

LENNAR CORP /NEW/
Form 10-Q
October 08, 2010

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, 2010

Commission File Number: 1-11749

Lennar Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4337490
(I.R.S. Employer
Identification No.)

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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 NO

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

Indicate by check mark 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 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

Common stock outstanding as of September 30, 2010:

Class A 153,659,030

Class B 31,291,294

Part I. Financial Information**Item 1. Financial Statements.****Lennar Corporation and Subsidiaries****Condensed Consolidated Balance Sheets****(In thousands, except share and per share amounts)****(unaudited)**

	August 31, 2010 (1)	November 30, 2009 (1)
ASSETS		
Lennar Homebuilding:		
Cash and cash equivalents	\$ 865,657	1,330,603
Restricted cash	131,473	9,225
Income tax receivables	11,726	334,428
Receivables, net	60,860	122,053
Inventories:		
Finished homes and construction in progress	1,636,056	1,503,346
Land under development	2,174,249	1,990,430
Consolidated inventory not owned	464,022	594,213
Total inventories	4,274,327	4,087,989
Investments in unconsolidated entities	664,916	599,266
Other assets	296,012	263,803
	6,304,971	6,747,367
Rialto Investments:		
Cash and cash equivalents	62,153	
Defeasance cash to retire notes payable	62,855	
Loans receivable	1,133,565	
Real estate owned	58,905	
Investments in unconsolidated entities	78,777	9,874
Other assets	18,679	
	1,414,934	9,874
Lennar Financial Services		
	559,994	557,550
Total assets	\$ 8,279,899	7,314,791

(1) As a result of the adoption of 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 liabilities of consolidated VIEs as to which there is no recourse against the Company. As of August 31, 2010, total assets include \$2,259.8 million related to consolidated VIEs of which \$62.4 million is included in Lennar Homebuilding cash and cash equivalents, \$0.2 million in Lennar Homebuilding restricted cash, \$4.8 million in Lennar Homebuilding receivables, net, \$228.6 million in Lennar Homebuilding finished homes and construction in progress, \$350.9 million in Lennar Homebuilding land under development, \$92.2 million in Lennar Homebuilding consolidated inventory not owned, \$36.9 million in Lennar Homebuilding investments in unconsolidated entities, \$154.0 million in Lennar Homebuilding other assets, \$58.8 million in Rialto Investments cash and cash equivalents, \$62.9 million in Rialto Investments defeasance cash to retire notes payable, \$1,133.6 million in Rialto Investments loans receivable,

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\$58.9 million in Rialto Investments real estate owned and \$15.6 million in Rialto Investments other assets.

As of November 30, 2009, total assets include \$1,002.0 million related to consolidated VIEs of which \$25.9 million is included in Lennar Homebuilding cash and cash equivalents, \$1.5 million in Lennar Homebuilding restricted cash, \$5.5 million in Lennar Homebuilding receivables, net, \$253.2 million in Lennar Homebuilding finished homes and construction in progress, \$341.0 million in Lennar Homebuilding land under development, \$182.7 million in Lennar Homebuilding consolidated inventory not owned, \$35.3 million in Lennar Homebuilding investments in unconsolidated entities and \$156.9 million in Lennar Homebuilding other assets.

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Continued)

(In thousands, except share and per share amounts)

(unaudited)

	August 31, 2010 (2)	November 30, 2009 (2)
LIABILITIES AND EQUITY		
Lennar Homebuilding:		
Accounts payable	\$ 200,015	169,596
Liabilities related to consolidated inventory not owned	393,051	518,359
Senior notes and other debts payable	2,843,229	2,761,352
Other liabilities	749,613	862,584
	4,185,908	4,311,891
Rialto Investments:		
Notes payable and other liabilities	638,990	
Lennar Financial Services		
	386,578	414,886
Total liabilities	5,211,476	4,726,777
Stockholders equity:		
Preferred stock		
Class A common stock of \$0.10 par value per share; Authorized: August 31, 2010 and November 30, 2009 300,000,000 shares; Issued: August 31, 2010 165,313,618 shares and November 30, 2009 165,154,591 shares	16,531	16,515
Class B common stock of \$0.10 par value per share; Authorized: August 31, 2010 and November 30, 2009 90,000,000 shares; Issued: August 31, 2010 32,970,914 shares and November 30, 2009 32,963,579 shares	3,297	3,296
Additional paid-in capital	2,227,955	2,208,934
Retained earnings	869,476	828,424
Treasury stock, at cost; August 31, 2010 11,664,744 Class A common shares and 1,679,620 Class B common shares; November 30, 2009 11,542,970 Class A common shares and 1,679,620 Class B common shares	(615,496)	(613,690)
Total stockholders equity	2,501,763	2,443,479
Noncontrolling interests	566,660	144,535
Total equity	3,068,423	2,588,014
Total liabilities and equity	\$ 8,279,899	7,314,791

(2) As of August 31, 2010, total liabilities include \$953.7 million related to consolidated VIEs as to which there was no recourse against the Company, of which \$17.7 million is included in Lennar Homebuilding accounts payable, \$65.9 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, \$187.2 million in Lennar Homebuilding senior notes and other debts payable, \$49.9 million in Lennar Homebuilding other liabilities and \$633.0 million in Rialto Investments notes payable and other liabilities.

As of November 30, 2009, total liabilities include \$429.9 million related to consolidated VIEs as to which there was no recourse against the Company, of which \$27.2 million is included in Lennar Homebuilding accounts payable, \$155.4 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, \$187.2 million in Lennar Homebuilding senior notes and other debts payable and \$60.1 million in Lennar Homebuilding other liabilities.

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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,	
	2010	2009	2010	2009
Revenues:				
Lennar Homebuilding	\$ 718,149	643,613	1,944,253	1,977,876
Lennar Financial Services	68,826	77,117	196,727	227,770
Rialto Investments	38,000		72,918	
Total revenues	824,975	720,730	2,213,898	2,205,646
Costs and expenses:				
Lennar Homebuilding (1)	663,662	704,360	1,822,316	2,150,194
Lennar Financial Services	62,013	65,961	177,162	199,583
Rialto Investments	26,156	496	47,073	1,517
Corporate general and administrative	23,994	27,557	68,868	84,806
Total costs and expenses	775,825	798,374	2,115,419	2,436,100
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities (2)	986	(42,303)	(9,310)	(105,110)
Other income (expense), net (3)	324	(29,269)	14,274	(73,103)
Other interest expense	(17,668)	(22,428)	(53,849)	(48,950)
Rialto Investments equity in earnings from unconsolidated entities	6,643		6,350	
Earnings (loss) before income taxes	39,435	(171,644)	55,944	(457,617)
Benefit (provision) for income taxes (4)	(605)	(2,740)	21,997	(6,135)
Net earnings (loss) (including net earnings (loss) attributable to noncontrolling interests)	38,830	(174,384)	77,941	(463,752)
Less: Net earnings (loss) attributable to noncontrolling interests	8,795	(2,779)	14,710	(11,033)
Net earnings (loss) attributable to Lennar	\$ 30,035	(171,605)	63,231	(452,719)
Basic earnings (loss) per share	\$ 0.16	(0.97)	0.34	(2.72)
Diluted earnings (loss) per share	\$ 0.16	(0.97)	0.34	(2.72)
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 \$12.3 million and \$25.3 million, respectively, of valuation adjustments for the three and nine months ended August 31, 2010; and \$58.8 million and \$152.0 million, respectively, of valuation adjustments for the three and nine months ended August 31, 2009.
- (2) Lennar Homebuilding equity in earnings (loss) from unconsolidated entities include valuation adjustments related to assets of unconsolidated entities in which the Company has investments of \$9.2 million and \$10.5 million, respectively, for the three and nine months ended August 31, 2010; and \$31.0 million and \$81.0 million, respectively, for the three and nine months ended August 31, 2009.

