LENNAR CORP /NEW/
Form 10-Q
October 11, 2011

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

## QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

## THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended August 31, 2011**

**Commission File Number: 1-11749**

# Lennar Corporation

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **95-4337490** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**700 Northwest 107th Avenue, Miami, Florida 33172**

**(Address of principal executive offices) (Zip Code)**

**(305) 559-4000**

**(Registrant s telephone number, including area code)**

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

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

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

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

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

Common stock outstanding as of September 30, 2011:

Class A 155,704,729
Class B 31,303,195

**Part I. Financial Information**

**Item 1. Financial Statements.**

**Lennar Corporation and Subsidiaries**

**Condensed Consolidated Balance Sheets**

**(In thousands, except per share amounts)**

**(unaudited)**

| | August 31, 2011 (1) | November 30, 2010 (1) |
|---|---|---|
| **ASSETS** | | |
| **Lennar Homebuilding:** | | |
| Cash and cash equivalents | $ 800,332 | 1,207,247 |
| Restricted cash | 8,889 | 8,195 |
| Receivables, net | 55,624 | 82,202 |
| Inventories: | | |
| Finished homes and construction in progress | 1,437,510 | 1,491,292 |
| Land and land under development | 2,426,643 | 2,223,300 |
| Consolidated inventory not owned | 400,857 | 455,016 |
| Total inventories | 4,265,010 | 4,169,608 |
| Investments in unconsolidated entities | 653,080 | 626,185 |
| Other assets | 526,731 | 307,810 |
| | 6,309,666 | 6,401,247 |
| **Rialto Investments:** | | |
| Cash and cash equivalents | 69,576 | 76,412 |
| Defeasance cash to retire notes payable | 189,667 | 101,309 |
| Loans receivable | 793,009 | 1,219,314 |
| Real estate owned, net | 667,332 | 258,104 |
| Investments in unconsolidated entities | 142,821 | 84,526 |
| Other assets | 32,198 | 37,949 |
| | 1,894,603 | 1,777,614 |
| **Lennar Financial Services** | 519,749 | 608,990 |
| **Total assets** | $ 8,724,018 | 8,787,851 |

(1) Under certain provisions of Accounting Standards Codification ( ASC ) Topic 810, *Consolidations*, ( ASC 810 ) the Company is required to separately disclose on its condensed consolidated balance sheets the assets of consolidated variable interest entities ( VIEs ) that are owned by the consolidated VIEs and non-recourse liabilities of consolidated VIEs.

As of August 31, 2011, total assets include $2,273.5 million related to consolidated VIEs of which $26.2 million is included in Lennar Homebuilding cash and cash equivalents, $3.7 million in Lennar Homebuilding receivables, net, $22.0 million in Lennar Homebuilding finished homes and construction in progress, $475.1 million in Lennar Homebuilding land and land under development, $74.4 million in Lennar Homebuilding consolidated inventory not owned, $42.7 million in Lennar Homebuilding investments in unconsolidated entities, $213.7 million in Lennar Homebuilding other assets, $69.6 million in Rialto Investments cash and cash equivalents, $189.7 million in Rialto Investments defeasance cash to retire notes payable, $623.2 million in Rialto Investments loans receivable, $521.0 million in Rialto Investments real estate owned, net, $0.6 million in Rialto Investments investments in unconsolidated entities and $11.6 million in Rialto Investments other assets.

As of November 30, 2010, total assets include $2,300.2 million related to consolidated VIEs of which $34.1 million is included in Lennar Homebuilding cash and cash equivalents, $0.2 million in Lennar Homebuilding restricted cash, $6.6 million in Lennar Homebuilding receivables, net, $221.7 million in Lennar Homebuilding finished homes and construction in progress, $400.7 million in Lennar Homebuilding land and land under development, $87.4 million in Lennar Homebuilding consolidated inventory not owned, $38.8 million in Lennar Homebuilding investments in unconsolidated entities, $159.5 million in Lennar Homebuilding other assets, $72.4 million in Rialto Investments cash and cash equivalents, $101.3 million in Rialto Investments defeasance cash to retire notes payable, $974.4 million in Rialto Investments loans receivable, $188.5 million in Rialto Investments real estate owned, net and $14.6 million in Rialto Investments other assets.

See accompanying notes to condensed consolidated financial statements.

