included in other land sales for 2005 is the sale of our 50% equity interest in the Blueview Joint Venture (defined later under the heading Liquidity and Capital Resources) for a sales price of $13,887 which resulted in a pre-tax gain of approximately $4,100. Also included in other land sales is our 50% equity interest in an unconsolidated joint venture, the sole asset of which is land, for a sales price of $11,000 which resulted in a pre-tax gain of approximately $4,258.

Revenues from commercial and industrial and other land sales, which vary from year to year depending upon demand, ensuing negotiations and timing of closings, were $27,476, $133,466 and $48,455 in 2007, 2006 and 2005, respectively.

Other Operations

We also generate revenues through rental and other operations, including a small community shopping center in Rio Rico, recreational facilities and title insurance agency operations. Revenues from these operations were $3,215, $7,405 and $6,668 in 2007, 2006 and 2005, respectively. The decrease in revenues in 2007 compared to 2006 resulted primarily from decreased title insurance agency operations. The increase in revenues in 2006 compared to 2005 resulted primarily from increased title insurance agency operations.

Discontinued Operations

During the fourth quarter of 2005, we sold the stock of Rio Rico Utilities, Inc., our water and wastewater utilities operations in Rio Rico, Arizona, for a sales price of approximately $8,674. The pre-tax loss of approximately $2,472 on this sale and the operating results for 2005 has been reported as discontinued operations in the accompanying consolidated statements of income.

During the fourth quarter of 2005, we closed on the sale of substantially all of the assets of our shopping center located in Poinciana for a sales price of approximately $6,000. The pre-tax gain of approximately $4,702 on this sale and the operating results for 2005 have been reported as discontinued operations in the accompanying consolidated statements of income.

During the fourth quarter of 2005, we closed on the sale of substantially all of the assets of our mini storage facility located in Poinciana for a sales price of approximately $9,125. The pre-tax gain of approximately $6,092 on this sale and the operating results for 2005 have been reported as discontinued operations in the accompanying consolidated statements of income. We developed and constructed the mini storage facility and commenced operations in April 2005.

Reference is made to Note S in Item 8 under the caption Notes to Consolidated Financial Statements.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In the preparation of our financial statements, we apply United States generally accepted accounting principles. The application of U.S. generally accepted accounting principles may require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying results.

Revenue Recognition

As discussed in Note A to the Consolidated Financial Statements, in accordance with SFAS No. 66, *Accounting for Sales of Real Estate* , revenues from the sales of housing units are recognized when the sales are closed and title passes to the purchasers. In addition, revenues from commercial, industrial and other land sales are recognized in full at closing, provided the purchaser s initial investment is adequate, all financing is considered collectible and there is no significant continuing involvement. As a result, our revenue recognition process does not involve significant judgments or estimations.

Impairments of Land and Other Inventories

Land and Other Inventories are stated at cost unless the asset is determined to be impaired, in which case the asset would be written down to its fair value (as further discussed below). 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 incurred until development and construction is 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 U.S. generally accepted accounting principles. We rely on certain estimates to determine construction, land costs and other infrastructure improvements and the resulting gross margins.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), we carry Land and Other Inventories at the lower of the carrying amount or fair value. Each reporting period, 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 flow for 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. For assets held for sale (such as completed speculative inventory), if indicators are present, we perform an impairment test in which the asset is reviewed for impairment by comparing the fair value 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. Fair value is determined by discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. Assumptions and estimates used in the determination of the estimated future cash flows are based on certain factors provided below and that may be known to us at the time such estimates are made and our expectations of future operations and economic conditions. Due to the uncertainties of the estimation process, actual results could differ significantly from such estimates.

Land and Other Inventories that are subject to a review for indicators of impairment include our: (i) housing communities (primary residential and active adult) and (ii) land held for future development or sale.

Housing communities: For our housing communities, indicators of potential impairment include changes in local market conditions, declining customer traffic and sales activity, increases in sales cancellations, increases in speculative inventory resulting from cancellations, increases in costs, and declines in gross margins for homes in backlog. If indicators are present, the asset is reviewed for impairment described above. In determining estimated future cash flows for purposes of the impairment test, we incorporate our own market assumptions regarding the following factors which could significantly impact future cash flows: expected sales pace; expected sales prices and sales incentives; and anticipated costs to be expended, including land and land development costs, home construction

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

CRITICAL ACCOUNTING POLICIES AND ESTIMATES continued

costs, and overhead costs. Our assumptions are based, in part, on general economic and local market conditions, competition from other homebuilders in the areas in which we build and sell homes, product desirability in our local markets and the buyers ability to obtain mortgage financing. These assumptions can significantly affect our estimates of future cash flows.

During 2007, we recognized impairment losses of approximately $2,500 primarily related to speculative inventory of two communities which are near completion. This impairment loss is included under the caption Real Estate Expenses in the consolidated statement of income for the year ended December 31, 2007 and is included in the Primary Residential reportable segment in accordance with SFAS No. 131 *Disclosure about Segments of an Enterprise and Related Information.*

Land held for future development or sale: For land 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 as described above. In determining estimated future cash flows for purposes of the impairment test, we incorporate our own market assumptions regarding the following factors which could significantly impact future cash flows: expected sales values, and anticipated costs to be expended including land and land development costs and overhead costs. Our assumptions are based, in part, on general economic and local market conditions, the current state of the homebuilding industry, and competition from other homebuilders in the areas in which we build and sell homes. These assumptions can significantly affect our estimates of future cash flows. Factors that we consider in determining the appropriateness of moving forward with land development and costs for future development or 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.

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.

Impairments of Property and Equipment and Parkway Under Development

Property and Equipment includes the cost of amenities owned by us (completed and under construction). Property and Equipment placed in service is depreciated by the straight-line method over the useful lives of the assets when these assets are placed in service. The Parkway is currently under development and has not been placed into service. The cost of amenities and the Parkway includes expenditures for land acquisition, construction, land development and direct and allocated costs. Property and Equipment and the Parkway owned and constructed by us also include interest cost incurred until development and construction is substantially completed.

Each reporting period, we review our Property and Equipment for indicators of impairment in accordance with SFAS No. 144. 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 the cost to construct to increase. In addition, we factor in the collectibility and potential delinquency of the fees due for our amenities. For the Parkway, indicators of impairment are similar to indicators of impairment of our land held for development or future sale. If indicators are present, the asset is reviewed for impairment as described above. In determining estimated future cash flows for purposes of the impairment test, we incorporate our own market assumptions regarding the following factors which could significantly impact future cash flows: expected sales pace based upon general economic conditions; expected sales prices; and anticipated costs to be expended including land and land development costs, construction costs, and

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

CRITICAL ACCOUNTING POLICIES AND ESTIMATES continued

overhead costs. Our assumptions are based, in part, on general economic and local market conditions, the current state of the homebuilding industry, and competition from other homebuilders in the areas in which we build and sell homes. These assumptions can significantly affect our estimates of future cash flows.

Consolidation of Variable Interest Entities

The FASB issued Interpretation No. 46(R) (FIN 46(R)), (which further clarified and amended FIN 46, *Consolidation of Variable Interest Entities)* which requires the consolidation of entities by the primary beneficiary which is the enterprise that absorbs a majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. We evaluate the impact of FIN 46(R) as it relates to the joint ventures we enter into to determine whether or not the entity is a variable interest entity and we are the primary beneficiary. If we determine that we are not the primary beneficiary since we are not the entity that absorbs a majority of the expected losses and/or receives a majority of the expected residual returns, these joint ventures are recorded as unconsolidated joint ventures using the equity method of accounting.