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- (3) Other income (expense), net includes valuation adjustments to investments in unconsolidated entities of \$27.5 million and \$71.7 million, respectively, for the three and nine months ended August 31, 2009.
- (4) Benefit (provision) for income taxes for the three and nine months ended August 31, 2010 includes a reversal of the Company's deferred tax asset valuation allowance of \$12.0 million and \$7.2 million, respectively; and an increase of the Company's deferred tax asset valuation allowance of \$60.2 million and \$162.4 million, respectively, for the three and nine months ended August 31, 2009.

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,	
	2010	2009
Cash flows from operating activities:		
Net earnings (loss) (including net earnings (loss) attributable to noncontrolling interests)	\$ 77,941	(463,752)
Adjustments to reconcile net earnings (loss) (including net earnings (loss) attributable to noncontrolling interests) to net cash provided by operating activities:		
Depreciation and amortization	9,726	14,054
Amortization of discount/premium on debt, net	3,168	1,363
Lennar Homebuilding equity in loss from unconsolidated entities, including \$10.5 million and \$81.0 million, respectively of the Company's share of valuation adjustments related to assets of unconsolidated entities for the nine months ended August 31, 2010 and 2009	9,310	105,110
Distributions of earnings from Lennar Homebuilding unconsolidated entities	5,616	2,098
Rialto Investments equity in earnings from unconsolidated entities	(6,350)	
Distributions of earnings from Rialto Investments unconsolidated entities	1,868	
Share-based compensation expense	16,995	21,963
Gain on retirement of Lennar Homebuilding other debt	(19,384)	
Loss (gain) on retirement of Lennar Homebuilding senior notes	11,714	(1,169)
Valuation adjustments and write-offs of option deposits and pre-acquisition costs	27,416	224,247
Changes in assets and liabilities:		
Increase in restricted cash	(1,793)	(10,619)
Decrease in receivables	347,712	281,333
(Increase) decrease in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs	(230,323)	263,886
Decrease in other assets	20,387	15,731
(Increase) decrease in Lennar Financial Services loans held-for-sale	(8,384)	47,193
Decrease in accounts payable and other liabilities	(76,532)	(114,522)
Net cash provided by operating activities	189,087	386,916
Cash flows from investing activities:		
Increase in restricted cash related to cash collateralized letters of credit	(121,976)	
Net additions to operating properties and equipment	(603)	(832)
Investments in and contributions to Lennar Homebuilding unconsolidated entities	(162,329)	(268,380)
Distributions of capital from Lennar Homebuilding unconsolidated entities	19,656	24,221
Investments in and contributions to Rialto Investments unconsolidated entities	(64,310)	(9,874)
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	(62,855)	
Receipts of principal payments on loans receivable	10,430	
Decrease in Lennar Financial Services loans held-for-investment	1,712	3,749
Purchases of investment securities	(5,826)	(1,647)
Proceeds from sales and maturities of investment securities	719	18,184
Net cash used in investing activities	(557,160)	(234,579)
Cash flows from financing activities:		
Net repayments of Lennar Financial Services debt	(14,351)	(81,179)

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Proceeds from senior notes	247,323	392,392
Proceeds from 2.00% convertible senior notes due 2020	276,500	
Debt issuance costs of senior notes	(8,785)	(5,500)
Partial redemption of senior notes	(375,421)	(23,824)

Lennar Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(In thousands)

(unaudited)

	Nine Months Ended August 31,	
	2010	2009
Redemption of senior notes		(281,477)
Proceeds from other borrowings	4,369	17,543
Principal payments on other borrowings	(131,623)	(67,712)
Exercise of land option contracts from an unconsolidated land investment venture	(35,784)	(22,907)
Receipts related to noncontrolling interests	12,039	3,588
Payments related to noncontrolling interests	(3,882)	(3,366)
Common stock:		
Issuances	1,769	221,125
Repurchases	(1,806)	(1,130)
Dividends	(22,179)	(20,260)
Net cash (used in) provided by financing activities	(51,831)	127,293
Net (decrease) increase in cash and cash equivalents	(419,904)	279,630
Cash and cash equivalents at beginning of period	1,457,438	1,203,422
Cash and cash equivalents at end of period	\$ 1,037,534	1,483,052
Summary of cash and cash equivalents:		
Lennar Homebuilding	\$ 865,657	1,336,739
Rialto Investments	62,153	
Lennar Financial Services	109,724	146,313
	\$ 1,037,534	1,483,052
Supplemental disclosures of non-cash investing and financing activities:		
Non-cash contributions to Lennar Homebuilding unconsolidated entities	\$ 4,364	280
Non-cash distributions from Lennar Homebuilding unconsolidated entities	\$ 2,558	90,744
Purchases of inventories financed by sellers	\$ 15,969	9,290
Non-cash reclass from inventory to operating properties and equipment	\$	102,775
Rialto Investments real estate owned	\$ 58,905	
Consolidations/deconsolidations of newly formed or previously unconsolidated/consolidated entities, net:		
Receivables	\$ 2,077	9,821
Loans receivable	\$ 1,178,012	
Inventories	\$ 49,047	191,621
Investments in unconsolidated entities	\$ (36,811)	(99,363)
Investments in consolidated entities	\$ (171,778)	
Other assets	\$ 64,717	69,574
Debts payable and other liabilities	\$ (686,006)	(156,040)
Noncontrolling interests	\$ (399,258)	(15,613)

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 in which Lennar Corporation is deemed to be the primary beneficiary (the Company) (see Note 15). 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, 2009 filed on Form 8-K dated April 26, 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, 2010 are not necessarily indicative of the results to be expected for the full year.

On December 1, 2009, the Company adopted certain provisions of ASC 810. As required by these provisions, the presentation of noncontrolling interests, previously referred to as minority interests, has been changed on the condensed consolidated balance sheets to be reflected as a component of total equity and on the condensed consolidated statements of operations to separately disclose the amount of net earnings (loss) attributable to Lennar and the noncontrolling interests. In addition, the Company has also presented the changes in equity attributable to both Lennar Corporation and the noncontrolling interests of its subsidiaries (see Note 4).

In addition, on December 1, 2009, the Company also adopted other provisions of ASC 810 that amended the consolidation guidance applicable to VIEs and the definition of a VIE, and require enhanced disclosures to provide more information about an enterprise's involvement in a VIE. ASC 810 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE. The adoption of these provisions resulted in certain additional disclosures and in the deconsolidation of certain option contracts totaling \$75.5 million, previously included in the Company's consolidated inventory not owned in its condensed consolidated balance sheets (see Note 15).