**Lennar Corporation and Subsidiaries**

**Condensed Consolidated Balance Sheets (Continued)**

**(In thousands, except per share amounts)**

**(unaudited)**

| | August 31, 2011 (2) | November 30, 2010 (2) |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Lennar Homebuilding:** | | |
| Accounts payable | $ 196,793 | 168,006 |
| Liabilities related to consolidated inventory not owned | 336,714 | 384,233 |
| Senior notes and other debts payable | 3,127,649 | 3,128,154 |
| Other liabilities | 620,993 | 694,142 |
| | 4,282,149 | 4,374,535 |
| **Rialto Investments:** | | |
| Notes payable and other liabilities | 784,192 | 770,714 |
| **Lennar Financial Services** | 377,390 | 448,219 |
| **Total liabilities** | 5,443,731 | 5,593,468 |
| **Stockholders equity:** | | |
| Preferred stock | | |
| Class A common stock of $0.10 par value; Authorized: August 31, 2011 and November 30, 2010 300,000,000 shares; Issued: August 31, 2011 167,395,196 and November 30, 2010 167,009,774 shares | 16,740 | 16,701 |
| Class B common stock of $0.10 par value; Authorized: August 31, 2011 and November 30, 2010 90,000,000 shares; Issued: August 31, 2011 32,982,817 and November 30, 2010 32,970,914 shares | 3,298 | 3,297 |
| Additional paid-in capital | 2,332,374 | 2,310,339 |
| Retained earnings | 933,604 | 894,108 |
| Treasury stock, at cost; August 31, 2011 11,690,070 Class A common shares and 1,679,620 Class B common shares; November 30, 2010 11,664,744 Class A common shares and 1,679,620 Class B common shares | (615,525) | (615,496) |
| **Total stockholders equity** | 2,670,491 | 2,608,949 |
| **Noncontrolling interests** | 609,796 | 585,434 |
| **Total equity** | 3,280,287 | 3,194,383 |
| **Total liabilities and equity** | $ 8,724,018 | 8,787,851 |

(2) As of August 31, 2011, total liabilities include $897.0 million related to consolidated VIEs as to which there was no recourse against the Company, of which $8.9 million is included in Lennar Homebuilding accounts payable, $46.9 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, $178.2 million in Lennar Homebuilding senior notes and other debts payable, $16.4 million in Lennar Homebuilding other liabilities and $646.6 million in Rialto Investments notes payable and other liabilities.

As of November 30, 2010, total liabilities include $963.3 million related to consolidated VIEs as to which there was no recourse against the Company, of which $32.4 million is included in Lennar Homebuilding accounts payable, $60.6 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, $185.4 million in Lennar Homebuilding senior notes and other debts payable, $53.1 million in Lennar Homebuilding other liabilities and $631.8 million in Rialto Investments notes payable and other liabilities.

See accompanying notes to condensed consolidated financial statements.

**Lennar Corporation and Subsidiaries**

**Condensed Consolidated Statements of Operations**

**(In thousands, except per share amounts)**

**(unaudited)**

| | Three Months Ended August 31, | | Nine Months Ended August 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Revenues:** | | | | |
| Lennar Homebuilding | $ 711,754 | 718,149 | 1,840,939 | 1,944,253 |
| Lennar Financial Services | 66,374 | 68,826 | 183,509 | 196,727 |
| Rialto Investments | 42,065 | 38,000 | 118,283 | 72,918 |
| Total revenues | 820,193 | 824,975 | 2,142,731 | 2,213,898 |
| **Cost and expenses:** | | | | |
| Lennar Homebuilding (1) | 662,909 | 663,662 | 1,741,383 | 1,822,316 |
| Lennar Financial Services | 58,386 | 62,013 | 171,843 | 177,162 |
| Rialto Investments | 33,562 | 26,156 | 94,184 | 47,073 |
| Corporate general and administrative | 22,776 | 23,994 | 66,726 | 68,868 |
| Total costs and expenses | 777,633 | 775,825 | 2,074,136 | 2,115,419 |
| Lennar Homebuilding equity in earnings (loss) from unconsolidated entities (2) | (4,552) | 986 | 6,526 | (9,310) |
| Lennar Homebuilding other income, net (3) | 6,940 | 324 | 46,411 | 14,274 |
| Other interest expense | (24,107) | (17,668) | (68,654) | (53,849) |
| Rialto Investments equity in earnings (loss) from unconsolidated entities | (6,505) | 6,643 | (4,953) | 6,350 |
| Rialto Investments other income, net | 9,743 | | 38,275 | |
| **Earnings before income taxes** | 24,079 | 39,435 | 86,200 | 55,944 |
| **Benefit (provision) for income taxes** | (579) | (605) | 873 | 21,997 |
| **Net earnings (including net earnings attributable to noncontrolling interests)** | 23,500 | 38,830 | 87,073 | 77,941 |
| **Less: Net earnings attributable to noncontrolling interests (4)** | 2,770 | 8,795 | 25,152 | 14,710 |
| **Net earnings attributable to Lennar** | $ 20,730 | 30,035 | 61,921 | 63,231 |
| **Basic earnings per share** | $ 0.11 | 0.16 | 0.33 | 0.34 |
| **Diluted earnings per share** | $ 0.11 | 0.16 | 0.33 | 0.34 |
| **Cash dividends per each Class A and Class B common share** | $ 0.04 | 0.04 | 0.12 | 0.12 |

(1) Lennar Homebuilding costs and expenses include $10.7 million and $19.6 million, respectively, of valuation adjustments and write-offs of option deposits and pre-acquisition costs for the three and nine months ended August 31, 2011; and $12.3 million and $25.3 million, respectively, for the three and nine months ended August 31, 2010.

