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AVATAR HOLDINGS INC

FORM 10-Q
(Quarterly Report)

Filed 08/14/95 for the Period Ending 06/30/95

Address	395 VILLAGE DRIVE POINCIANA, FL 34759
Telephone	8634277180
CIK	0000039677
Symbol	AVTR
SIC Code	1531 - Operative Builders
Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

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QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] Quarterly report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 1995

or

[ ] Transition Report Pursuant to Section 13 or
15(d) of the Securities Exchange Act of 1934
For the transition period from
_____ to _____

Commission file number 0-7616

I.R.S. Employer Identification Number 23-1739078

Avatar Holdings Inc.

(a Delaware Corporation)

255 Alhambra Circle
Coral Gables, Florida 33134
(305) 442-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,095,102 shares of the Company's common stock ($1.00 par value) were outstanding as of July 31, 1995.

AVATAR HOLDINGS INC. AND SUBSIDIARIES

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 1995	December 31, 1994
Assets		
Cash	$1,871	$4,560
Restricted cash	2,615	1,477
Investments - trading	58,513	51,582
Contracts, mortgage notes and other receivables, net	64,876	71,424
Land and other inventories	133,941	125,637
Property, plant and equipment, net	176,451	172,897
Other assets	18,660	15,835
Regulatory assets	3,641	3,165
Total Assets	$460,568	$446,577
Liabilities and Stockholders' Equity		
Liabilities		
Notes, mortgage notes and other debt:		
Real estate and corporate	$117,915	$102,768
Utilities	39,759	38,194
Estimated development liability for sold land	17,396	19,165
Accounts payable	5,896	5,610
Accrued and other liabilities	29,954	29,114
Deferred customer betterment fees	19,064	19,214
Minority interest in consolidated subsidiaries	9,062	9,059
Total Liabilities	239,046	223,124
Commitments and contingent liabilities		
Contributions in aid of construction	54,751	54,702
Stockholders' Equity		
Common stock, par value $1 per share		
Authorized: 15,500,000 shares		
Issued: 12,715,448 shares	12,715	12,715
Additional paid-in capital	207,271	207,271
Retained earnings	8,758	10,738
	228,744	230,724
Treasury stock, at cost, 3,620,346 shares	61,973	61,973
Total Stockholders' Equity	166,771	168,751
Total Liabilities and Stockholders' Equity	$460,568	$446,577

See notes to consolidated financial statements.

AVATAR HOLDINGS INC. AND SUBSIDIARIES

Consolidated Statements of Operations For the Six Months and Three Months Ended June 30, 1995 and 1994

(Unaudited)

(Dollars in thousands except per share data)

	Six Months		Three Months	
	1995	1994	1995	1994
Revenues				
Real estate sales	$24,448	$22,362	$11,081	$10,836
Deferred gross profit	(544)	(1,229)	(107)	(425)
Utility revenues	15,515	14,850	7,720	7,562
Interest income	4,896	5,693	2,373	2,857
Trading account profit, net	6,221	1,161	3,337	684
Other	310	318	221	194
Total revenues	50,846	43,155	24,625	21,708
Expenses				
Real estate expenses	30,248	23,021	14,838	11,318
Utility expenses	12,241	11,543	6,164	5,884
General and administrative expenses	4,434	5,447	2,264	3,129
Interest expense	5,495	6,319	2,749	3,164
Other	408	407	204	203
Total expenses	52,826	46,737	26,219	23,698
Loss before income taxes	(1,980)	(3,582)	(1,594)	(1,990)
Provision for income taxes	-	255	-	-
Net loss	($1,980)	($3,837)	($1,594)	($1,990)
Per share amounts				
Net loss	($.22)	($.42)	($.18)	($.22)

See notes to consolidated financial statements.

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in Thousands)

	For the six months ended June 30,	
	1995	1994
OPERATING ACTIVITIES		
Net loss	($1,980)	($3,837)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,385	4,010
Deferred gross profit	544	1,229
Provision for current and deferred income taxes	-	255
Cost of sales not requiring cash	1,621	1,306
Trading account	(6,931)	(1,161)
Changes in operating assets and liabilities:		
Restricted cash	(1,138)	67
Principal payments on contracts receivable	10,168	10,547
Receivables	(4,450)	(5,000)
Other receivables	286	234
Inventories	(11,694)	(3,407)
Other assets	(2,825)	(973)
Accounts payable and accrued and other liabilities	500	3,231
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(11,514)	6,501
INVESTING ACTIVITIES		
Investment in property, plant and equipment	(7,890)	(7,096)
NET CASH USED IN INVESTING ACTIVITIES	(7,890)	(7,096)
FINANCING ACTIVITIES		
Net proceeds from revolving lines of credit and long-term borrowings	27,754	9,145
Principal payments on revolving lines of credit and long-term borrowings	(11,039)	(10,218)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	16,715	(1,073)
DECREASE IN CASH	(2,689)	(1,668)
Cash at beginning of period	4,560	7,178
CASH AT END OF PERIOD	$1,871	$5,510