Reclassifications

Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform with the 2010 presentation. These reclassifications had no impact on the Company's results of operations. For the three and nine months ended August 31, 2009, the Company included other interest expense as a component of other income (expense), net in the condensed consolidated statements of operations. In 2010, the Company separately disclosed other interest expense in its condensed consolidated statements of operations and reclassified prior year amounts to conform with the 2010 presentation. In addition, as a result of the Company's new reportable segment, Rialto Investments, the Company reclassified certain prior year amounts in the condensed consolidated financial statements to conform with the 2010 presentation.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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.

The Rialto Investments (Rialto) segment is a new reportable segment that met the reportable segment criteria set forth in GAAP beginning in the first quarter of 2010. All prior year segment information has been restated to conform with the 2010 presentation. The change had no effect on the Company's condensed consolidated financial statements, except for certain reclassifications (see Note 1). Rialto focuses on commercial and residential real estate opportunities arising from dislocations in the United States real estate markets and the eventual restructure and recapitalization of those markets.

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, and to a lesser extent, multi-level residential buildings, 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 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 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 divisions located in:

East: Florida, Maryland, New Jersey and Virginia

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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 in the secondary mortgage market on a servicing released, non-recourse basis; although, the Company remains liable for certain limited representations and warranties related to loan sales. 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 primarily in the same states as the Company's homebuilding operations, as well as in other states.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Operations of the Rialto segment include sourcing, underwriting, pricing, managing, turning around and ultimately monetizing real estate assets, as well as providing similar services to others in markets across the country. Rialto Investments operating earnings (loss) consists of revenues generated primarily from accretible interest income associated with the portfolios of real estate loans acquired in partnership with the FDIC, fees for sub-advisory services and equity in earnings from unconsolidated entities, less the costs incurred by the segment for managing the portfolios and providing advisory services.

Each reportable segment follows the same accounting principles described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for the year ended November 30, 2009 filed on Form 8-K dated April 26, 2010. In addition, the Rialto Investments reportable segment also follows the accounting policies identified in Section 4 of Item 2 of this Form 10-Q, Critical Accounting Policies. 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, 2010	November 30, 2009
Assets:		
Homebuilding East	\$ 1,561,400	1,469,671
Homebuilding Central	718,133	703,669
Homebuilding West	2,117,423	1,986,558
Homebuilding Houston	238,120	214,706
Homebuilding Other	737,199	756,068
Rialto Investments (1)	1,414,934	9,874
Lennar Financial Services	559,994	557,550
Corporate and unallocated	932,696	1,616,695
Total assets	\$ 8,279,899	7,314,791

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

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31,		August 31,	
	2010	2009	2010	2009
Revenues:				
Homebuilding East	\$ 257,181	192,056	623,128	601,801
Homebuilding Central	102,308	96,913	270,262	252,211
Homebuilding West	173,925	172,818	517,509	591,761
Homebuilding Houston	91,649	102,412	270,729	300,316
Homebuilding Other	93,086	79,414	262,625	231,787
Lennar Financial Services	68,826	77,117	196,727	227,770
Rialto Investments	38,000		72,918	
Total revenues (1)	\$ 824,975	720,730	2,213,898	2,205,646
Operating earnings (loss):				
Homebuilding East	\$ 49,384	(52,776)	85,642	(86,272)
Homebuilding Central	(8,250)	(9,707)	(15,953)	(54,930)
Homebuilding West	(10,640)	(92,215)	(16,868)	(242,096)
Homebuilding Houston	5,313	3,570	19,954	10,002
Homebuilding Other	2,322	(3,619)	277	(26,185)
Lennar Financial Services	6,813	11,156	19,565	28,187
Rialto Investments	18,487	(496)	32,195	(1,517)
Total operating earnings (loss)	63,429	(144,087)	124,812	(372,811)
Corporate and unallocated	(23,994)	(27,557)	(68,868)	(84,806)
Earnings (loss) before income taxes	\$ 39,435	(171,644)	55,944	(457,617)

- (1) Total revenues are net of sales incentives of \$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, compared to \$112.2 million (\$42,200 per home delivered) and \$385.3 million (\$48,600 per home delivered), respectively, for the three and nine months ended August 31, 2009.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31, 2010	2009	August 31, 2010	2009
Valuation adjustments to finished homes, CIP and land on which the Company intends to build homes:				
East	\$ 1,061	38,701	3,825	60,972
Central	3,362	1,209	4,652	11,463
West	2,478	6,879	5,091	40,903
Houston	62	517	162	760
Other	4,360	2,092	8,704	10,638
Total	11,323	49,398	22,434	124,736
Valuation adjustments to land the Company intends to sell or has sold to third parties:				
East	52		97	2,117
Central	260	7	2,040	1,185
West	637	5	753	2,533
Houston	14	628	14	628
Total	963	640	2,904	6,463
Write-offs of option deposits and pre-acquisition costs:				
East		5,963		11,743
Central				82
West		2,779		4,482
Houston				721
Other				3,786
Total		8,742		20,814
Company's share of valuation adjustments related to assets of unconsolidated entities:				
East	229		229	251
Central	4,734	600	4,734	1,454
West (1)	4,282	30,351	5,498	79,296
Total	9,245	30,951	10,461	81,001
Valuation adjustments to investments in unconsolidated entities:				
East	159		560	2,566
Central		1,024		13,179
West		26,381		54,407
Other		80		1,571
Total	159	27,485	560	71,723

Write-offs of other receivables:

West	511		511
Other		1,518	
Total	511	1,518	511

Total valuation adjustments and write-offs of option deposits and pre-acquisition costs and other receivables

\$ 21,690 117,727 37,877 305,248

- (1) For the three and nine months ended August 31, 2010, a \$15.0 million valuation adjustment related to the assets of an unconsolidated entity was not included because it resulted from a linked transaction where there was also a pre-tax gain of \$22.7 million related to a debt extinguishment. The net pre-tax gain of \$7.7 million from the transaction was included in Homebuilding equity in earnings (loss) from unconsolidated entities for three and nine months ended August 31, 2010.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

The Company recorded significantly lower valuation adjustments during the three and nine months ended August 31, 2010. However, as expected, after the expiration of the Federal homebuyer tax credit at the end of April, demand trends in many communities in which the Company is selling homes decreased despite the increased affordability from lower home prices and historically low interest rates. If these trends continue and there is further deterioration in the homebuilding 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,		Nine Months Ended August 31,	
	2010	2009	2010	2009
Revenues	\$ 84,327	97,572	183,850	216,815
Costs and expenses	152,322	264,385	300,322	959,750
Net loss of unconsolidated entities (1)	\$ (67,995)	(166,813)	(116,472)	(742,935)
The Company's share of net earnings (loss) recognized	\$ 986	(42,303)	(9,310)	(105,110)

- (1) The net loss of unconsolidated entities for both the three and nine months ended August 31, 2010 and 2009 was primarily related to valuation adjustments recorded by the unconsolidated entities. The Company's exposure to such losses was significantly lower as a result of its small ownership interest in the respective unconsolidated entities or its previous valuation adjustments to its investments in unconsolidated entities. In addition, the Company recorded a net pre-tax gain of \$7.7 million from a transaction related to one of its unconsolidated entities for the three and nine months ended August 31, 2010.