(2) Lennar Homebuilding equity in earnings (loss) from unconsolidated entities includes $0.7 million and $5.2 million, respectively, of the Company s share of valuation adjustments related to the assets of unconsolidated entities for the three and nine months ended August 31, 2011; and $9.2 million and $10.5 million, respectively, for the three and nine months ended August 31, 2010.

(3) Lennar Homebuilding other income, net includes $2.1 million and $15.3 million, respectively, of valuation adjustments to investments in unconsolidated entities and write-offs of other assets for the three and nine months ended August 31, 2011.

(4) Net earnings attributable to noncontrolling interests for the three and nine months ended August 31, 2011 include $6.1 million and $30.9 million, respectively, of earnings related to the FDIC s interest in the portfolio of real estate loans that the Company acquired in partnership with the FDIC. Net earnings attributable to noncontrolling interests for the three and nine months ended August 31, 2010 include $10.8 million and $20.4 million, respectively, of earnings related to the FDIC s interest in the portfolio of real estate loans that the Company acquired in partnership with the FDIC.

See accompanying notes to condensed consolidated financial statements.

**Lennar Corporation and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

**(In thousands)**

**(unaudited)**

| | Nine Months Ended August 31, 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net earnings (including net earnings attributable to noncontrolling interests) | $ 87,073 | 77,941 |
| Adjustments to reconcile net earnings (including net earnings attributable to noncontrolling interests) to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 12,321 | 9,726 |
| Amortization of discount/premium on debt, net | 12,618 | 3,168 |
| Lennar Homebuilding equity in (earnings) loss from unconsolidated entities | (6,526) | 9,310 |
| Distributions of earnings from Lennar Homebuilding unconsolidated entities | 11,410 | 5,616 |
| Rialto Investments equity in (earnings) loss from unconsolidated entities | 4,953 | (6,350) |
| Distributions of earnings from Rialto Investments unconsolidated entities | 4,084 | 1,868 |
| Shared based compensation expense | 16,220 | 16,995 |
| Excess tax benefits from share-based awards | (283) | |
| Gain on retirement of Lennar Homebuilding debt | | (19,384) |
| Loss on retirement of Lennar Homebuilding senior notes | | 11,714 |
| Gains on Rialto Investments real estate owned | (56,909) | |
| Gains on sale of Rialto Investments commercial mortgage-backed securities | (4,743) | |
| Valuation adjustments and write-offs of option deposits and pre-acquisition costs, other receivables, other assets and Rialto Investments loans receivable | 46,977 | 27,416 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in restricted cash | 404 | (1,793) |
| Decrease in receivables | 10,633 | 347,712 |
| Increase in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs | (118,132) | (230,323) |
| (Increase) decrease in other assets | (104,863) | 20,387 |
| Decrease (increase) in Lennar Financial Services loans-held-for-sale | 43,044 | (8,384) |
| Decrease in accounts payable and other liabilities | (73,864) | (76,532) |
| Net cash (used in) provided by operating activities | (115,583) | 189,087 |
| **Cash flows from investing activities:** | | |
| Increase in restricted cash related to cash collateralized letters of credit | | (121,976) |
| Net additions of operating properties and equipment | (3,307) | (603) |
| Investments in and contributions to Lennar Homebuilding unconsolidated entities | (89,465) | (162,329) |
| Distributions of capital from Lennar Homebuilding unconsolidated entities | 25,280 | 19,656 |
| Investments in and contributions to Rialto Investments unconsolidated entities | (64,360) | (64,310) |
| Investments in and contributions to Rialto Investments consolidated entities (net of $93.3 million cash and cash equivalents consolidated) | | (171,778) |
| Increase in Rialto Investments defeasance cash to retire notes payable | (88,358) | (62,855) |
| Receipts of principal payments on Rialto Investments loans receivable | 52,849 | 10,430 |
| Proceeds from sales of Rialto Investments real estate owned | 55,283 | |
| Improvements to Rialto Investments real estate owned | (15,484) | |
| (Increase) decrease in Lennar Financial Services loans held-for-investment, net | (192) | 1,712 |
| Purchases of Lennar Financial Services investment securities | (51,940) | (5,826) |
| Proceeds from sale of investments in commercial mortgage-backed securities | 11,127 | |
| Proceeds from maturities of Lennar Financial Services investments securities | 6,938 | 719 |
| Net cash used in investing activities | (161,629) | (557,160) |