AVATAR HOLDINGS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows -- continued

(Unaudited)

(Dollars in thousands)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	For the six months ended June 30,	
Cash paid during the period for:	1995	1994
Interest (net of amount capitalized of $1,238)	$4,696	$4,788
Income taxes	$1,109	$276

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES

	1995	1994
Contributions in aid of construction	$1,555	$500

See notes to consolidated financial statements.

AVATAR HOLDINGS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands)

Basis of Statement Presentation and Summary of Significant Accounting Policies

The consolidated balance sheets as of June 30, 1995 and December 31, 1994, and the related consolidated statements of operations for the six month and three month periods ended June 30, 1995 and 1994 and the consolidated statements of cash flows for the six months ended June 30, 1995 and 1994 have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statement presentation. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year.

For a complete description of the Company's other accounting policies, refer to Avatar Holdings Inc.'s 1994 Annual Report on Form 10-K and the notes to Avatar's consolidated financial statements included therein.

Reclassifications

Certain amounts presented for 1994 have been reclassified in the financial statements for comparative purposes.

Net Loss Per Common Share

For the six and three months ended June 30, 1995 and 1994, net loss per common share is computed on the basis of the weighted average number of shares outstanding of 9,095,102.

Investments - trading

The Company classifies all of its investment portfolio as trading. This category is defined as including debt and marketable equity securities held for resale in anticipation of earning profits from short-term movements in market prices. Trading account securities are carried at fair market value, and both realized and unrealized gains and losses are included in net trading account profit. Fair values for actively traded debt securities and equity securities are based on quoted market prices on national markets. Fair values for thinly traded investment securities are generally based on prices quoted by brokerages.

Avatar's investment portfolio at June 30, 1995 and December 31, 1994 included corporate bonds rated B- or above by Moody's and/or Standard and Poor's, non-rated bonds of companies which are in bankruptcy and have defaulted as to payments of principal and interest on such bonds, equity securities, money market accounts and U.S. Government and Agency securities. The portfolio also includes obligations for securities which have been sold that the Company does not own and will, therefore, be obligated to purchase at a future date. Such obligations have been recorded at the fair market value of the securities and contain an element of market risk in that, if the securities increase in value, it will be necessary to purchase the securities at a cost in excess of the fair market value price.

The following table sets forth the fair values of investments (including securities sold short which are valued at the cost to purchase):

	June 30, 1995	December 31, 1994
Corporate bonds	$23,275	$21,352
Non-rated bonds	17,166	13,069
Equity securities	7,238	8,472
U.S. Government and Agency securities	2,031	1,930
Money market accounts	11,044	11,065
Less:		
Securities sold short	(428)	(1,856)
Forward foreign exchange contracts	(1,813)	(2,450)
Total market value	$58,513	$51,582
Aggregate cost	$54,256	$52,717

The portfolio also includes certain forward foreign exchange contracts used by portfolio managers to hedge the foreign currency risk associated with certain bonds denominated in foreign currency. As of June 30, 1995 and December 31, 1994, the fair value (carrying amount) of these foreign forward exchange contracts was $1,813 and $2,450, respectively. The average fair value during 1995 and 1994 of forward foreign exchange contracts was $1,819 and $3,025.

Contracts, Mortgage Notes and Other Receivables

Contracts, mortgage notes, and other receivables are summarized as follows:

	June 30, 1995	December 31, 1994
Contracts and mortgage notes receivable	$94,239	$101,280
Notes and other receivables	5,750	5,948
	99,989	107,228
Less:		
Deferred gross profit	28,836	30,221
Allowance for doubtful accounts	1,202	1,387
Market valuation reserve	859	1,184
Other	4,216	3,012
	35,113	35,804
	$64,876	$71,424

Land and Other Inventories

Inventories consist of the following:

	June 30, 1995	December 31, 1994
Land developed and in process of development	$89,559	$80,629
Land held for future development or sale	34,531	34,730
Dwelling units completed or under construction	8,209	8,720
Other	1,642	1,558
	$133,941	$125,637