Balance Sheets

(Dollars in thousands)	August 31, 2010	November 30, 2009
Assets:		
Cash and cash equivalents	\$ 94,460	171,946
Inventories	3,471,963	3,628,491
Other assets	301,403	403,383
	\$ 3,867,826	4,203,820

Liabilities and equity:

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Accounts payable and other liabilities	\$ 316,155	366,141
Debt	1,284,718	1,588,390
Equity of:		
The Company	664,916	599,266
Others	1,602,037	1,650,023
Total equity of unconsolidated entities	2,266,953	2,249,289
	\$ 3,867,826	4,203,820
The Company's equity in its unconsolidated entities	29%	27%

In fiscal 2007, the Company sold a portfolio of land to a strategic land investment venture with Morgan Stanley Real 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 consolidated balance sheet in consolidated inventory not owned. As of August 31, 2010 and November 30, 2009, the portfolio of land (including land development costs) of \$422.8 million and \$477.9 million, respectively, is 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.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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, 2010	November 30, 2009
Several recourse debt repayment	\$ 36,795	42,691
Several recourse debt maintenance	29,454	75,238
Joint and several recourse debt repayment	48,446	85,799
Joint and several recourse debt maintenance	65,592	81,592
Land seller debt and other debt recourse exposure		2,420
The Company's maximum recourse exposure	180,287	287,740
Less: joint and several reimbursement agreements with the Company's partners	(60,878)	(93,185)
The Company's net recourse exposure	\$ 119,409	194,555

During the nine months ended August 31, 2010, the Company reduced its maximum recourse exposure related to indebtedness of Lennar Homebuilding unconsolidated entities by \$107.5 million, of which \$80.5 million was paid by the Company primarily through capital contributions to unconsolidated entities and \$27.0 million related to a reduction in the number of joint ventures in which the Company has investments, the reduction of joint and several recourse debt and the joint ventures selling inventory.

As of November 30, 2009, the Company's obligation guarantees, recorded as a liability on its condensed consolidated balance sheet were \$14.1 million. During the nine months ended August 31, 2010, the liability was reduced by a net \$3.4 million. The liability was reduced by \$11.0 million as a result of the debt extinguishment related to one of the Company's unconsolidated entities and by \$1.6 million due to cash paid related to an obligation guarantee previously recorded. This was partially offset by an accrual of \$9.2 million established by the Company to cover claims arising under obligation guarantees. As of August 31, 2010, the Company had \$10.7 million of obligation guarantees recorded as a liability on its condensed consolidated balance sheet. The obligation guarantees are estimated based on current facts and circumstances and any unexpected changes may lead the Company to incur additional liabilities under its 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 the Lennar Homebuilding unconsolidated entities with recourse debt were as follows:

(In thousands)	August 31, 2010	November 30, 2009
Assets	\$ 1,026,194	1,324,993
Liabilities	504,261	777,836
Equity	521,933	547,157

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 payment. 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 a 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

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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

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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 generally constitute a capital contribution or loan to the Lennar Homebuilding unconsolidated entity and increase the Company's 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, 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 the Company's unconsolidated entities, and (3) a \$19.3 million payment to extinguish debt at a discount and buyout the partner of one of the Company's unconsolidated entities resulting 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, 2009, there were no payments under maintenance guarantees and there were other loan repayments of \$21.9 million, a portion of which related to amounts paid under the Company's repayment guarantees. During the three months ended August 31, 2010, and 2009, there were no payments under completion 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 the Company's unconsolidated entities, and (3) a \$19.3 million payment to extinguish debt at a discount and buyout the partner of one of the Company's unconsolidated entities resulting 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, 2009, there were payments of \$18.0 million under the Company's maintenance guarantees and there were other loan repayments of \$60.4 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 no payments under completion guarantees. During the nine months ended August 31, 2009, there was a payment of \$5.6 million under a completion guarantee related to one joint venture.

Payments made to, or on behalf of, the Company's unconsolidated entities, including payments made under guarantees, are recorded primarily as capital contributions to the Company's Lennar Homebuilding unconsolidated entities.

As of August 31, 2010, the fair values of the maintenance guarantees, completion guarantees and repayment guarantees were not material. The Company believes that as of August 31, 2010, 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 11).

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

(Dollars in thousands)	August 31, 2010	November 30, 2009
The Company's net recourse exposure	\$ 119,409	194,555
Reimbursement agreements from partners	60,878	93,185
The Company's maximum recourse exposure	\$ 180,287	287,740
Non-recourse bank debt and other debt (partners' share of several recourse)	\$ 83,483	140,078
Non-recourse land seller debt or other debt	46,604	47,478
Non-recourse bank debt with completion guarantees	597,662	608,397
Non-recourse bank debt without completion guarantees	376,682	504,697
Non-recourse debt to the Company	1,104,431	1,300,650
Total debt	\$ 1,284,718	1,588,390
The Company's maximum recourse exposure as a % of total JV debt	14%	18%

(4) Equity and Comprehensive Income (Loss)

The following table reflects the changes in equity attributable to both Lennar Corporation and the noncontrolling interests of its consolidated subsidiaries in which it has less than a 100% ownership interest for both the nine months ended August 31, 2010 and 2009:

(In thousands)	Stockholders' Equity						
	Total Equity	Class A Common Stock	Class B Common Stock	Additional Paid in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests
Balance at November 30, 2009	\$ 2,588,014	16,515	3,296	2,208,934	(613,690)	828,424	144,535
Net earnings (including net earnings attributable to noncontrolling interests)	77,941					63,231	14,710
Employee stock and directors plans	5,284	16	1	7,073	(1,806)		
Amortization of restricted stock	11,948			11,948			
Cash dividends	(22,179)					(22,179)	
Receipts related to noncontrolling interests	12,039						12,039
Payments related to noncontrolling interests	(3,882)						(3,882)
Rialto Investments non-cash consolidations	397,588						397,588
Non-cash activity related to noncontrolling interests	1,670						1,670
Balance at August 31, 2010	\$ 3,068,423	16,531	3,297	2,227,955	(615,496)	869,476	566,660

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(In thousands)	Stockholders Equity						
	Total Equity	Class A Common Stock	Class B Common Stock	Additional Paid in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests
Balance at November 30, 2008	\$ 2,788,753	14,050	3,296	1,944,626	(612,124)	1,273,159	165,746
Net loss (including net loss attributable to noncontrolling interests)	(463,752)					(452,719)	(11,033)
Issuance of Class A common shares	220,971	2,096		218,875			
Employee stock and directors plans	21,970	208		22,892	(1,130)		
Amortization of restricted stock	12,991			12,991			
Cash dividends	(20,260)					(20,260)	
Receipts related to noncontrolling interests	3,588						3,588
Payments related to noncontrolling interests	(3,366)						(3,366)
Non-cash activity related to noncontrolling interests	16,456						16,456
Balance at August 31, 2009	\$ 2,577,351	16,354	3,296	2,199,384	(613,254)	800,180	171,391

Comprehensive income (loss) attributable to Lennar was the same as net earnings (loss) attributable to Lennar and comprehensive income (loss) attributable to noncontrolling interests was the same as the net earnings (loss) attributable to noncontrolling interests for both the three and nine months ended August 31, 2010 and 2009.