**Lennar Corporation and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

**(In thousands)**

**(unaudited)**

| | Nine Months Ended August 31, 2011 | 2010 |
|---|---|---|
| **Cash flows from financing activities:** | | |
| Net repayments under Lennar Financial Services debt | $ (56,313) | (14,351) |
| Proceeds from senior notes | | 247,323 |
| Proceeds from 2.00% convertible senior notes due 2020 | | 276,500 |
| Debt issuance costs of senior notes | | (8,785) |
| Partial redemption of senior notes | | (375,421) |
| Proceeds from other borrowings | 2,957 | 4,369 |
| Principal payments on other borrowings | (84,463) | (131,623) |
| Exercise of land option contracts from an unconsolidated land investment venture | (33,827) | (35,784) |
| Receipts related to noncontrolling interests | 5,765 | 12,039 |
| Payments related to noncontrolling interests | (7,087) | (3,882) |
| Excess tax benefits from shared-based awards | 283 | |
| Common stock: | | |
| Issuances | 5,547 | 1,769 |
| Repurchases | (29) | (1,806) |
| Dividends | (22,425) | (22,179) |
| Net cash used in financing activities | (189,592) | (51,831) |
| Net decrease in cash and cash equivalents | (466,804) | (419,904) |
| Cash and cash equivalents at beginning period | 1,394,135 | 1,457,438 |
| Cash and cash equivalents at end of period | $ 927,331 | 1,037,534 |
| **Summary of cash and cash equivalents:** | | |
| Lennar Homebuilding | $ 800,332 | 865,657 |
| Lennar Financial Services | 57,423 | 62,153 |
| Rialto Investments | 69,576 | 109,724 |
| | $ 927,331 | 1,037,534 |
| **Supplemental disclosures of non-cash investing and financing activities:** | | |
| Non-cash contributions to Lennar Homebuilding unconsolidated entities | $ 17,047 | 4,364 |
| Non-cash distributions from Lennar Homebuilding unconsolidated entities | $ 12,043 | 2,558 |
| Non-cash reclass from inventories to operating properties and equipment | $ 126,525 | |
| Purchases of inventories financed by sellers | $ 55,733 | 15,969 |
| Rialto Investments real estate owned acquired in satisfaction/partial satisfaction of loans receivable | $ 396,190 | 58,905 |
| Consolidations of newly formed or previously unconsolidated entities, net | | |
| Receivable | $ 2 | 2,077 |
| Loans receivable | $ | 1,178,012 |
| Inventories | $ 52,850 | 49,047 |
| Investments in Lennar Homebuilding unconsolidated entities | $ (28,574) | (36,811) |
| Investments in Rialto Investments consolidated entities | $ | (171,778) |
| Other assets | $ 380 | 64,717 |
| Debts payable | $ (14,703) | (678,726) |

| | | | |
|---|---|---|---|
| Other liabilities | $ | (9,423) | (7,280) |
| Noncontrolling interests | $ | (532) | (399,258) |

See accompanying notes to condensed consolidated financial statements.

**Lennar Corporation and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**(1) Basis of Presentation**

*Basis of Consolidation*

The accompanying condensed consolidated financial statements include the accounts of Lennar Corporation and all subsidiaries, partnerships and other entities in which Lennar Corporation has a controlling interest and VIEs (see Note 16) in which Lennar Corporation is deemed to be the primary beneficiary (the Company ). The Company s investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary, are accounted for by the equity method. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) 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 GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended November 30, 2010. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the accompanying condensed consolidated financial statements have been made.

The Company has historically experienced, and expects to continue to experience, variability in quarterly results. The condensed consolidated statements of operations for the three and nine months ended August 31, 2011 are not necessarily indicative of the results to be expected for the full year.

*Reclassifications*

Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform with the 2011 presentation.

*Use of Estimates*

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

**(2) Operating and Reporting Segments**

The Company s operating segments are aggregated into reportable segments, based primarily upon similar economic characteristics, geography and product type. The Company s reportable segments consist of:

(1) Homebuilding East

(2) Homebuilding Central

(3) Homebuilding West

(4) Homebuilding Houston

(5) Lennar Financial Services

(6) Rialto Investments

Information about homebuilding activities in states which are not economically similar to other states in the same geographic area is grouped under Homebuilding Other, which is not considered a reportable segment.

Evaluation of segment performance is based primarily on operating earnings (loss) before income taxes. Operations of the Company s homebuilding segments primarily include the construction and sale of single-family attached and detached homes, as well as the purchase, development and sale of residential land directly and through the Company s unconsolidated entities. Operating earnings (loss) for the homebuilding segments consist

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of revenues generated from the sales of homes and land, equity in earnings (loss) from unconsolidated entities and other income (expense), net, less the cost of homes sold and land sold, selling, general and administrative expenses and other interest expense of the segment. The Company s reportable homebuilding segments and all other homebuilding operations not required to be reported separately have operations located in:

**East:** Florida, Maryland, New Jersey and Virginia

**Central:** Arizona, Colorado and Texas (1)

**West:** California and Nevada

**Houston:** Houston, Texas

**Other:** Georgia, Illinois, Minnesota, North Carolina and South Carolina

(1) Texas in the Central reportable segment excludes Houston, Texas, which is its own reportable segment.