Minority Interest in Consolidated Subsidiaries

Minority interest in consolidated subsidiaries is represented by preferred stock of Avatar Utilities' subsidiaries. Total preferred stock outstanding is as follows:

	June 30, 1995	December 31, 1994
9% Cumulative preferred stock	$9,000	$9,000
Other	62	59
	$9,062	$9,059

Avatar's utility subsidiary's 9% cumulative preferred stock issue provides for redemption to occur no earlier than March 1, 1997, in whole or in part; however, a minimum of $1,800 of the preferred stock must be redeemed per annum beginning in 1997. A redemption of all outstanding shares shall occur no later than March 1, 2001.

Charges to operations recorded as "Other expenses" relate to preferred stock dividends of subsidiaries for the six months ended June 30, 1995 and 1994, which amount to $408 and $407, respectively, and for the three months ended June 30, 1995 and 1994 amounted to $204 and $203, respectively.

Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax assets and liabilities as of June 30, 1995 and 1994 are as follows:

	1995	1994
Deferred income tax assets		
Net operating loss carryforward	$13,000	$7,000
Tax over book basis of land inventory	22,000	22,000
Unrecoverable land development costs	5,000	5,000
Tax over book basis of depreciable assets	6,000	5,000
Alternative minimum tax and investment tax credit carryforward	5,000	5,000
Other	1,000	3,000
Total deferred income taxes	52,000	47,000
Valuation allowance for deferred income tax assets	(39,000)	(34,000)
Deferred income tax assets after valuation allowance	13,000	13,000
Deferred income tax liabilities		
Book over tax income recognized on land sales	(4,000)	(3,000)
Deferred carrying charges on utility plant	(3,000)	(3,000)
Other	(6,000)	(7,000)
Total deferred income tax liabilities	(13,000)	(13,000)
Net deferred income taxes	$0	$0

The provision for income taxes for the six months and three months ended June 30, 1995 and 1994 consists of the following:

	Six Months		Three months	
	1995	1994	1995	1994
Federal:				
Current	-	$255	-	-
Deferred	-	-	-	-
	-	255	-	-
State:				
Current	-	-	-	-
Deferred	-	-	-	-
Total	-	$255	-	-

A reconciliation of income tax expense to the expected income tax expense (credit) at the federal statutory rate of 34% is as follows:

	For the six months ended June 30, 1995	1994
Income tax (credit) computed at statutory rate	($673)	($1,053)
Income tax effect of non-deductible dividends on preferred stock of subsidiary	138	139
State income tax expense (credit), net of federal effect	(54)	(101)
Other	74	49
Change in valuation allowance on deferred tax	515	1,221
Provision for income taxes assets	$0	$255

Contingencies

Avatar is involved in various pending litigation matters primarily arising in the normal course of its business. Although the outcome of these and the following matters cannot be determined, management believes that the resolution of these matters will not have a material effect on Avatar's business or financial position.

On October 1, 1993, the United States, on behalf of the U.S. Environmental Protection Agency, filed a civil action against Florida Cities Water Company, a utility subsidiary of Avatar, in the U.S. District Court for the Middle District of Florida. (United States v. Florida Cities Water Company, Civil Action No. 93-281-C1). The complaint alleges that the Waterway Estates wastewater treatment plant, located in Lee County, Florida, operated in violation of the Federal Clean Water Act, 33 U.S.C. S1251 et seq. The Federal Clean Water Act provides for maximum civil penalties of $25 per day for each violation. On May 5 and June 26, 1995, the United States amended the complaint to include allegations of Federal Clean Water Act violations against Florida Cities Water Company for violations that allegedly occurred at two other wastewater treatment plants, Barefoot Bay, located in Brevard County, and Carrolwood, located in Hillsborough County, Florida. The amended complaint alleges that the three wastewater treatment plants were operated for various periods of time without a federal discharge permit and that, subsequently, certain pollutants were discharged in excess of applicable federal permit limitations. In addition, the government amended the complaint to include Avatar Holdings Inc. as a defendant. The case is currently proceeding through the discovery process, and the court has set an initial trial date for January 2, 1996. Based upon the information currently available to it, Avatar believes that it has strong defenses to the amended complaint and intends to pursue those defenses vigorously.