The Company has a stock repurchase program which permits the purchase of up to 20 million shares of its outstanding common stock. During both 2009 and 2010, there were no share repurchases under the stock repurchase program. As of August 31, 2010, 6.2 million shares of common stock can be repurchased in the future under the program.

During the three months ended August 31, 2010, treasury stock increased by an immaterial amount of common shares. During the nine months ended August 31, 2010, treasury stock increased by 0.1 million common shares, in connection with activity related to the Company's equity compensation plan and forfeitures of restricted stock.

(5) Income Taxes

A reduction of the carrying amounts of deferred tax assets by a valuation allowance is required, if based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically based on the more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring unused and tax planning alternatives.

Based upon an evaluation of all available evidence, during the three and nine months ended August 31, 2010, the Company recorded a reversal to the deferred tax asset valuation allowance of \$12.0 million and \$7.2 million, respectively, primarily due to the net earnings generated during this period. At August 31, 2010 and November 30, 2009, the Company's deferred tax assets, which are fully offset by a valuation allowance were \$640.2 million and \$647.4 million, respectively. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion or all of the Company's deferred tax assets will be realized.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

At August 31, 2010 and November 30, 2009, the Company had \$46.0 million and \$77.2 million, respectively, of gross unrecognized tax benefits. During the nine months ended August 31, 2010, total unrecognized tax benefits decreased by \$31.2 million primarily as a result of the withdrawal of an issue by the IRS and settlements with state taxing authorities. If the Company were to recognize these tax benefits, \$25.0 million would affect the Company's effective tax rate.

The Company expects the total amount of unrecognized tax benefits to decrease by \$14.4 million within twelve months as a result of the settlement of certain tax accounting items with the IRS with respect to the prior examination cycle that carried over to the current years under examination, and as a result of the conclusion of examinations with a number of state taxing authorities. The majority of these items were previously recorded as deferred tax liabilities and the settlement will not affect the Company's tax rate.

At August 31, 2010, the Company had \$27.4 million accrued for interest and penalties, of which \$1.9 million was recorded during the nine months ended August 31, 2010. The accrual for interest was reduced by \$8.1 million during the nine months ended August 31, 2010 as a result of settlements with state taxing authorities and the withdrawal of an issue by the IRS. At November 30, 2009, the Company had \$33.6 million accrued for interest and penalties.

The IRS is currently examining the Company's federal income tax returns for fiscal years 2005 through 2009, and certain state taxing authorities are examining various fiscal years. The final outcome of these examinations is not yet determinable. The statute of limitations for the Company's major tax jurisdictions remains open for examination for fiscal years 2003 and subsequent years.

(6) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Effective December 1, 2009, the Company adopted certain provisions under ASC Topic 260, *Earnings per Share*. Under these provisions, all outstanding nonvested shares that contain non-forfeitable rights to dividends or dividend equivalents that participate in undistributed earnings with common stock are considered participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method. The two class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and participation rights in undistributed earnings. The Company's restricted common stock (nonvested shares) are considered participating securities. For the three and nine months ended August 31, 2009, the nonvested shares were excluded from the calculation of the denominator for diluted loss per share because including them would be anti-dilutive due to the Company's net loss during those periods. The adoption of these provisions did not have a material impact to the Company's basic and diluted loss per share.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

(In thousands, except per share amounts)	Three Months Ended August 31,		Nine Months Ended August 31,	
	2010	2009	2010	2009
Numerator:				
Net earnings (loss) attributable to Lennar	\$ 30,035	(171,605)	63,231	(452,719)
Less: distributed earnings allocated to nonvested shares	75	44	237	157
Less: undistributed earnings allocated to nonvested shares	235		443	
Numerator for basic earnings (loss) per share	29,725	(171,649)	62,551	(452,876)
Plus: interest on 2.00% convertible senior notes due 2020, net of tax	871		1,123	
Numerator for diluted earnings (loss) per share	\$ 30,596	(171,649)	63,674	(452,876)
Denominator:				
Denominator for basic earnings (loss) per share weighted average common shares outstanding	183,065	176,770	182,913	166,658
Effect of dilutive securities:				
Share-based payment	26		171	
2.00% convertible senior notes due 2020	10,005		4,313	
Denominator for diluted earnings (loss) per share weighted average common shares outstanding	193,096	176,770	187,397	166,658
Basic earnings (loss) per share	\$ 0.16	(0.97)	0.34	(2.72)
Diluted earnings (loss) per share	\$ 0.16	(0.97)	0.34	(2.72)

Options to purchase 5.3 million and 6.8 million shares, respectively, of common stock were outstanding and anti-dilutive for the three months ended August 31, 2010 and 2009. Options to purchase 4.6 million and 7.5 million shares, respectively, of common stock were outstanding and anti-dilutive for the nine months ended August 31, 2010 and 2009.

(7) Lennar Financial Services Segment

The assets and liabilities related to the Lennar Financial Services segment were as follows:

(In thousands)	August 31, 2010	November 30, 2009
Assets:		
Cash and cash equivalents	\$ 109,724	126,835
Restricted cash	27,167	25,646
Receivables, net (1)	130,526	123,967
Loans held-for-sale (2)	190,538	182,706
Loans held-for-investment, net	21,392	25,131

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Investments held-to-maturity	7,621	2,512
Goodwill	34,046	34,046
Other (3)	38,980	36,707
	\$ 559,994	557,550
Liabilities:		
Notes and other debts payable	\$ 203,206	217,557
Other (4)	183,372	197,329
	\$ 386,578	414,886

- (1) Receivables, net primarily relate to loans sold to investors for which the Company had not yet been paid as of August 31, 2010 and November 30, 2009, respectively.
- (2) Loans held-for-sale relate to unsold loans carried at fair value.
- (3) Other assets include mortgage loan commitments carried at fair value of \$6.7 million and \$4.7 million, respectively, as of August 31, 2010 and November 30, 2009.
- (4) Other liabilities include forward contracts carried at fair value of \$5.0 million and \$3.6 million, respectively, as of August 31, 2010 and November 30, 2009.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

At August 31, 2010, the Lennar Financial Services segment had a warehouse repurchase facility that matures in April 2011 with a maximum aggregate commitment of \$100 million and an additional uncommitted amount of \$100 million. In addition, the Lennar Financial Services segment amended its warehouse repurchase facility that matured in July 2010 by extending its maturity to July 2011 and increasing the maximum aggregate commitment from \$125 million to \$175 million to replace the \$100 million warehouse repurchase facility that matured in August 2010. However, for the outstanding borrowings of \$51.7 million under the facility that matured in August 2010, the maturity was extended through October 2010. At August 31, 2010, the maximum aggregate commitment under these facilities totaled \$275 million.