Operations of the Lennar Financial Services segment include primarily mortgage financing, title insurance and closing services for both buyers of the Company s homes and others. Substantially all of the loans the Lennar Financial Services segment originates are sold within a short period in the secondary mortgage market on a servicing released, non-recourse basis. After the loans are sold, the Company retains potential liability for possible claims by purchasers that it breached certain limited industry-standard representations and warranties in the loan sale agreements. Lennar Financial Services operating earnings consist of revenues generated primarily from mortgage financing, title insurance and closing services, less the cost of such services and certain selling, general and administrative expenses incurred by the segment. The Lennar Financial Services segment operates generally in the same states as the Company s homebuilding operations, as well as in other states.

Operations of the Rialto Investments ( Rialto ) segment include sourcing, underwriting, pricing, managing and ultimately monetizing real estate and real estate related assets, as well as providing similar services to others in markets across the country. Rialto s operating earnings (loss) consists of revenues generated primarily from interest income associated with portfolios of real estate loans acquired in partnership with the FDIC and other portfolios of real estate loans and assets acquired, fees for sub-advisory services, other income, net, consisting primarily of gains upon foreclosure of real estate owned ( REO ) and gains on sale of REO, and equity in earnings (loss) from unconsolidated entities, less the costs incurred by the segment for managing portfolios, management of investments for others, due diligence expenses related to both completed and abandoned transactions, and other general and administrative expenses.

Each reportable segment follows the same accounting policies described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements in the Company s 2010 Annual Report on Form 10-K. Operational results of each segment are not necessarily indicative of the results that would have occurred had the segment been an independent, stand-alone entity during the periods presented.

Financial information relating to the Company s operations was as follows:

| **(In thousands)** | **August 31, 2011** | **November 30, 2010** |
|---|---|---|
| **Assets:** | | |
| Homebuilding East | $ 1,707,792 | 1,524,095 |
| Homebuilding Central | 694,195 | 716,595 |
| Homebuilding West | 2,174,975 | 2,051,888 |
| Homebuilding Houston | 246,330 | 226,749 |
| Homebuilding Other | 765,852 | 737,486 |
| Rialto Investments (1) | 1,894,603 | 1,777,614 |
| Lennar Financial Services | 519,749 | 608,990 |
| Corporate and unallocated | 720,522 | 1,144,434 |
| **Total assets** | $ 8,724,018 | 8,787,851 |

(1) Consists primarily of assets of consolidated VIEs (see Note 8).

| (In thousands) | Three Months Ended August 31, 2011 | 2010 | Nine Months Ended August 31, 2011 | 2010 |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Homebuilding East | $ 266,309 | 257,181 | 723,378 | 623,128 |
| Homebuilding Central | 101,151 | 102,308 | 260,312 | 270,262 |
| Homebuilding West | 144,898 | 173,925 | 362,177 | 517,509 |
| Homebuilding Houston | 96,065 | 91,649 | 230,904 | 270,729 |
| Homebuilding Other | 103,331 | 93,086 | 264,168 | 262,625 |
| Lennar Financial Services | 66,374 | 68,826 | 183,509 | 196,727 |
| Rialto Investments | 42,065 | 38,000 | 118,283 | 72,918 |
| **Total revenues (1)** | $ 820,193 | 824,975 | 2,142,731 | 2,213,898 |
| **Operating earnings (loss):** | | | | |
| Homebuilding East | $ 27,279 | 49,384 | 67,690 | 85,642 |
| Homebuilding Central (2) | (6,404) | (8,250) | (24,878) | (15,953) |
| Homebuilding West (3) | (4,457) | (10,640) | 36,033 | (16,868) |
| Homebuilding Houston | 7,205 | 5,313 | 10,130 | 19,954 |
| Homebuilding Other | 3,503 | 2,322 | (5,136) | 277 |
| Lennar Financial Services | 7,988 | 6,813 | 11,666 | 19,565 |
| Rialto Investments | 11,741 | 18,487 | 57,421 | 32,195 |
| **Total operating earnings** | 46,855 | 63,429 | 152,926 | 124,812 |
| Corporate general and administrative expenses | 22,776 | 23,994 | 66,726 | 68,868 |
| **Earnings before income taxes** | $ 24,079 | 39,435 | 86,200 | 55,944 |

(1) Total revenues are net of sales incentives of $95.1 million ($33,600 per home delivered) and $247.9 million ($33,600 per home delivered), respectively, for the three and nine months ended August 31, 2011, compared to $89.1 million ($30,600 per home delivered) and $253.2 million ($32,500 per home delivered), respectively, for the three and nine months ended August 31, 2010.

(2) For the three and nine months ended August 31, 2011, operating loss includes $0.5 million and $8.1 million, respectively, of expenses associated with remedying pre-existing liabilities of a previously acquired company.

(3) For the nine months ended August 31, 2011, operating earnings include $37.5 million related to the receipt of a litigation settlement, as well as $15.4 million related to the Company s share of a gain on debt extinguishment and the recognition of $10.0 million of deferred management fees related to management services previously performed by the Company for one of its Lennar Homebuilding unconsolidated entities (see Note 3).