Income Taxes

Income taxes have been provided using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes.* Under SFAS No. 109, the liability method is used in accounting for income taxes where deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. A deferred tax asset valuation allowance is recorded based on the judgment of when it is more-likely-than-not that all or a portion of the deferred tax asset will not be realized.

On January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Based on our evaluation of tax positions, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our evaluation was performed for the tax years ended December 31, 2003, 2004, 2005 and 2006 which remain subject to examination and adjustment by major tax jurisdictions as of December 31, 2007. FIN 48 did not have an impact on our financial position and results of operations.

Any interest or penalties that have been assessed in the past have been minimal and immaterial to our financial results. In the event we are assessed any interest or penalties in the future, we plan to include them in our statements of income as income tax expense.

Warranty Reserves

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. Actual future warranty costs could differ from our currently estimated amounts.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

CRITICAL ACCOUNTING POLICIES AND ESTIMATES continued

Construction Reserves

Construction reserves for closed houses are established to cover potential costs for completion of houses closed. These reserves are determined on a per house basis based on estimated house budgets and other relevant factors. Actual construction costs could differ from our currently estimated amounts.

Estimated Development Liability

The estimated development liability consists primarily of utilities improvements in Poinciana and Rio Rico for more than 8,000 homesites previously sold. The estimated development liability for sold land is reduced by actual expenditures and is evaluated and adjusted, as appropriate, to reflect management s estimate of anticipated costs. In addition, we obtain quarterly third-party engineer evaluations and adjust this liability to reflect changes in the estimated costs. We recorded charges of approximately $386, $1,086 and $7,872 during 2007, 2006 and 2005, respectively, associated 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.

Share-Based Compensation

Prior to January 1, 2006, we accounted for our stock-based compensation plans in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Accordingly, for restricted stock units granted, compensation expense was recognized in the consolidated statements of income prior to January 1, 2006 based on the market price of Avatar s common stock on the date the specified hurdle price was probable of being achieved, provided such provisions are applicable, or the date of grant. For stock options granted, no compensation expense was recognized in the consolidated statements of income prior to January 1, 2006 since all stock options granted had exercise prices greater than the market value of Avatar s stock on the grant date. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)) using the modified-prospective transition method. Under this transition method, compensation expense recognized during the year ended December 31, 2006 included:
(a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and
(b) compensation expense for all share-based awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). In accordance with the modified-prospective-transition method, results for prior periods have not been restated.

As of December 31, 2007, there was $6,911 of unrecognized compensation expense related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 1.8 years. As of December 31, 2007, there was no unrecognized compensation expense related to stock options.

The calculation of the fair values of our stock-based compensation plans requires estimates that require management s judgments. Under SFAS No. 123(R), the fair value of restricted stock awards which do not contain a specified hurdle price condition is based on the market price of our common stock on the date of grant. Under SFAS No. 123(R), the fair value of restricted stock awards which contain a specified hurdle price condition is estimated on the grant date using the Monte-Carlo option valuation model (like a lattice model). Under SFAS No. 123(R), the fair value of each stock option is estimated on the grant date using the Black-Scholes option-pricing model. The valuation models require assumptions and estimates to determine expected volatility, expected life, expected dividends and expected risk-free interest rates. The expected volatility was determined using historical volatility of our stock based on the contractual life of the award. The risk-free interest rate assumption was based on the yield on zero-coupon U.S. Treasury strips at the award grant date. We also used historical data to estimate forfeiture experience.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which is January 1, 2008 for us, and interim periods within those fiscal years. The effect of SFAS No. 157 is not expected to have a material impact on our financial position and results of operations.

In November 2006, the FASB issued Emerging Issues Task Force Issue No. 06-8, *Applicability of the Assessment of a Buyer s Continuing Investment under FASB Statement No. 66. Accounting for Sales of Real Estate, for Sales of Condominiums* (EITF 06-8). EITF 06-8 establishes that a company should evaluate the adequacy of the buyer s continuing investment in determining whether to recognize profit under the percentage-of-completion method. Generally, EITF 06-8 is not applicable to homebuilding operations. EITF 06-8 is effective for the first annual reporting period beginning after March 15, 2007, which is January 1, 2008 for us. The effect of EITF 06-8 is not expected to be material to our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 s objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective for the first fiscal year that begins after November 15, 2007, which is January 1, 2008 for us. The effect of SFAS No. 159 is not expected to have a material impact on our financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) amends SFAS No. 141, *Business Combinations* (SFAS No. 141), and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. It is effective for fiscal years beginning after December 15, 2008, which is January 1, 2009 for us, and is to be applied prospectively.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008, which is January 1, 2009 for us. We are currently evaluating the potential impact of adopting SFAS No. 160 on our consolidated financial position and results of operations.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

RESULTS OF OPERATIONS

The discussion in this section may contain forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. Please see our discussion under the heading Forward-Looking Statements above.

The following management s 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 Annual Report on Form 10-K. In the preparation of our financial statements, we apply United States generally accepted accounting principles. The application of U.S. generally accepted accounting principles may require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying results.

The following table provides a comparison of certain financial data related to our operations:

	For the year ended December 31		
	2007	2006	2005
Operating income:			
Primary residential			
Revenues	$ 158,642	$ 447,487	$ 309,608
Expenses	136,889	316,409	242,519
Net operating income	21,753	131,078	67,089
Active adult communities			
Revenues	92,180	241,866	148,515
Expenses	78,527	182,911	133,513
Net operating income	13,653	58,955	15,002
Commercial and industrial and other land sales			
Revenues	27,476	133,466	48,455
Expenses	5,606	25,161	22,685
Net operating income	21,870	108,305	25,770
Other operations			
Revenues	3,215	7,405	6,668
Expenses	2,581	4,420	4,286
Net operating income	634	2,985	2,382
Operating income	57,910	301,323	110,243
Unallocated income (expenses):			
Equity in earnings (loss) from unconsolidated joint ventures	(60)	(193)	17,871
Interest income	8,144	3,363	1,419
General and administrative expenses	(25,387)	(36,306)	(27,142)
Interest expense	(172)		(475)
Other real estate expenses	(5,755)	(9,435)	(14,727)

Income from continuing operations	34,680	258,752	87,189
Income tax expense	(13,297)	(84,026)	(29,990)
Income from discontinued operations			5,928
Net income	$ 21,383	$ 174,726	$ 63,127

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

RESULTS OF OPERATIONS continued

Data from closings for the single-family primary residential and active adult homebuilding segments for the years ended December 31, 2007, 2006 and 2005 is summarized as follows:

Years ended December 31,	Number of Units	Revenues	Average Price Per Unit
2007			
Primary residential	535	$ 154,599	$ 289
Active adult communities	245	81,330	$ 332
Total	780	$ 235,929	$ 302
2006			
Primary residential	1,347	$ 435,539	$ 323
Active adult communities	775	231,039	$ 298
Total	2,122	$ 666,578	$ 314
2005			
Primary residential	1,236	$ 303,798	$ 245
Active adult communities	678	141,687	$ 209
Total	1,914	$ 445,485	$ 233

Data from contracts signed for the single-family primary residential and active adult homebuilding segments for the years ended December 31, 2007, 2006 and 2005 is summarized as follows:

Years ended December 31,	Gross Number of Contracts Signed	Cancellations	Contracts Signed, Net of Cancellations	Dollar Value	Average Price Per Unit
2007					
Primary residential	508	233	275	$ 60,060	$ 218
Active adult communities	154	51	103	31,707	$ 308
Total	662	284	378	$ 91,767	$ 243
2006					
Primary residential	794	425	369	$ 136,118	$ 369
Active adult communities	329	92	237	85,089	$ 359