Subsequent to August 31, 2010, the maximum aggregate commitment of Lennar Financial Services segment's warehouse repurchase facility that matures in April 2011 was increased to \$150 million and the uncommitted amount was decreased to \$50 million.

The Lennar Financial Services segment uses these facilities to finance its lending activities until the mortgage loans are sold to investors and expects the facilities to be renewed or replaced with other facilities when they mature. Borrowings under the facilities were \$203.1 million (which includes the \$51.7 million of borrowings discussed above) and \$217.5 million, respectively, at August 31, 2010 and November 30, 2009, and were collateralized by mortgage loans and receivables on loans sold to investors but not yet paid for with outstanding principal balances of \$214.2 million and \$266.9 million, respectively, at August 31, 2010 and November 30, 2009. If the facilities are not renewed, the borrowings under the facilities will be paid off by selling the mortgage loans held-for-sale to investors and by collecting on receivables on loans sold but not yet paid. Without the facilities, the Lennar Financial Services segment would have to use cash from operations and other funding sources to finance its lending activities.

The Company reviews goodwill annually (or whenever indicators of impairment exist) in accordance with GAAP. Due to operating losses in the title operations of the Lennar Financial Services segment, the Company evaluated the carrying value of its Lennar Financial Services segment's goodwill prior to its annual impairment test. The Company determined the fair value of its title operations based on the income approach. The evaluation concluded that a goodwill impairment was not required as of August 31, 2010.

(8) Rialto Investments Segment

The assets and liabilities related to the Rialto segment were as follows:

(In thousands)	August 31, 2010	November 30, 2009
Assets:		
Cash and cash equivalents	\$ 62,153	
Defeasance cash to retire notes payable	62,855	
Loans receivable	1,133,565	
Real estate acquired through, or in lieu of, foreclosures	58,905	
Investments in unconsolidated entities	78,777	9,874
Other	18,679	
	\$ 1,414,934	9,874
Liabilities:		
Notes payable	\$ 626,906	
Other	12,084	
	\$ 638,990	

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Rialto's operating earnings (loss) for the three and nine months ended August 31, 2010 and 2009 was as follows:

(In thousands)	Three Months Ended August 31,		Nine Months Ended August 31,	
	2010	2009	2010	2009
Revenues	\$ 38,000		72,918	
Costs and expenses	26,156	496	47,073	1,517
Rialto Investments equity in earnings from unconsolidated entities	6,643		6,350	
Operating earnings (loss) (1)	\$ 18,487	(496)	32,195	(1,517)

(1) Operating earnings (loss) for the three and nine months ended August 31, 2010 included \$10.8 million and \$20.4 million, respectively, of net earnings attributable to noncontrolling interests.

In February 2010, the Rialto segment acquired indirectly 40% managing member equity interests in two limited liability companies (LLCs), in partnership with the Federal Deposit Insurance Corporation (FDIC), for approximately \$243 million (net of transaction costs and a \$22 million working capital reserve). The LLCs hold performing and non-performing loans formerly owned by 22 failed financial institutions. The two portfolios consist of more than 5,500 distressed residential and commercial real estate loans with an aggregate unpaid principal balance of approximately \$3 billion and had an initial fair value of approximately \$1.2 billion. The FDIC retained a 60% equity interest in the LLCs and provided \$626.9 million of notes with 0% interest, which are non-recourse to the Company. In accordance with GAAP, interest has not been imputed because the notes are with, and guaranteed by, a governmental agency. The notes are secured by the loans held by the LLCs. Additionally, if the LLCs exceed expectations and meet certain internal rate of return and distribution thresholds, the Company's equity interest in the LLCs could be reduced from 40% down to 30%, with a corresponding increase to the FDIC's equity interest from 60% up to 70%. As of August 31, 2010, the notes payable balance was \$626.9 million; however, during the nine months ended August 31, 2010, \$62.9 million of cash collections on loans in excess of expenses were deposited in a defeasance account, established for the repayment of the notes payable, per the agreement with the FDIC. The funds in the defeasance account will be used to retire the notes payable upon their maturity.

The LLCs met the accounting definition of VIEs and since the Company was determined to be the primary beneficiary, the Company consolidated the LLCs. The Company was determined to be the primary beneficiary because it has the power to direct the activities of the LLCs that most significantly impact the LLCs' performance through its management and servicer contracts. At August 31, 2010, these consolidated LLCs had total combined assets and liabilities of \$1.3 billion and \$0.6 billion, respectively.

All of the acquired loans for which (1) there was evidence of credit quality deterioration since origination and (2) for which it was deemed probable that the Company would be unable to collect all contractually required principal and interest payments were accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, (ASC 310-30). For loans accounted for under ASC 310-30, management determined the value of the loan portfolio based on extensive due diligence on the loans, the underlying properties and the borrowers. Factors considered in the valuation were projected cash flows for the loans, type of loan and related collateral, classification status and current discount rates.

Under ASC 310-30, loans were pooled together according to common risk characteristics. The excess of the cash flows expected to be collected from the loans receivable at acquisition over the initial investment for those loans receivable is referred to as the accretible yield and is recognized in interest income over the expected life of the pools primarily using the constant effective yield method. The difference between contractually required payments at acquisition and the cash flows expected to be

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

collected is referred to as the nonaccretable difference. Changes in the expected cash flows of loans receivable from the date of acquisition will either impact the accretable yield or result in a charge to the provision for loan losses in the period in which the changes become probable. Prepayments are treated as a reduction of cash flows expected to be collected and a reduction of contractually required payments such that the nonaccretable difference is not affected. Subsequent significant decreases to the expected cash flows related to loan impairment will generally result in a charge to the provision for loan losses, resulting in an increase to the allowance for loan losses, and a reclassification from accretable yield to nonaccretable difference. Subsequent probable and significant increases in cash flows will result in a recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield. Certain amounts related to the ASC 310-30 loans are estimates and may change as the Company obtains additional information related to the respective loans.

Since the second quarter of 2010 the Company has recorded accretable interest income on its loan portfolios. The accretion of interest income is based on various estimates regarding loan performance. As the Company continues to obtain additional information related to the respective loans, these estimates may change from quarter-to-quarter. Therefore, the amounts of accretable interest income recorded for the three and nine months ended August 31, 2010 are not necessarily indicative of the results to be expected for the full year. The estimate of the total contractually required payments of the loans receivable at acquisition, February 9, 2010, was \$3.7 billion, the cash flows expected to be collected on loans receivable being accounted for under ASC 310-30 were \$1.6 billion, and both the carrying amount and fair value of those loans receivable was \$1.2 billion. The accretable yield related to the loans receivable at May 31, 2010 was \$0.3 billion. During the three and nine months ended August 31, 2010, the Rialto segment recognized \$37.1 million and \$69.9 million, respectively, of accretable interest income related to the loans receivable. During the three and nine months ended August 31, 2010, there were additions to the accretable yield of \$45.0 million and \$374.1 million, respectively. During both the three and nine months ended August 31, 2010, there were deletions of \$27.2 million. The accretable yield related to the loans receivable at August 31, 2010 was \$0.3 billion. At both the acquisition date and August 31, 2010, there were loans receivable with a carrying value of approximately \$100 million for which interest income was not being recognized because the timing and/or amounts of expected cash flows on such loans are not reasonably estimable.