Valuation adjustments and write-offs relating to the Company s operations were as follows:

| (In thousands) | Three Months Ended August 31, 2011 | Three Months Ended August 31, 2010 | Nine Months Ended August 31, 2011 | Nine Months Ended August 31, 2010 |
|---|---|---|---|---|
| **Valuation adjustments to finished homes, CIP and land on which the Company intends to build homes:** | | | | |
| East | $ 1,187 | 1,061 | 2,990 | 3,825 |
| Central | 4,741 | 3,362 | 8,818 | 4,652 |
| West | 2,357 | 2,478 | 3,939 | 5,091 |
| Houston | 113 | 62 | 330 | 162 |
| Other | 1,264 | 4,360 | 1,725 | 8,704 |
| **Total** | 9,662 | 11,323 | 17,802 | 22,434 |
| **Valuation adjustments to land the Company intends to sell or has sold to third parties:** | | | | |
| East | | 52 | 92 | 97 |
| Central | 1 | 260 | 180 | 2,040 |
| West | | 637 | | 753 |
| Houston | 11 | 14 | 21 | 14 |
| Other | 153 | | 153 | |
| **Total** | 165 | 963 | 446 | 2,904 |
| **Write-offs of option deposits and pre-acquisition costs:** | | | | |
| East | 40 | | 386 | |
| Central | 344 | | 370 | |
| West | 172 | | 172 | |
| Houston | | | 81 | |
| Other | 340 | | 340 | |
| **Total** | 896 | | 1,349 | |
| **Company s share of valuation adjustments related to assets of unconsolidated entities:** | | | | |
| East | 3 | 229 | 3 | 229 |
| Central | | 4,734 | 371 | 4,734 |
| West | 683 | 4,282 | 2,343 | 5,498 |
| Other | | | 2,495 | |
| **Total** | 686 | 9,245 | 5,212 | 10,461 |
| **Valuation adjustments to investments of unconsolidated entities:** | | | | |
| East (1) | | 159 | 8,412 | 560 |
| West | 2,077 | | 2,077 | |
| **Total** | 2,077 | 159 | 10,489 | 560 |
| **Write-offs of other receivables and other assets:** | | | | |
| Other | | | 4,806 | 1,518 |
| **Total** | | | 4,806 | 1,518 |
| **Total valuation adjustments and write-offs of option deposits and pre-acquisition costs, other receivables and other assets** | $ 13,486 | 21,690 | 40,104 | 37,877 |

(1) For the nine months ended August 31, 2011, the Company recorded a $0.1 million valuation adjustment related to a $29.8 million investment of a Lennar Homebuilding unconsolidated entity, which was the result of a linked transaction. The linked transaction resulted in a pre-tax gain of $38.6 million related to a debt extinguishment due to the Company s purchase of the Lennar Homebuilding unconsolidated entity s debt at a discount and a $38.7 million valuation adjustment of the Lennar Homebuilding unconsolidated entity s inventory upon consolidation. The net pre-tax loss of $0.1 million was included in Lennar Homebuilding other income, net, for the nine months ended August 31, 2011.

The Company recorded higher valuation adjustments during the nine months ended August 31, 2011 compared to the nine months ended August 31, 2010, as a result of current changes in strategy and other developments regarding certain of the Company s joint ventures. In addition, demand trends in many communities in which the Company is selling homes, particularly in older communities, have remained depressed and/or decreased despite improved affordability resulting from lower home prices and historically low interest rates. If these trends continue and there is further deterioration in the housing market, it may cause additional pricing pressures and slower absorption. This may potentially lead to additional valuation adjustments in the future. In addition, market conditions may cause the Company to re-evaluate its strategy regarding certain assets that could result in further valuation adjustments and/or additional write-offs of option deposits and pre-acquisition costs due to abandonment of those options contracts.

**(3) Lennar Homebuilding Investments in Unconsolidated Entities**

Summarized condensed financial information on a combined 100% basis related to Lennar Homebuilding s unconsolidated entities that are accounted for by the equity method was as follows:

**Statements of Operations**

| (In thousands) | Three Months Ended August 31, 2011 | 2010 | Nine Months Ended August 31, 2011 | 2010 |
|---|---|---|---|---|
| Revenues | $ 104,690 | 84,327 | 255,004 | 183,850 |
| Costs and expenses | 108,599 | 152,322 | 261,073 | 300,322 |
| Other income | | | 123,007 | |
| Net earnings (loss) of unconsolidated entities | $ (3,909) | (67,995) | 116,938 | (116,472) |
| Lennar Homebuilding equity in earnings (loss) from unconsolidated entities (1) | $ (4,552) | 986 | 6,526 | (9,310) |

(1) For the nine months ended August 31, 2011, the Company s share of net earnings recognized includes a $15.4 million gain related to the Company s share of a $123.0 million gain on debt extinguishment at a Lennar Homebuilding unconsolidated entity, partially offset by $5.2 million of the Company s share of valuation adjustments related to assets of Lennar Homebuilding s unconsolidated entities. For the three and nine months ended August 31, 2010, the Company recorded a net pre-tax gain of $7.7 million from a transaction related to one of its unconsolidated entities.