Total	1,123	517	606	$ 221,207	$ 365
2005					
Primary residential	1,275	195	1,080	$ 345,726	$ 320
Active adult communities	761	50	711	209,644	$ 295
Total	2,036	245	1,791	$ 555,370	$ 310

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

RESULTS OF OPERATIONS continued

Backlog for the single-family primary residential and active adult homebuilding segments as of December 31, 2007, 2006 and 2005 is summarized as follows:

As of December 31,	Number of Units	Dollar Volume	Average Price Per Unit
2007			
Primary residential	72	$ 21,062	$ 293
Active adult communities	75	24,069	$ 321
Total	147	$ 45,131	$ 307
2006			
Primary residential	332	$ 115,600	$ 348
Active adult communities	217	73,692	$ 340
Total	549	$ 189,292	$ 345
2005			
Primary residential	1,310	$ 415,020	$ 317
Active adult communities	755	219,643	$ 291
Total	2,065	$ 634,663	$ 307

The number of net housing contracts signed during the year ended December 31, 2007 compared to the same period in 2006 declined by 37.6%, while the dollar value of housing contracts signed declined by 58.5%. The number of net housing contracts signed during the year ended December 31, 2006 compared to the same period in 2005 declined by 66.2%, while the dollar value of housing contracts signed declined by 60.2%. The decline in housing contracts signed for the year ended December 31, 2007 continues to reflect the weak market for new residences in the geographic areas where our communities are located. Our communities are located in areas of Florida and Arizona where there is an excess of units for sale and an increasing use of various sales incentives by residential builders in our markets, including Avatar. We continue to experience significant cancellations of home sales contracts. During the year ended December 31, 2007, cancellations of previously signed contracts totaled 284 compared to 517 during the year ended December 31, 2006. As a percentage of the gross number of contracts signed, this represents 43% and 46%, respectively.

During the third quarter of 2007, we implemented a sales program designed to generate sales activity by building speculative homes in certain of our communities. As of December 31, 2007, our inventory of unsold (speculative) homes, both completed and under construction, was 241 units compared to 310 units as of December 31, 2006. As of December 31, 2007, approximately 45% of unsold homes was completed compared to approximately 100% as of December 31, 2006.

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RESULTS OF OPERATIONS continued

During the year ended December 31, 2007 compared to the year ended December 31, 2006, the number of homes closed decreased by 63.2% and the related revenues decreased by 64.6%. We anticipate that we will close in excess of 80% of the homes in backlog as of December 31, 2007 during the subsequent 12-month period, subject to cancellations by purchasers prior to scheduled delivery dates. We do not anticipate a meaningful improvement in our markets in the near term. It is not our intention to implement programs which may offer some short-term earnings advantage, but which could compromise our long-term objectives.

We achieved an increase in home closings during the year ended December 31, 2006 compared to the year ended December 31, 2005. The number of houses closed increased by 10.9% and the dollar volume by 49.6% for the year ended December 31, 2006 compared to the same period in 2005.

In general, prices of homes sold during 2007 ranged from approximately $125 to $900 in our primary residential operations. At Solivita and Solivita West, prices ranged from approximately $140 to approximately $760 on homes sold during 2007. Closings on to-be-built homes generally occur within 180 to 210 days from sale. Closings on speculative homes generally occur within 30 to 60 days from sale.

Fiscal Year 2008

During 2007 our homebuilding results reflect the continued deterioration of conditions in the Florida and Arizona housing markets characterized by record levels of new and existing homes available for sale, reduced affordability and diminished buyer confidence. The number of investor-owned units for sale, the tightening of mortgage underwriting standards, the availability of significant incentives, the difficulty of potential purchasers in selling their existing homes at prices they are willing to accept and the significant amount of standing inventory continue to adversely affect both the number of homes we have been able to sell and the prices at which we are able to sell them. As a result, our communities continue to experience lower traffic, significant cancellations, higher incentives and lower margins as compared to prior years. Beginning in 2007 and continuing into 2008, due to the worsening credit market, we have experienced additional tightening of the availability of mortgage financing for buyers in our communities, a rise in foreclosures and pending foreclosures and substantially higher delinquencies on homeowner associations and club membership dues. Our profits on the sale of homes continue to decline as we offer lower prices and higher discounts to meet with competitive pricing and declining demand. We believe that housing market conditions will continue to be challenging and may deteriorate further during 2008. We cannot predict the duration or ultimate severity of these challenging conditions.

In order to adjust to changing market conditions, during 2006, we began designing new homes with lower square footage and smaller lots to enable us to sell lower priced houses. We introduced a new multi-family product at Solivita in the fourth quarter of 2006, a smaller product for our Poinciana scattered lot program in February 2007 and smaller lots and smaller houses in Bellalago late in the fourth quarter 2007. Additionally, we have taken measures to adjust our overhead, which includes the consolidation of field operations and a reduction of staff. As of December 31, 2007, we reduced our headcount by 45.1% to 321 full-time and part-time employees from 585 full-time and part-time employees as of December 31, 2005.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

RESULTS OF OPERATIONS continued

We continue to manage Avatar and its assets for the long-term benefit of our shareholders. Our strategy includes the monetization of commercial and industrial land from our holdings, and the possible sale of certain residential land to bring forward future cash flows from what would otherwise constitute long-term residential developments. In our opinion, our balance sheet strategy will allow us to react to opportunities that may arise in the future. While the level and duration of the downturn cannot currently be predicted, we anticipate that these conditions will continue to have an adverse effect on our earnings for 2008.

Anticipating a downturn in our markets, we have not contracted to acquire any new land for community development operations since January 2005. Moreover, we entered into contracts to sell two of our remaining three multi-family condominium sites in 2005, realizing profits of $4,100 in 2005 and $4,327 in 2006. With approximately $192,000 in cash at December 31, 2007 and available credit capacity, we believe we are in a position to take advantage of opportunities that may be presented during this challenging period.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* , we carry long-lived assets at the lower of the carrying amount or fair value. We evaluate an asset for impairment when indicators of impairment are present. Impairment is evaluated by estimating the sum of future undiscounted cash flows against the carrying amount of the assets. If the sum of future undiscounted cash flows is less than the carrying amount of the assets, then the assets are not recoverable and an impairment loss is recognized. Fair value, for purposes of calculating impairment, is measured based on estimated future cash flows, discounted at a market rate of interest. During 2007, the continued deterioration of conditions in the Florida and Arizona housing markets caused us to evaluate the carrying value of our long-lived assets in our communities. Based on these evaluations, we recognized during 2007 impairment losses of approximately $2,500 primarily related to speculative inventory of two communities which are closing out. This impairment loss is included under the caption Real Estate Expenses in the consolidated statement of income for the year ended December 31, 2007 and is included in the Primary Residential reportable segment in accordance with SFAS No. 131 *Disclosure about Segments of an Enterprise and Related Information.*

Fiscal Year 2007 Compared to Fiscal 2006

Net income for the years ended December 31, 2007 and 2006 was $21,383 or $2.22 per diluted share ($2.57 per basic share) and $174,726 or $16.59 per diluted share ($21.33 per basic share), respectively. The decrease in net income for 2007 compared to 2006 was primarily due to decreased profitability of primary residential operations; active adult operating results; commercial and industrial and other land sales; and other operations. This decrease was partially mitigated by increases in interest income as well as decreases in general and administrative expenses and other real estate expenses.