In addition to the acquisition and management of the FDIC portfolios, an affiliate in the Rialto segment is a sub-advisor to the AllianceBernstein L.P. (AB) fund formed under the Federal government's Public-Private Investment Program (PPIP) to purchase real estate related securities from banks and other financial institutions. The sub-advisor receives management fees for sub-advisory services. The Company committed to invest \$75 million of the total equity commitments of approximately \$1.2 billion made by private investors in this fund, and the U.S. Treasury has committed to a matching amount of approximately \$1.2 billion of equity in the fund, as well as agreed to extend up to approximately \$2.3 billion of debt financing. During the three and nine months ended August 31, 2010, the Company invested \$7.5 million and \$63.8 million, respectively, in the AB PPIP fund. As of August 31, 2010, the Company's investment in the AB PPIP fund was \$71.2 million.

Additionally, another subsidiary in the Rialto segment also has a \$7.5 million, or approximately 5%, investment in a service and infrastructure provider to the residential home loan market (the Service Provider), which provides services to the consolidated LLCs.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Summarized condensed financial information on a combined 100% basis related to Rialto's investments in unconsolidated entities that are accounted for by the equity method as of August 31, 2010 was as follows:

Balance Sheets

(In thousands)	August 31, 2010	November 30, 2009 (1)
Assets:		
Cash and cash equivalents	\$ 33,635	2,229
Investments	3,964,989	
Other assets	176,943	179,985
	\$ 4,175,567	182,214
Liabilities and equity:		
Accounts payable and other liabilities	\$ 88,994	58,209
Partner loans	137,820	135,570
Debt	1,775,000	
Equity of:		
Rialto Investments	78,777	9,874
Others	2,094,976	(21,439)
Total equity of unconsolidated entities	2,173,753	(11,565)
	\$ 4,175,567	182,214

(1) Amounts included as of November 30, 2009 relate only to the Service Provider because the Company did not invest in the AB PPIP fund until December 2009.

Statements of Operations

(In thousands)	Three Months Ended August 31, 2010		Nine Months Ended August 31, 2009	
Revenues	\$ 114,585	18,110	233,912	39,346
Costs and expenses	57,760	26,399	128,115	61,831
Other gains	158,616		154,947	
Net earnings (loss) of unconsolidated entities	215,441	(8,289)	260,744	(22,485)
Rialto Investments' share of net earnings recognized	\$ 6,643		6,350	

(9) Lennar Homebuilding Cash and Cash Equivalents

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Cash and cash equivalents as of August 31, 2010 and November 30, 2009 included \$11.2 million and \$5.8 million, respectively, of cash held in escrow for approximately three days.

(10) Lennar Homebuilding Restricted Cash

Restricted cash as of August 31, 2010 consists primarily of \$122.0 million of cash used to collateralize letters of credit. Restricted cash also includes customer deposits on home sales held in restricted accounts until title transfers to the homebuyer, as required by the state and local governments in the locations in which the homes were sold.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(11) Lennar Homebuilding Senior Notes and Other Debts Payable

(Dollars in thousands)	August 31, 2010	November 30, 2009
5.125% senior notes due 2010	\$ 99,229	249,955
5.95% senior notes due 2011	113,189	244,727
5.95% senior notes due 2013	266,035	347,471
5.50% senior notes due 2014	248,509	248,365
5.60% senior notes due 2015	501,216	501,424
6.50% senior notes due 2016	249,788	249,760
12.25% senior notes due 2017	393,031	392,392
6.95% senior notes due 2018	247,323	
2.00% convertible senior notes due 2020	276,500	
Mortgage notes on land and other debt	448,409	527,258
	\$ 2,843,229	2,761,352

In February 2010, the Company terminated its \$1.1 billion senior unsecured revolving credit facility (the Credit Facility). The Company had no outstanding borrowings under the Credit Facility as it was only being used to issue letters of credit. The Company entered into cash-collateralized letter of credit agreements with two banks with a capacity totaling \$225 million. As of August 31, 2010, the Company had \$120.8 million of cash-collateralized letters of credit.

The Company's performance letters of credit outstanding were \$74.9 million and \$97.7 million, respectively, at August 31, 2010 and November 30, 2009. The Company's financial letters of credit outstanding were \$195.9 million and \$205.4 million, respectively, at August 31, 2010 and November 30, 2009. Performance letters of credit are generally posted with regulatory bodies to guarantee the Company's performance of certain development and construction activities, and financial letters of credit are generally posted in lieu of cash deposits on option contracts and for insurance risks, credit enhancements and as other collateral. Additionally, at August 31, 2010, the Company had outstanding performance and surety bonds related to site improvements at various projects (including certain projects of the Company's joint ventures) of \$720.7 million. Although significant development and construction activities have been completed related to these site improvements, these bonds are generally not released until all development and construction activities are completed. As of August 31, 2010, there were approximately \$329.0 million, or 46%, of costs to complete related to these site improvements. The Company does not presently anticipate any draws upon these bonds, but if such draws occur, the Company does not believe they would have a material effect on its financial position, results of operations or cash flows.

In May 2010, the Company issued \$250 million of 6.95% senior notes due 2018 (the 6.95% Senior Notes) at a price of 98.929% in a private placement. Proceeds from the offering, after payment of initial purchaser's discount and expenses, were \$243.9 million. The Company used the net proceeds of the sale of the 6.95% Senior Notes to fund purchases pursuant to its tender offer for its 5.125% senior notes due October 2010, its 5.95% senior notes due 2011 and its 5.95% senior notes due 2013. Interest on the 6.95% Senior Notes is due semi-annually beginning December 1, 2010. The 6.95% Senior Notes are unsecured and unsubordinated, and may at some time be guaranteed by some or substantially all of the Company's subsidiaries. Subsequently, most of the privately placed 6.95% Senior Notes were exchanged for substantially identical 6.95% senior notes that had been registered under the Securities Act of 1933. At August 31, 2010, the carrying amount of the 6.95% Senior Notes was \$247.3 million.

In May 2010, the Company issued \$276.5 million of 2.00% convertible senior notes due 2020 (the 2.00% Convertible Senior Notes) at a price of 100% in a private placement. Proceeds from the offering, after payment of expenses, were \$271.2 million. The net proceeds are being used for general corporate purposes, including repayments or repurchases of existing senior notes or other indebtedness. The 2.00% Convertible Senior Notes are convertible into shares of Class A common stock at the initial conversion rate of 36.1827 shares of common stock per \$1,000 principal amount of the 2.00% Convertible Senior Notes, which is equivalent to an initial conversion price of approximately \$27.64 per share of Class A

common stock, subject to anti-dilution adjustments. Holders of the 2.00% Convertible Senior Notes will have the

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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right to require the Company to repurchase them for cash equal to 100% of their principal amount, plus accrued but unpaid interest, on each of December 1, 2013 and December 1, 2015. The Company will have the right to redeem the 2.00% Convertible Senior Notes at any time on or after December 1, 2013 for 100% of their principal amount, plus accrued but unpaid interest. Interest on the 2.00% Senior Notes is due semi-annually beginning December 1, 2010. Beginning with the nine-month interest period commencing December 1, 2013, under certain circumstances based on the average trading price of the 2.00% Convertible Senior Notes, the Company may be required to pay contingent interest. The 2.00% Convertible Senior Notes are unsecured and unsubordinated, and may at some time be guaranteed by some or substantially all of the Company's subsidiaries. At August 31, 2010, the carrying amount of the 2.00% Convertible Senior Notes was \$276.5 million.