**Balance Sheets**

| (In thousands) | August 31, 2011 | November 30, 2010 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 70,099 | 82,573 |
| Inventories | 3,168,938 | 3,371,435 |
| Other assets | 305,238 | 307,244 |
| | $ 3,544,275 | 3,761,252 |
| **Liabilities and equity:** | | |
| Account payable and other liabilities | $ 245,345 | 327,824 |
| Debt | 1,019,427 | 1,284,818 |
| Equity | 2,279,503 | 2,148,610 |
| | $ 3,544,275 | 3,761,252 |

During the first quarter of 2011, a Lennar Homebuilding unconsolidated entity was restructured. As part of the restructuring, the development management agreement (the Agreement ) between the Company and the unconsolidated entity was terminated and a general release agreement was executed whereby the Company was released from any and all obligations, except any future potential third-party claims, associated with the Agreement. As a result of the restructuring, the termination of the Agreement and the execution of the general release agreement, the Company recognized $10 million of deferred management fees related to management services previously performed by the Company prior to November 30, 2010. The Company is not providing any other services to the unconsolidated entity associated with the deferred management fees recognized.

In 2007, the Company sold a portfolio of land to a strategic land investment venture with Morgan Stanley Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., in which the Company has a 20% ownership interest and 50% voting rights. Due to the Company s continuing involvement, the transaction did not qualify as a sale by the Company under GAAP; thus, the inventory has remained on the Company s condensed consolidated balance sheet in consolidated inventory not owned. As of August 31, 2011 and November 30, 2010, the portfolio of land (including land development costs) of $378.5 million and $424.5 million, respectively, is also reflected as inventory in the summarized condensed financial information related to Lennar Homebuilding s unconsolidated entities.

The Lennar Homebuilding unconsolidated entities in which the Company has investments usually finance their activities with a combination of partner equity and debt financing. In some instances, the Company and its partners have guaranteed debt of certain unconsolidated entities.

The summary of the Company s net recourse exposure related to the Lennar Homebuilding unconsolidated entities in which the Company has investments was as follows:

| (In thousands) | August 31, 2011 | November 30, 2010 |
|---|---|---|
| Several recourse debt - repayment | $ 62,635 | 33,399 |
| Several recourse debt - maintenance | 2,230 | 29,454 |
| Joint and several recourse debt - repayment | 48,057 | 48,406 |
| Joint and several recourse debt - maintenance | 43,466 | 61,591 |
| The Company s maximum recourse exposure | 156,388 | 172,850 |
| Less: joint and several reimbursement agreements with the Company s partners | (57,053) | (58,878) |
| The Company s net recourse exposure | $ 99,335 | 113,972 |

During the nine months ended August 31, 2011, the Company s maximum recourse exposure related to indebtedness of Lennar Homebuilding unconsolidated entities decreased by $52.7 million as a result of $17.7 million paid by the Company primarily through capital contributions to unconsolidated entities and $35.0 million primarily related to the restructuring of a guarantee, the consolidation of a joint venture in the first quarter of 2011 and the joint ventures selling inventory, which was partially offset by a $36.3 million increase in the maximum recourse exposure for consideration given in the form of a several guarantee in connection with the favorable debt maturity extension until 2018 and principal reduction at Heritage Fields El Toro, one of Lennar Homebuilding s unconsolidated entities as discussed in the note to the following table.

As of August 31, 2011, the Company had no obligation guarantees accrued. At November 30, 2010, the Company had $10.2 million of obligation guarantees accrued as a liability on its condensed consolidated balance sheet. During the nine months ended August 31, 2011, the liability was reduced by $10.2 million, of which $7.6 million were cash payments related to obligation guarantees previously recorded and $2.6 million related to a change in estimate of an obligation guarantee. The obligation guarantees are estimated based on current facts and circumstances and any unexpected changes may lead the Company to incur additional obligation guarantees in the future.

The recourse debt exposure in the previous table represents the Company s maximum recourse exposure to loss from guarantees and does not take into account the underlying value of the collateral or the other assets of the borrowers that are available to repay the debt or to reimburse the Company for any payments on its guarantees. The Lennar Homebuilding unconsolidated entities that have recourse debt have a significant amount of assets and equity. The summarized balance sheets of Lennar Homebuilding s unconsolidated entities with recourse debt were as follows:

| (In thousands) | August 31, 2011 | November 30, 2010 |
|---|---|---|
| Assets (1) | $ 2,159,248 | 990,028 |
| Liabilities (1) | $ 876,034 | 487,606 |
| Equity (1) | $ 1,283,214 | 502,422 |

(1) In the first quarter of 2011, Heritage Fields El Toro, one of Lennar Homebuilding s unconsolidated entities, extended the maturity of its $573.5 million debt until 2018, which at the time was without recourse to Lennar. In exchange for the extension and partial debt extinguishment, which reduced the outstanding debt balance to $481.0 million in the first quarter of 2011, all the partners agreed to provide a limited several repayment guarantee on the outstanding debt, which resulted in a $36.3 million increase to the Company s maximum recourse exposure and a subsequent increase to assets, liabilities and equity of Lennar Homebuilding unconsolidated entities that have recourse debt. In addition, the Company recognized a $15.4 million gain for its share of the $123.0 million gain on debt extinguishment in the first quarter of 2011.