Revenues from primary residential operations decreased $288,845 or 64.5% during 2007 compared to 2006. Expenses from primary residential operations decreased $179,520 or 56.7% during 2007 compared to 2006. The decrease in revenues is primarily attributable to decreased closings at Poinciana, Bellalago and Rio Rico partially mitigated by the commencement of closings at Terralargo. The decrease in expenses is attributable to lower volume of closings partially mitigated by impairment losses of approximately $2,500 recognized on the carrying value of inventory (as discussed above).

Revenues from active adult operations decreased $149,686 or 61.9% during 2007 compared to 2006. Expenses from active adult operations decreased $104,384 or 57.1% during 2007 compared to 2006. The decrease in revenues is attributable to decreased closings partially mitigated by higher average closing prices. The decrease in expenses is attributable to lower volume of closings.

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Revenues from commercial and industrial and other land sales decreased $30,868 during 2007 compared to 2006 excluding the 2006 sale of the Ocala Property. For the year ended December 31, 2007, pre-tax profits from sales of commercial, industrial and other land was $21,870 on revenues of $27,476. For the year ended December 31, 2007, pre-tax profits from commercial and industrial land were $19,939 on aggregate revenues of $23,577. Pre-tax profits on sales of other land during the year ended December 31, 2007 were $1,931 on aggregate revenues of $3,899. For the year ended December 31, 2006, pre-tax profits on sales of commercial and industrial land were $39,927 on aggregate sales of $44,110. Also during 2006, pre-tax profits on sales of other land were $64,051 on aggregate sales of $76,171. Included in other land sales is the sale of the Ocala Property. The aggregate sales price for the Ocala Property was $75,122 which resulted in pre-tax profit of approximately $62,800. We also realized, during 2006, pre-tax profits of $4,327 from the collection of a promissory note and accrued interest totaling $13,185 from the sale of our equity interest in the Regalia Joint Venture which was sold on June 30, 2005. Expenses from commercial and industrial and other land sales decreased $19,555 during 2007 compared to 2006. Included in the caption Expenses are cost of land sold, commissions related to these sales and consulting and legal fees. The amount and types of commercial and industrial and other land sold vary from year to year depending upon demand, ensuing negotiations and the timing of the closings of these sales.

Revenues from other operations decreased $4,190 or 56.6% during 2007 compared to 2006. Expenses from other operations decreased $1,839 or 41.6% during 2007 compared to 2006. The decreases in revenues and expenses are primarily attributable to decreased operating results from our title insurance agency operations due to reduced closings.

Equity in earnings (loss) from unconsolidated joint ventures represents our proportionate share of profits and losses from our investment in unconsolidated joint ventures whereby we account for our investment under the equity method. The decline as compared to the corresponding periods in the prior year was primarily attributable to the substantial completion of the Ocean Palms Joint Venture during 2006.

Interest income increased $4,781 or 142.2% during 2007 compared to 2006. The increase was primarily attributable to higher balances of cash and cash equivalents during 2007 as compared to 2006.

General and administrative expenses decreased $10,919 or 30.1% during 2007 compared to 2006. The decrease was primarily due to decreases in share-based compensation expense partially mitigated by increases in professional fees. Compensation expense related to the earnings participation award of ($406) and $13,478 was recorded for the years ended December 31, 2007 and 2006, respectively. During 2007, we reversed compensation expense previously recognized to adjust the amount of the stock award to the estimated number of shares as of November 12, 2007 (first date of issuance) in accordance with SFAS No. 123(R).

Interest expense increased $172 or 100% for 2007 compared to 2006. The increase in interest expense for 2007 is due to the decrease in amount of interest expense capitalized due to decreases in development and construction activities in our various projects.

Other real estate expenses, represented by real estate taxes and property maintenance not allocable to specific operations, decreased by $3,680 or 39.0% during 2007 compared to 2006. The decrease is primarily attributable to a goodwill impairment loss of $654 recognized during 2006. Also contributing to the decrease was a reduction in charges related to the required utilities improvements of more than 8,000 residential homesites in Poinciana and Rio Rico substantially sold prior to the termination of the retail homesite sales programs in 1996. During 2007, we recognized charges of $386 compared to $1,086 during 2006. These charges were based on third-party engineering evaluations.

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RESULTS OF OPERATIONS continued

Income tax expense was provided for at an effective tax rate of 38.3% for 2007 compared to 32.5% for 2006. As of December 31, 2006, based on our tax planning strategy with respect to the deferred income tax liabilities of $23,798 from the sale of the Ocala Property, we determined that certain of our gross deferred tax assets, which had an associated valuation allowance of $14,053, were more-likely-than-not realizable resulting in the elimination of such valuation allowance. We believe the tax planning strategy is prudent and feasible and we have the ability and intent to purchase and sell, if necessary, replacement property to realize these deferred tax assets. Reference is made to the Income Taxes note to the Consolidated Financial Statements included in Item 8 of Part II of this Report.

Fiscal Year 2006 Compared to Fiscal 2005

Net income for the years ended December 31, 2006 and 2005 was $174,726 or $16.59 per diluted share ($21.33 per basic share) and $63,127 or $6.28 per diluted share ($7.83 per basic share), respectively. The increase in net income for 2006 compared to 2005 was primarily due to increased profitability of primary residential operations, active adult operating results and commercial and industrial and other land sales, in particular the sale of the Ocala property in December 2006. Also contributing to the increase in net income is a decrease in other real estate expenses. The increase in net income for 2006 was partially mitigated by a decrease in earnings recognized from unconsolidated joint ventures and an increase in general and administrative expenses.

Revenues from primary residential operations increased $137,879 or 44.5% during 2006 compared to 2005. Expenses from primary residential operations increased $73,890 or 30.5% during 2006 compared to 2005. The increase in revenues is primarily attributable to increased closings at Bellalago, Cory Lake Isles and Rio Rico, as well as the commencement of closings at Sterling Hill and Woodslanding and higher average price per unit closed in all primary residential communities. The increase in expenses is attributable to higher volume of closings and the associated costs related to price increases for materials and services.

Revenues from active adult operations increased $93,351 or 62.9% during 2006 compared to 2005. Expenses from active adult operations increased $49,398 or 37.0% during 2006 compared to 2005. The increase in revenues is primarily due to the increased number of closings, higher average price per unit and increased activity at the amenity operations at Solivita. The increase in expenses in active adult operations is attributable to higher volume of closings and the associated costs related to the higher volume of closings at Solivita and price increases for materials and services.

Revenues from commercial and industrial and other land sales increased $85,011 or 175.4% during 2006 compared to 2005. For the year ended December 31, 2006, pre-tax profits on sales of commercial and industrial land were $39,927 on aggregate sales of $44,110. Also during 2006, pre-tax profits on sales of other land were $64,051 on aggregate sales of $76,171. Included in other land sales is the sale of the Ocala Property. The aggregate sales price for the Ocala Property was $75,122 which resulted in pre-tax profit of approximately $62,800. We also realized, during 2006, pre-tax profits of $4,327 from the collection of a promissory note and accrued interest totaling $13,185 from the sale of our equity interest in the Regalia Joint Venture which was sold on June 30, 2005. Expenses from commercial and industrial and other land sales increased $2,476 or 10.9% during 2006 compared to 2005. Included in the caption Expenses are cost of land sold, commissions related to these sales and consulting and legal fees. The amount and types of commercial and industrial and other land sold vary from year to year depending upon demand, ensuing negotiations and the timing of the closings of these sales.