On March 1, 1994, the Wisconsin Department of Natural Resources (the "Department") sent Avatar notice that the Department had recently issued a second Record of Decision ("ROD") in connection with the Edgerton Sand & Gravel Landfill site ("the Site"). The ROD calls for the City of Edgerton's public water supply system to be extended to the owners of private wells in the vicinity of the Site. The ROD also states that other work related to soil and groundwater remedial action would be required at the Site. The Department demanded that all potentially responsible parties ("PRPs") associated with the Site organize into a PRP group to undertake the implementation of the ROD. Avatar responded in writing to the Department. No further action has since been taken by the Department against Avatar in connection with the ROD.

On November 1, 1994, certain private parties filed a civil action against Avatar in Rock County Circuit Court, Wisconsin. (Alderman, et al v. Avatar Holdings Inc., et al, Civil Action Case No. 94 CV 675). The plaintiffs allege that Avatar and other named defendants disposed of various substances at the Site, thereby causing contamination of the groundwater source used by the plaintiffs. The plaintiffs are seeking compensatory damages, attorneys' fees, costs and other disbursements. The parties are seeking to resolve this matter through mediation. The plaintiffs have issued to defendants a two-part settlement demand providing for (i) the extension of the City of Edgerton's municipal water system to the town of Fulton and (ii) $3,900 in monetary damages. Mediation discussions are in progress. If mediation proves unsuccessful, Avatar has available to it a number of factual and legal defenses, which if successful, would eliminate or substantially reduce Avatar's potential liability.

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

RESULTS OF OPERATIONS

Operations for the six and three month periods ended June 30, 1995, resulted in a net loss of $1,980 and $1,594 or $.22 and $.18 per share, respectively, compared to a net loss of $3,837 and $1,990 or $.42 and $.22 per share, respectively, for the same periods of 1994. The improvement in operations is primarily a result of increased trading account profits.

Avatar's real estate revenues for the six and three months ended June 30, 1995, increased $2,086 or 9.3% and $245 or 2.3%, respectively, while real estate expenses increased $7,227 or 31.4% and $3,520 or 31.1%, respectively, when compared to the same periods of 1994. The increase in real estate revenues for the six and three month periods ended June 30, 1995 is generally a result of increased housing and vacation ownership sales and increased resort revenues partially offset by a 1994 bulk land sale. The increase in real estate expenses for the six and three month periods ended June 30, 1995, when compared to the same periods of 1994, is primarily a result of a change in the sales mix between product lines within the Company's real estate operations and increased selling expenses related to new projects.

Utility revenues for the six months and three months ended June 30, 1995, increased $665 or 4.5% and $158 or 2.1%, respectively, when compared to the same periods of 1994. The increase in utility revenues is primarily attributable to increases due to rate cases settled in the latter part of 1994. Utility expenses for the six and three months ended June 30, 1995, increased $698 or 6.0% and $280 or 4.8%, respectively, when compared to the same periods of 1994. The increase in utility expenses is due to higher utility operating costs.

Interest income for the six and three months ended June 30, 1995, decreased $797 or 14.0% and $484 or 16.9%, respectively, when compared to the same periods of 1994. The decline in interest income is due in part to lower average aggregate amounts outstanding in the Company's contract and mortgage notes receivable portfolio. Avatar's contracts and mortgage notes receivable portfolio amounted to $94,239 at June 30, 1995, compared to $108,597 at June 30, 1994.

Trading account profit, net for the six and three months ended June 30, 1995, increased $5,060 and $2,653, respectively, compared to the same periods of 1994. Trading account profit represents interest income and realized and unrealized gains and losses related to the trading investment portfolio, net of commissions payable to brokers.

General and administrative expenses for the six and three months ended June 30, 1995, decreased $1,013 or 18.6% and $865 or 27.6%, respectively, compared to the same periods of 1994. This decrease is mainly attributable to reductions in the accrual for incentive compensation and expenses related to a legal settlement included in 1994.

Interest expense for the six and three months ended June 30, 1995, decreased $824 or 13.0% and $415 or 13.1%, respectively, compared to the same periods of 1994. The decrease is principally attributable to the capitalization of interest associated with development and construction costs of approximately $1,238 and $706, respectively, which was partially offset by an overall increase in the outstanding balance of notes, mortgage notes and other debt.

LIQUIDITY AND CAPITAL RESOURCES

Avatar's primary business activities, which include housing, vacation ownership, retail land sales, land development, resort operations and utility services, are capital intensive in nature. Avatar expects to fund its operations and capital requirements through a combination of cash and investment securities on hand, operating cash flows and external borrowings.