In addition, in most instances in which the Company has guaranteed debt of a Lennar Homebuilding unconsolidated entity, the Company s partners have also guaranteed that debt and are required to contribute their share of the guarantee payments. Some of the Company s guarantees are repayment guarantees and some are maintenance guarantees. In a repayment guarantee, the Company and its venture partners guarantee repayment of a portion or all of the debt in the event of default before the lender would have to exercise its rights against the collateral. In the event of default, if the Company s venture partner does not have adequate financial resources to meet its obligations under the reimbursement agreement, the Company may be liable for more than its proportionate share, up to its maximum recourse exposure, which is the full amount covered by the joint and several guarantee. The maintenance guarantees only apply if the value of the collateral (generally land and improvements) is less than a specified percentage of the loan balance. If the Company is required to make a payment under a maintenance guarantee to bring the value of the collateral above the specified percentage of the loan balance, the payment would constitute a capital contribution or loan to the Lennar Homebuilding unconsolidated entity and increase the Company s investment in the unconsolidated entity and its share of any funds the unconsolidated entity distributes.

In connection with many of the loans to Lennar Homebuilding unconsolidated entities, the Company and its joint venture partners (or entities related to them) have been required to give guarantees of completion to the lenders. Those completion guarantees may require that the guarantors complete the construction of the improvements for which the financing was obtained. If the construction is to be done in phases, the guarantee generally is limited to completing only the phases as to which construction has already commenced and for which loan proceeds were used.

During the three months ended August 31, 2011, there were: (1) no payments under the Company s maintenance guarantees and (2) other loan paydowns of $3.1 million, a portion of which related to amounts paid under the Company s repayment guarantees. During the three months ended August 31, 2010, there were: (1) payments of $3.0 million under the Company s maintenance guarantees, (2) at the election of the Company, a loan paydown of $50.3 million, representing both the Company s and its partner s share, in return for a 4-year loan extension and the rights to obtain preferred returns and priority distributions at one of Lennar Homebuilding s unconsolidated entities, and (3) a $19.3 million payment to extinguish debt at a discount and buyout the partner of one of Lennar Homebuilding s unconsolidated entities that resulted in a net pre-tax gain of $7.7 million. In addition, during the three months ended August 31, 2010, there were other loan paydowns of $0.9 million. During the three months ended August 31, 2011 and 2010, there were no payments under completion guarantees.

During the nine months ended August 31, 2011, there were: (1) payments of $1.7 million under the Company s maintenance guarantees and (2) other loan paydowns of $16.1 million, a portion of which related to amounts paid under the Company s repayment guarantees. During the nine months ended August 31, 2010, there were: (1) payments of $8.0 million under the Company s maintenance guarantees, (2) at the election of the Company, a loan paydown of $50.3 million, representing both the Company s and its partner s share, in return for a 4-year loan extension and the rights to obtain preferred returns and priority distributions at one of Lennar Homebuilding s unconsolidated entities, and (3) a $19.3 million payment to extinguish debt at a discount and buyout the partner of one of Lennar Homebuilding s unconsolidated entities that resulted in a net pre-tax gain of $7.7 million. In addition, during the nine months ended August 31, 2010, there were other loan paydowns of $27.9 million, a portion of which related to amounts paid under the Company s repayment guarantees. During the nine months ended August 31, 2011 and 2010, there were no payments under completion guarantees.

As of August 31, 2011, the fair values of the maintenance guarantees, repayment guarantees and completion guarantees were not material. The Company believes that as of August 31, 2011, in the event it becomes legally obligated to perform under a guarantee of the obligation of a Lennar Homebuilding unconsolidated entity due to a triggering event under a guarantee, most of the time the collateral should be sufficient to repay at least a significant portion of the obligation or the Company and its partners would contribute additional capital into the venture. In certain instances, the Company has placed performance letters of credit and surety bonds with municipalities for its joint ventures (see Note 12).

The total debt of the Lennar Homebuilding unconsolidated entities in which the Company has investments was as follows:

| **(In thousands)** | **August 31, 2011** | **November 30, 2010** |
|---|---|---|
| The Company s net recourse exposure | $ 99,335 | 113,972 |
| Reimbursement agreements from partners | 57,053 | 58,878 |
| The Company s maximum recourse exposure | $ 156,388 | 172,850 |
| Non-recourse bank debt and other debt (partner s share of several recourse) | $ 152,516 | 79,921 |
| Non-recourse land seller debt or other debt | 26,400 | 58,604 |
| Non-recourse debt with completion guarantees | 485,994 | 600,297 |
| Non-recourse debt without completion guarantees | 198,129 | 373,146 |
| Non-recourse debt to the Company | 863,039 | |