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Revenues from other operations increased $737 or 11.1% during 2006 compared to 2005. Expenses from other operations increased $134 or 3.1% during 2006 compared to 2005. The increase in revenues is primarily due to increased revenues from our title insurance agency operations. The increase in expenses is primarily attributable to increased operating expenses associated with our title insurance agency operations.

Equity in earnings from unconsolidated joint ventures represent our proportionate share of profits and losses from our investment in unconsolidated joint ventures whereby we account for our investment under the equity method. We recognized $1,573 and $17,955 of earnings for 2006 and 2005, respectively, from our investment in the Ocean Palms Joint Venture. Earnings from the Ocean Palms Joint Venture are recognized on the percentage of completion method of accounting, and as of December 31, 2006 substantially all earnings have been recognized. Construction of the highrise condominium building was completed during 2006. Closings of units commenced in February 2006 and were completed during the second quarter of 2006. Also during 2006, an unconsolidated joint venture decided to terminate an option agreement to acquire property in Florida which resulted in a write-off of our investment of $1,765 in this joint venture during 2006. As of February 28, 2007, we do not have any pending options or contracts for the purchase of land.

Interest income increased $1,944 or 137.0% for 2006 compared to 2005. The increase was primarily attributable to higher interest rates earned on cash and cash equivalents as well as higher cash and cash equivalents balances during 2006 compared to 2005.

General and administrative expenses increased $9,164 or 33.8% for 2006 compared to 2005. The increases were primarily due to increases in incentive compensation and compensation expense.

Interest expense decreased $475 or 100% for 2006 compared to 2005. The decrease in interest expense for 2006 is due to the increase in amount of interest expense capitalized due to increases in development and construction activities in our various projects.

Other real estate expenses, which represent real estate taxes and property maintenance not allocable to specific operations, decreased by $5,292 or 35.9% for 2006 compared to 2005. During the first quarter of 2005, we began evaluating the required utilities improvements of more than 8,000 residential homesites in Poinciana and Rio Rico substantially sold prior to the termination of retail homesite sales programs in 1996 and obtained third-party engineer evaluations which concluded during the third quarter of 2005. Based on these evaluations we recorded charges of approximately $7,872 for 2005. During 2006, we continued to obtain third-party engineer evaluations and recorded charges of approximately $1,086 for 2006. 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.

During the fourth quarter of 2005, we sold the stock of Rio Rico Utilities, Inc., our water and wastewater utilities operations in Rio Rico, Arizona, for a sales price of approximately $8,674. The pre-tax loss of approximately $2,472 on this sale and the operating results for 2005 and 2004 have been reported as discontinued operations in the accompanying consolidated statements of income.

During the fourth quarter of 2005, we closed on the sale of substantially all of the assets of our shopping center located in Poinciana for a sales price of approximately $6,000. The pre-tax gain of approximately $4,702 on this sale and the operating results for 2005 have been reported as discontinued operations in the accompanying consolidated statements of income.

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Income tax expense was provided for at an effective tax rate of 32.5% for 2006 compared to 34.8% for 2005. As of December 31, 2006, based on our tax planning strategy with respect to the deferred income tax liabilities of $23,798 from the sale of the Ocala Property, we determined that certain of our gross deferred tax assets, which had an associated valuation allowance of $14,053, were more-likely-than-not realizable resulting in the elimination of such valuation allowance. We believe the tax planning strategy is prudent and feasible and we have the ability and intent to purchase and sell, if necessary, replacement property to realize these deferred tax assets. During 2005, we decreased the valuation allowance by $2,947 which is primarily attributable to the tax over book basis of land inventory in Poinciana and to the tax over book basis of depreciable assets which were demolished being more-likely-than-not realizable. Reference is made to the Income Taxes note to the Consolidated Financial Statements included in Item 8 of Part II of this Report.

LIQUIDITY AND CAPITAL RESOURCES

Our real estate business strategy is designed to capitalize on our competitive advantages and emphasize higher profit margin businesses by concentrating on the development and management of active adult communities and primary residential communities, and utilizing third-party commercial and industrial development to maximize the value of our residential community developments. We also seek to identify additional sites that are suitable for development consistent with our business strategy and anticipate that we will acquire or develop them directly or through joint venture, partnership or management arrangements. Our primary business activities are capital intensive in nature. Our significant uses of capital include: construction (including the Parkway); community infrastructure; property and equipment; selling, general and administrative expenses; and funding of debt service requirements.

As of December 31, 2007, the amount of cash available totaled $192,258, substantially generated through homebuilding operations, sales of commercial and industrial properties, and sales of other properties, including the Ocala property in December 2006.

Our operating cash flows fluctuate relative to the status of development within existing communities, expenditures for land, new developments or other real estate activities, and sales of various homebuilding product lines within those communities and other developments. From time to time we have generated, and may continue to generate, additional cash flow through sales of non-core assets.

In 2007, net cash provided by operating activities amounted to $29,511, primarily as a result of net income of $21,383, the decrease in land and other inventories of $34,119 and the decrease in receivables of $6,594. Partially offsetting net cash provided by operating activities is the decrease in accounts payable and accrued liabilities of $36,404 and a reduction in customer deposits of $13,435. Net cash used in investing activities amounted to $32,267 as a result of expenditures of $8,318 for investments in property and equipment primarily for amenities, and expenditures of $23,648 on the Parkway. Net cash used by financing activities of $8,746 resulted from the payment of $6,159 for withholding taxes withheld related to restricted stock units and earnings participation stock awards, the repurchase for $4,857 of $5,000 principal amount of 4.50% Notes, the repayment of $959 in real estate debt and the purchase of $965 of treasury stock. Partially offsetting net cash used by financing activities is proceeds of $2,100 from the exercise of stock options and $2,094 as a result of excess income tax benefits from the exercise of stock options and restricted stock units.

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LIQUIDITY AND CAPITAL RESOURCES continued

In 2006, net cash provided by operating activities amounted to $167,807, primarily as a result of net income of $174,726 and distributions of earnings from an unconsolidated joint venture of $29,038, proceeds from the collection of a promissory note and accrued interest totaling $13,185 from the sale of our equity interest in the Regalia Joint Venture and proceeds of $11,092 from the collection of receivables. Partially offsetting net cash provided by operating activities is the increase in land and other inventories of $51,571 and decrease in customer deposits of $39,446. Contributing to the increase in inventories for 2006 were land acquisitions of approximately $18,300 and expenditures on construction and land development of $33,271. Net cash provided by investing activities amounted to $4,266 primarily as a result of distributions of capital from an unconsolidated joint venture of $20,000 and return of advances of $4,910 from a promissory note to our Ocean Palms Joint Venture member offset by expenditures of $12,878 for investments in property and equipment primarily for amenities, and expenditures of $6,733 related to the Parkway, as well as expenditures of $1,033 for investments in unconsolidated joint ventures. Net cash used in financing activities of $6,792 resulted from repayment of $17,182 in real estate debt, partially offset by borrowings of $10,000 from a revolving line of credit and proceeds of $250 from the exercise of stock options.

In 2005, net cash used in operating activities amounted to $6,211, primarily as a result of increases in land and other inventories of $85,108 partially offset by net income of $63,127 and an increase in customer deposits of $11,994. Contributing to the increase in inventories for 2005 were land acquisitions of $45,817 and expenditures on construction and land development of approximately $39,291. Net cash provided by investing activities amounted to $13,405, primarily as a result of net proceeds of $23,844 from the sales of Rio Rico Utilities, our shopping center and our mini storage facility in Poinciana, offset by expenditures of $1,012 for property and equipment, expenditures of $925 on the Parkway, and investments in unconsolidated joint ventures of $8,502. Net cash provided by financing activities of $1,787 resulted from borrowings of $86,933 from the Unsecured Credit Facility, partially offset by repayment of real estate debt of $82,735, the purchase of $428 of treasury stock as well as $1,708 used in connection with the issuance of restricted stock.