Avatar had $58,513 in investments at June 30, 1995 which were classified as trading. The Company intends to continue to actively trade such securities in an effort to generate profits and will reinvest such profits until such time as the Company's cash requirements necessitate the use or partial use of the portfolio proceeds.

A portion of the investment portfolio collateralizes a $36,000 line of credit which had an outstanding balance at June 30, 1995, of $35,000 and will mature during the second quarter of 1996.

Avatar also has a line of credit of $14,000 with a balance outstanding at June 30, 1995 of $12,600, collateralized by certain contracts receivable and due May 31, 1996.

In April 1995, the Company entered into Mortgage and Security Agreements (the "Agreements") with respect to the land development and construction of the Harbor Islands project. The Agreements provide for borrowings up to $29,000 at prime plus 1.5% with repayments over periods of 36 to 42 months. Under the terms of the Agreements, borrowings are secured primarily by land and inventories of the Harbor Islands project, and the Company is required to maintain minimum levels of net worth, as defined. At June 30, 1995, the Agreement had an outstanding balance of $3,248.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

The information, which is set forth in the second paragraph under the caption "Contingencies" in the Notes to Consolidated Financial Statements (Unaudited) in Item 1 of Part I of this Report, relating to the government's amended complaint, is incorporated herein by reference.

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

The Company's Annual Meeting of Stockholders was held on May 25, 1995, in Coral Gables, Florida, for the purpose of electing eight directors and approving the appointment of Ernst & Young, LLP, independent accountants, as auditors for the year ending December 31, 1995. Proxies were solicited from holders of 9,095,102 outstanding shares of Common Stock as of the close of business on March 31, 1995, as described in Registrant's Proxy Statement dated April 25, 1995. All of management's nominees for directors were re-elected and the appointment of Ernst & Young, LLP was approved by the following votes:

ELECTION OF DIRECTORS

Name	Shares Voted FOR	Shares WITHHELD
Leon Levy	7,205,977	32,129
Edwin Jacobson	7,203,325	34,781
Leon T. Kendall	7,204,763	33,343
Martin Meyerson	7,204,577	33,529
William M. Porter	7,201,680	36,426
Kenneth T. Rosen	7,206,380	31,726
Fred Stanton Smith	7,201,905	36,201
Henry King Stanford	7,200,533	37,573

APPOINTMENT OF AUDITORS

Shares Voted FOR	Shares Voted AGAINST	Shares ABSTAINED
7,216,227	2,216	19,663

At a meeting of the Company's Board of Directors held on July 27, 1995, Milton H. Dresner was elected as a director.

Item 6. Exhibits and Reports on Form 8-K

Exhibits

27 Financial Data Schedule (filed herewith)

Item 6. Exhibits and Reports on Form 8-K -- continued

Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended June 30, 1995.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVATAR HOLDINGS INC.

Date: August 14, 1995	*By: /s/ Jeffrey A. Sopshin* *Jeffrey A. Sopshin* *Assistant Vice President and Controller*
Date: August 14, 1995	*By: /s/ Charles L. McNairy* *Charles L. McNairy* *Executive Vice President, Treasurer and Chief Financial Officer*

Exhibit Index

27 Financial Data Schedule (filed herewith)..... 18

ARTICLE 5

MULTIPLIER: 1,000
PERIOD TYPE: 3 MOS
FISCAL YEAR END: DEC 31 1994
PERIOD END: JUN 30 1995
CASH: 4,486
SECURITIES: 58,513
RECEIVABLES: 99,989
ALLOWANCES: (35,113)
INVENTORY: 133,941
CURRENT ASSETS: 0
PP&E: 176,451
DEPRECIATION: 0
TOTAL ASSETS: 460,568
CURRENT LIABILITIES: 0
BONDS: 157,674
COMMON: 12,715
PREFERRED MANDATORY: 0
PREFERRED: 0
OTHER SE: 154,056
TOTAL LIABILITY AND EQUITY: 460,568
SALES: 24,448
TOTAL REVENUES: 50,846
CGS: 13,231
TOTAL COSTS: 25,472
OTHER EXPENSES: 8,986
LOSS PROVISION: 0
INTEREST EXPENSE: 5,495
INCOME PRETAX: (1,980)
INCOME TAX: 0
INCOME CONTINUING: (1,980)
DISCONTINUED: 0
EXTRAORDINARY: 0
CHANGES: 0
NET INCOME: (1,980)
EPS PRIMARY: (0.22)
EPS DILUTED: (0.22)

N NOTE: Total Current Assets and Total Current Liabilities are not applicable because Registrant does not present a classified balance sheet.
</TABLE

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