As of December 31, 2007, the amount of our borrowings totaled $130,766 compared to our borrowings of $136,925 as of December 31, 2006. At December 31, 2007, our borrowings of $130,766 included $114,800 of 4.50% Convertible Senior Notes due 2024 (the 4.50% Notes), $15,730 of 6% purchase money mortgage due 2009 and $236 of 5.50% community development district term bond obligations due 2010. On January 4, 2008, we repaid in full the $15,730 purchase money mortgage; there was no pre-payment penalty, as per the terms of the agreement.

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

Each $1 in principal amount of the 4.50% Notes is convertible, at the option of the holder, at a conversion price of $52.63, or 19.0006 shares of our common stock, upon the satisfaction of one of the following conditions: a) during any calendar quarter (but only during such calendar quarter) commencing after June 30, 2004 if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 120% of the conversion price per share of common stock on such last day; or b) during the five business day period after any five-consecutive-trading-day period in which the trading price per $1 principal amount of the 4.50% Notes for each day of that period was less than 98% of

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LIQUIDITY AND CAPITAL RESOURCES continued

the product of the closing sale price for our common stock for each day of that period and the number of shares of common stock issuable upon conversion of $1 principal amount of the 4.50% Notes, provided that if on the date of any such conversion that is on or after April 1, 2019, the closing sale price of Avatar s common stock is greater than the conversion price, then holders will receive, in lieu of common stock based on the conversion price, cash or common stock or a combination thereof, at our option, with a value equal to the principal amount of the 4.50% Notes plus accrued and unpaid interest, as of the conversion date. The closing price of Avatar s common stock exceeded 120% ($63.156) of the conversion price for 20 trading days out of 30 consecutive trading days as of the last trading day of the fourth quarter of 2006, as of the last trading day of the first quarter of 2007 and as of the last trading day of the second quarter of 2007. Therefore, the 4.50% Notes became convertible for the quarter beginning January 1, 2007, for the quarter beginning April 1, 2007 and for the quarter beginning July 1, 2007. During the third and fourth quarters of 2007, the closing price of Avatar s common stock did not exceed 120% ($63.156) of the conversion price for 20 trading days out of 30 consecutive trading days; therefore, the 4.50% Notes were not convertible for the quarters beginning October 1, 2007 and January 1, 2008. During 2007, $200 principal amount of the 4.50% Notes were converted into 3,800 shares of Avatar common stock. During 2007, Avatar repurchased $5,000 principal amount of the 4.50% Notes.

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

In September 2005, we entered into a Credit Agreement and a Guaranty Agreement for a $100,000 (expandable up to $175,000), senior unsecured revolving credit facility (the Unsecured Credit Facility), by and among our wholly-owned subsidiary, Avatar Properties Inc. (as Borrower), Wachovia Bank, National Association (as Administrative Agent and Lender), and certain other financial institutions as lenders. Payments of all amounts due under the Unsecured Credit Facility are guaranteed by Avatar Holdings Inc. pursuant to the Restated Guaranty Agreement dated as of October 21, 2005. Interest on borrowings under the Unsecured Credit Facility ranges from LIBOR plus 1.75% to 2.25%. Our borrowing rate under the Unsecured Credit Facility was 6.35% as of December 31, 2007.

The total amount of the Unsecured Credit Facility, as amended, is $125,000; however, so long as no default or event of default has occurred and is continuing, increases may be requested, subject to lender approval, up to $175,000. This Unsecured Credit Facility, as amended, includes a $7,500 swing line commitment and has a $50,000 sublimit for the issuance of standby letters of credit. The Unsecured Credit Facility contains customary representations, warranties and covenants limiting liens, guaranties, mergers and consolidations, substantial asset sales, investments and loans. In addition, the Unsecured Credit Facility contains covenants to the effect that we (i) will maintain a minimum consolidated tangible net worth (as defined in the Unsecured Credit Facility), (ii) shall maintain an adjusted EBITDA/debt service ratio (as defined in the Unsecured Credit Facility) of not less than 2.75 to 1.0, (iii) will not permit the leverage ratio (as defined in the Unsecured Credit Facility) to exceed 2.0 to 1.0, and (iv) the sum of the net book value of unentitled land, entitled land, land under development and finished lots shall not exceed 150% of consolidated tangible net worth. Borrowings under the Unsecured Credit Facility may be limited based on the amount of borrowing base available. We are in compliance with these covenants as of December 31, 2007. The Unsecured Credit Facility also contains a covenant whereby the sum of speculative homes and models cannot exceed 25% of the aggregate number of unit sales for the trailing twelve month period. As of December 31, 2007, we exceeded this limitation. During the fourth quarter of 2006, we obtained a waiver of this requirement through the entirety of 2007. During 2007, we obtained an extension of this waiver through December 31, 2008.

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LIQUIDITY AND CAPITAL RESOURCES continued

The maturity date of the Unsecured Credit Facility is September 20, 2010. As of December 31, 2007, we had no borrowings outstanding under the Unsecured Credit Facility, had issued letters of credit totaling $21,819 and had $103,181 in availability for borrowing under the Unsecured Credit Facility, all of which we could have borrowed without violating any of our debt covenants.

Performance bonds, issued by third party entities, are used primarily to guarantee our performance to construct improvements in our various communities. As of December 31, 2007, we had outstanding performance bonds of approximately $13,580. We do not believe that it is likely any of these outstanding performance bonds will be drawn upon.

In conjunction with the acquisition of certain undeveloped land in Florida during November 2004, we paid $3,000 in cash and the remaining balance of $15,730 in the form of a purchase money note. The purchase money note is secured by a mortgage on this land. This note matures November 2009. Under the original terms of the note, the interest rate is 2% per annum above prime rate of interest published from time to time in the *Wall Street Journal* adjusted every six months during the term of the note. However, effective February 1, 2006, the purchase money note was amended to fix the interest rate at 6% for the period February 1, 2006 through January 31, 2008. From February 1, 2008 through maturity, the interest rate reverts to a variable rate as previously described. On January 4, 2008 the balance of this note was paid in full; there was no pre-payment penalty, as per the terms of the agreement.

In conjunction with the acquisition of developed land in Florida in September 2005 and September 2004, we assumed approximately $5,900 of Community Development District term bond obligations due 2010. These term bonds are secured by the land and bear an interest rate of 5.50%. As of December 31, 2007, we had $236 outstanding under these obligations.

During the year ended December 31, 2007, we repurchased $965 of our common stock representing 19,409 shares of our common stock and $5,000 principal amount of the 4.50% Notes under previous authorizations by the Board of Directors to make purchases of common stock and/or the 4.50% Notes from time to time, in the open market, through privately negotiated transactions or otherwise, depending on market and business conditions and other factors. As of December 31, 2007, the remaining authorization is $9,864.

At our communities of Solivita and Solivita West, tax-exempt bond financing is utilized to fund and manage portions of public infrastructure consisting primarily of stormwater management facilities, drainage works, irrigation facilities, and water and wastewater utilities. The bonds were issued by the Poinciana Community Development District and Poinciana West Community Development District (the CDDs), independent special-purpose units of county government, established and operating in accordance with Chapter 190 of the Florida Statutes. The bonds are serviced by non-ad valorem special assessments levied on certain developable and developed property within Solivita and Solivita West, and the assessments constitute a liability against the developable and developed property and are intended to secure the CDDs ability to meet bond servicing obligations. In accordance with EITF 91-10, *Accounting for Special Assessments and Tax Increment Financing* , we record and pay the assessments on parcels owned by Avatar when such assessments are fixed and determinable. The assessments are not a liability of Avatar or any other landowner within the CDDs but are obligations secured by the land. For the developable and developed parcels Avatar owns within the CDDs, Avatar pays the assessments until such parcels are sold. After a sale by Avatar, Avatar no longer pays the assessments on the parcel sold and any future assessments become the responsibility of the new owner and its successors in title until the bonds are paid in full.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

LIQUIDITY AND CAPITAL RESOURCES continued

In December 2006, we entered into agreements (the County Agreements) with Osceola and Polk Counties in Florida for us to develop and construct a 9.66 mile four-lane road in Osceola and Polk Counties, to be known as the Poinciana Parkway (the Parkway). It will include a 4.15 mile segment to be operated as a private toll road. We will pay the costs associated with the right-of-way acquisition, development and construction of the Parkway. Except for the toll road, the Parkway will be owned, maintained and operated by the Counties upon completion. We will own the private toll road, and under the County Agreements we have the right to sell it to a third party together with our rights to operate the toll road. We have retained an investment banking firm to identify potential investors in the toll road.

Under the County Agreements, we were to complete the Parkway by October 31, 2008, subject to delays beyond our control, including permitting delays. While we have acquired most of the rights-of-way and all of the primary permits necessary to construct the Parkway, we have notified the Counties that the completion of construction will be delayed at least until February 28, 2010, pending further required governmental action. It is our understanding that the delays that we have encountered are contemplated by the County Agreements and entitle us to the extension.

In order to address environmental concerns of various governmental agencies and environmental organizations, we changed the plans for the Parkway to include 4,200 linear feet of trestles, which will result in increased construction costs. Our current estimate of the right-of-way acquisition, development and construction costs for the Parkway approximate $170,000 to $200,000. However, no assurance of the ultimate amount can be given at this stage. As of December 31, 2007, approximately $32,000 has been expended. In addition to our current liquidity, we are exploring obtaining additional financing to fund the completion of the Parkway. There can be no assurances that we will be able to obtain such financing or, if available, at favorable terms.

Assuming that no additional significant adverse changes in our business, or capital and credit markets, occur, we anticipate that cash on hand, cash flow generated through homebuilding and related operations, sales of commercial and industrial land, sales of non-core assets and external borrowings, positions us to be able to continue to acquire new development opportunities and expand operations at our existing communities, fund the right-of-way acquisition, development and construction of the Parkway, and commence appropriate development of new projects on properties currently owned and/or to be acquired. (See Results of Operations Fiscal Year 2007.)

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

OFF-BALANCE SHEET ARRANGEMENTS

In general, our operations do not rely on transactions categorized as off-balance sheet arrangements. However, from time to time we do enter into certain joint venture transactions which would be deemed as off-balance sheet arrangements.

As of December 31, 2007, we own an equity interest in a joint venture formed for the acquisition and/or development of land in which we do not have a controlling interest. This entity meets the criteria for being a variable interest entity. We evaluated the impact of FIN 46(R) as it relates to this joint venture and determined that we are not the primary beneficiary since we are not the entity that will absorb a majority of the losses and/or receive a majority of the expected residual returns (profits). Therefore, this joint venture is recorded using the equity method of accounting. Our investment in this entity as of December 31, 2007 and 2006 is the amount invested of $7,887 and $7,686, respectively. The primary activity of this joint venture is to develop lots on land acquired by the joint venture. This entity has assets consisting primarily of land and land development totaling approximately $15,708 as of December 31, 2007 and has had minimal operations to date.

As of December 31, 2007, this unconsolidated joint venture was financed by partner equity and does not have third-party debt. In addition, we have not provided any guarantees to this joint venture or our joint venture partners.

DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table reflects contractual obligations as of December 31, 2007:

		Payments due by period			
Contractual Obligations (1)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 years
Long-Term Debt Obligations	$130,766	$	$15,966	$	$114,800
Interest Obligations on Long-Term Debt	$ 83,995	$ 5,189	$10,356	$10,332	$ 58,118
Capital Lease Obligations (includes interest)	$ 289	$ 248	$ 41	$	$
Operating Lease Obligations	$ 4,581	$ 1,583	$ 2,602	$ 320	$ 76
Purchase Obligations Residential Development	$ 32,042	$32,042	$	$	$
Compensation Obligations	$ 17,579	$ 6,532	$10,273	$ 774	$
Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP	$ 20,687	$ 1,000	$ 2,000	$ 2,000	$ 15,687

(1) Excluded from this table are future costs related to the Parkway (described above) since timing and amount of future costs are currently estimated.

Long-term debt obligations represent:

$15,730 outstanding under a purchase money mortgage associated with land acquired in Poinciana, payable by 2009, however, this obligation was paid off during January 2008

$236 community development district obligations associated with Sterling Hill in Hernando County, Florida, payable by 2010

$114,800 outstanding under the 4.50% Convertible Senior Notes due 2024

$0 outstanding under the Unsecured Credit Facility due 2010

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands except per share data) continued

DISCLOSURE OF CONTRACTUAL OBLIGATIONS continued

Purchase obligations (residential development) represent purchase commitments of $32,042 as of December 31, 2007 for land development and construction expenditures, substantially for homebuilding operations which relate to contracts for services, materials and supplies, which obligations generally relate to corresponding contracts for sales of homes. Compensation obligations represent compensation to executives pursuant to employment contracts.

Other long-term contractual obligations represent the estimated cost-to-complete of certain utilities improvements in areas within Poinciana and Rio Rico where homesites have been sold.

EFFECTS OF INFLATION AND ECONOMIC CONDITIONS

Our operations have been negatively affected by inflation and general economic conditions. Adverse changes in employment levels, consumer income, available financing and interest rates may continue to result in fewer sales. A low interest rate environment contributes significantly to the ability of purchasers to obtain financing for home purchases. Higher interest rates and lack of consumer confidence may reduce demand for housing. Also, increasing competition for raw land and development opportunities have resulted in higher prices for raw land and development opportunities. Other economic conditions could affect operations (see Risk Factors).

In addition, the weakening of the residential real estate market, which we believe began in the third quarter of 2005 and has continued to date, has resulted in reduced demand for new single-family and multi-family residences in the geographic areas in which we develop and sell residences. The number of investor-owned units for sale, the tightening of mortgage underwriting standards, the availability of significant incentives, the difficulty of potential purchasers in selling their existing homes at prices they are willing to accept and the significant amount of standing inventory continue to adversely affect both the number of homes we have been able to sell and the prices at which we are able to sell them. As a result, our communities continue to experience lower traffic, increased cancellations, higher incentives and lower margins as compared to prior years. We have experienced additional tightening of the availability of mortgage financing for buyers and a rise in foreclosures and pending foreclosures in our communities. If this situation continues it could result in additional downward pressure on the selling price of homes and a further reduction in the number of homes sold by us which could adversely affect our operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Avatar is subject to market risk associated with changes in interest rates and the cyclical nature of the real estate industry. A majority of the purchasers of our homes finance their purchases through third-party lenders providing mortgage financing or, to some extent, rely upon investment income. In general, housing demand is dependent on home equity, consumer savings, employment and income levels and third-party financing and could be adversely affected by increases in interest rates, unavailability of mortgage financing, increasing housing costs and unemployment levels. The amount or value of discretionary income and savings, including retirement assets, available to home purchasers can be affected by a decline in the capital markets. Fluctuations in interest rates could adversely affect our real estate results of operations and liquidity because of the negative impact on the housing industry. Real estate developers are subject to various risks, many of which are outside their control, including real estate market conditions (both where our communities and homebuilding operations are located and in areas where our potential customers reside), changing demographic conditions, adverse weather conditions and natural disasters, such as hurricanes, tornadoes and wildfires, delays in construction schedules, cost overruns, changes in government regulations or requirements, increases in real estate taxes and other local government fees and availability and cost of land, materials and labor. In addition, Avatar is subject to market risk related to potential adverse changes in interest rates on the Unsecured Credit Facility. The interest rate for the Unsecured Credit Facility fluctuates with LIBOR lending rates, both upwards and downwards. See Notes H and Q (debt payout and fair values) to the Consolidated Financial Statements included in Item 8 of Part II of this Report. (See Item 1A. Risk Factors for further discussion of risks.)

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Item 8 . Financial Statements and Supplementary Data

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of internal control over financial reporting of Avatar Holdings Inc. and subsidiaries as of the end of the period covered by this report based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was effective as of December 31, 2007 to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with United States generally accepted accounting principles.

Ernst & Young LLP, an independent registered public accounting firm, that audited the consolidated financial statements of Avatar Holdings Inc. and subsidiaries included in this annual report, has issued an attestation report on the effectiveness of internal control over financial reporting. The attestation report follows this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

Avatar Holdings Inc.

We have audited Avatar Holdings Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Avatar Holdings Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Avatar Holdings Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007 of Avatar Holdings Inc. and subsidiaries and our report dated March 11, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants
West Palm Beach, Florida
March 11, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
The Board of Directors and Stockholders of
Avatar Holdings Inc.

We have audited the accompanying consolidated balance sheets of Avatar Holdings Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avatar Holdings Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Avatar Holdings Inc. and subsidiaries internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants
West Palm Beach, Florida
March 11, 2008

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AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands)

	December 31 2007	December 31 2006
Assets		
Cash and cash equivalents	$ 192,258	$ 203,760
Restricted cash	3,161	3,637
Receivables, net	7,269	13,863
Land and other inventories	389,457	443,825
Property and equipment, net	56,502	51,611
Parkway under development	31,793	8,145
Investment in unconsolidated joint ventures	8,002	7,583
Prepaid expenses and other assets	18,099	18,553
Deferred income taxes		95
Total Assets	**$ 706,541**	**$ 751,072**
Liabilities and Stockholders Equity		
Liabilities		
Accounts payable	$ 3,882	$ 22,053
Accrued and other liabilities	12,041	43,694
Customer deposits	4,916	18,351
Deferred income taxes	6,546	
Estimated development liability for sold land	20,687	24,693
Notes, mortgage notes and other debt:		
Corporate	114,800	120,000
Real estate	15,966	16,925
Total Liabilities	**178,838**	**245,716**
Commitments and Contingencies		
Stockholders Equity		
Common Stock, par value $1 per share Authorized: 50,000,000 shares Issued: 11,076,644 shares at December 31, 2007 10,725,559 shares at December 31, 2006	11,077	10,726
Additional paid-in capital	227,591	226,013
Retained earnings	365,024	343,641
	603,692	580,380
Treasury stock: at cost, 2,551,232 shares at December 31, 2007 at cost, 2,531,823 shares at December 31, 2006	(75,989)	(75,024)

Total Stockholders Equity		**527,703**		**505,356**
Total Liabilities and Stockholders Equity	**$**	**706,541**	**$**	**751,072**

See notes to consolidated financial statements.

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AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Income
(Dollars in thousands except per-share amounts)

	For the year ended December 31		
	2007	2006	2005
Revenues			
Real estate revenues	$ 281,358	$ 829,606	$ 512,653
Interest income	8,144	3,363	1,419
Other	1,914	2,110	2,776
Total revenues	291,416	835,079	516,848
Expenses			
Real estate expenses	231,117	539,828	419,913
General and administrative expenses	25,387	36,306	27,142
Interest expense	172		475
Total expenses	256,676	576,134	447,530
Equity in earnings (loss) from unconsolidated joint ventures	(60)	(193)	17,871
Income from continuing operations before income taxes	34,680	258,752	87,189
Income tax expense	(13,297)	(84,026)	(29,990)
Income from continuing operations	21,383	174,726	57,199
Discontinued operations:			
Income from discontinued operations (including gain on disposal of $8,322 in 2005)			9,562
Income tax expense			(3,634)
Income from discontinued operations			5,928
Net income	$ 21,383	$ 174,726	$ 63,127
Basic Earnings Per Share:			
Income from continuing operations	$ 2.57	$ 21.33	$ 7.10
Income from discontinued operations			0.73
Net income	$ 2.57	$ 21.33	$ 7.83
Diluted Earnings Per Share:			
Income from continuing operations	$ 2.22	$ 16.59	$ 5.72
Income from discontinued operations			0.56

Net income	$	2.22	$	16.59	$	6.28

See notes to consolidated financial statements.

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AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders Equity (Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Restricted Stock Units	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount
Balance at January 1, 2005	10,581,388	$ 10,581	$ 212,475	($8,013)	$ 105,788	(2,523,259)	($74,596)
Credit for income tax effect of utilizing pre-reorganization deferred income tax assets			241				
Issuances from exercise of stock options and restricted stock units	159,898	160	88				
Shares withheld for statutory minimum withholding taxes related to issuance of restricted stock units	(30,000)	(30)	(1,678)				
Tax benefit from exercise of restricted stock units and stock options			1,639				
Grant of restricted stock units			1,681	(1,681)			
Amortization of restricted stock units				3,111			
Earnings participation stock award			351				
Other share based compensation			76				
Purchase of treasury stock						(8,564)	(428)
Net income					63,127		
Balance at December 31, 2005	10,711,286	10,711	214,873	(6,583)	168,915	(2,531,823)	(75,024)
Credit for income tax effect of utilizing pre-reorganization deferred income tax assets			611				

Issuances from exercise of stock options and restricted stock units	14,273	15	240				
Tax benefit from exercise of restricted stock units			140				
Transfer of unearned restricted stock to additional paid in capital upon adoption of SFAS 123(R)			(6,583)	6,583			
Amortization of restricted stock units and stock options			3,104				
Earnings participation stock award			13,478				
Other share based compensation			150				
Net income					174,726		
Balance at December 31, 2006	10,725,559	10,726	226,013		343,641	(2,531,823)	(75,024)

See notes to consolidated financial statements.

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AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders Equity continued
(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Restricted Stock Units	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount
Issuances from exercise of earnings participation stock award	308,448	$ 308	($714)		$		$
Issuances from exercise of stock options and restricted stock units	177,876	178	1,922				
Shares withheld for statutory minimum withholding taxes related to issuance of restricted stock units and earnings participation stock award	(139,039)	(139)	(6,020)				
Tax benefit from exercise of restricted stock units and stock options			2,094				
Amortization of restricted stock units and stock options			3,964				
Other share based compensation			142				
Conversion of 4.50% Notes	3,800	4	190				
Purchase of treasury stock						(19,409)	(965)
Net income					21,383		
Balance at December 31, 2007	11,076,644	$ 11,077	$ 227,591		$ 365,024	(2,551,232)	($75,989)

There are 10,000,000 authorized shares of $0.10 par value preferred stock, none of which are issued.
See notes to consolidated financial statements.

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AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)

	For the year ended December 31	
	2007	2006