In May 2010, the Company repurchased \$289.4 million aggregate principal amount of its senior notes due 2010, 2011 and 2013 through a tender offer that ran from April 27, 2010 through May 25, 2010, resulting in a pre-tax loss of \$10.8 million. Through the tender offer, the Company repurchased \$76.4 million principal amount of its 5.125% senior notes due October 2010, \$130.8 million of its 5.95% senior notes due 2011 and \$82.3 million of its 5.95% senior notes due 2013.

In addition to the tender offer, during the nine months ended August 31, 2010, the Company repurchased \$74.4 million principal amount of its 5.125% senior notes due October 2010 and \$1.0 million principal amount of its 5.95% senior notes due 2011, resulting in a net pre-tax loss of \$0.9 million. During the nine months ended August 31, 2010, the Company also retired \$151.0 million of mortgage notes on land and other debt, resulting in a pre-tax gain of \$19.4 million.

In October 2010, the Company retired the remaining \$99.2 million of its 5.125% senior notes due October 2010 for 100% of the outstanding principal amount plus accrued and unpaid interest as of the maturity date.

(12) Product Warranty

Warranty and similar reserves for homes are established at an amount estimated to be adequate to cover potential costs for materials and labor with regard to warranty-type claims expected to be incurred subsequent to the delivery of a home. Reserves are determined based on historical data and trends with respect to similar product types and geographical areas. The Company regularly monitors the warranty reserve and makes adjustments to its pre-existing warranties in order to reflect changes in trends and historical data as information becomes available. Warranty reserves are included in other liabilities in the accompanying condensed consolidated balance sheets. The activity in the Company's warranty reserve was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31,		August 31,	
	2010	2009	2010	2009
Warranty reserve, beginning of period	\$ 126,464	142,174	157,896	129,449
Warranties issued during the period	6,639	6,475	18,509	19,757
Adjustments to pre-existing warranties from changes in estimates	4,057	13,967	3,317	42,746
Payments	(19,862)	(18,678)	(62,424)	(48,014)
Warranty reserve, end of period	\$ 117,298	143,938	117,298	143,938

As of August 31, 2010, the Company identified approximately 890 homes delivered in Florida primarily during its 2006 and 2007 fiscal years that are confirmed to have defective Chinese drywall and resulting damage. This represents a small percentage of homes the Company delivered in Florida (4.2%) and nationally (1.0%) during those fiscal years in the aggregate. Defective Chinese drywall appears to be an industry-wide issue as other homebuilders have publicly disclosed that they are experiencing similar issues with defective Chinese drywall.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Based on its efforts to date, the Company has not identified defective Chinese drywall in homes delivered by the Company outside of Florida. The Company is continuing its investigation of homes delivered during the relevant time period in order to determine whether there are additional homes, not yet inspected, with defective Chinese drywall and resulting damage. If the outcome of the Company's inspections identifies more homes than the Company has estimated to have defective Chinese drywall, it might require an increase to the Company's warranty reserve in the future. The Company has replaced defective Chinese drywall when it has been found in homes the Company has built.

Through August 31, 2010, the Company has accrued \$80.7 million of warranty reserves related to homes confirmed as having defective Chinese drywall, as well as an estimate for homes not yet inspected that may contain Chinese drywall. No additional amount was accrued during the three and nine months ended August 31, 2010. As of August 31, 2010, the warranty reserve, net of payments, was \$29.1 million. During the nine months ended August 31, 2010, the Company received payments of \$58.5 million under its insurance coverage and through third party recoveries relative to the costs it has incurred and expects to incur remedying the homes confirmed and estimated to have defective Chinese drywall and resulting damage. The Company continues to seek additional reimbursement from its subcontractors, insurers and others for costs the Company has incurred or expects to incur to investigate and repair defective Chinese drywall and resulting damage.

(13) Share-Based Payment

During the three and nine months ended August 31, 2010 and 2009, compensation expense related to the Company's share-based payment awards was as follows:

(In thousands)	Three Months Ended August 31,		Nine Months Ended August 31,	
	2010	2009	2010	2009
Stock options	\$ 1,535	2,994	5,047	8,972
Nonvested shares	3,821	3,377	11,948	12,991
Total compensation expense for share-based awards	\$ 5,356	6,371	16,995	21,963

During the three months ended August 31, 2010, the Company did not grant any stock options or nonvested shares. During the nine months ended August 31, 2010, the Company granted an immaterial amount of stock options and did not issue any nonvested shares. During both the three and nine months ended August 31, 2009, the Company granted an immaterial amount of stock options and did not issue any nonvested shares.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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(14) Financial Instruments

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at August 31, 2010 and November 30, 2009, using available market information and what the Company believes to be appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The table excludes cash and cash equivalents, restricted cash, defeasance cash to retire notes payable, receivables, net, income tax receivables and accounts payable, which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

(In thousands)	August 31, 2010		November 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
ASSETS				
Rialto Investments:				
Loans receivable	\$ 1,133,565	1,133,565		
Lennar Financial Services:				
Loans held-for-investment, net	\$ 21,392	22,784	25,131	26,818
Investments held-to-maturity	\$ 7,621	7,636	2,512	2,529
LIABILITIES				
Lennar Homebuilding:				
Senior notes and other debts payable	\$ 2,843,229	2,804,322	2,761,352	2,754,737
Rialto Investments:				
Notes payable	\$ 626,906	610,596		
Lennar Financial Services:				
Notes and other debts payable	\$ 203,206	203,206	217,557	217,557

The following methods and assumptions are used by the Company in estimating fair values:

Lennar Homebuilding For senior notes and other debts payable, the fair value of fixed-rate borrowings is based on quoted market prices. The Company's variable-rate borrowings are tied to market indices and approximate fair value due to the short maturities associated with the majority of the instruments.

Rialto Investments The fair value for loans receivable is based on discounted cash flows as of August 31, 2010. For notes payable, the fair value of the zero percent notes provided by the FDIC was calculated based on a 5-year treasury yield as of August 31, 2010.

Lennar Financial Services The fair values are based on quoted market prices, if available. The fair values for instruments that do not have quoted market prices are estimated by management on the basis of discounted cash flows or other financial information.

Fair Value Measurements

GAAP provides a framework for measuring fair value, expands disclosures about fair value measurements and establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value summarized as follows:

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

Level 2: Fair value determined using significant other observable inputs.

Level 3: Fair value determined using significant unobservable inputs.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

The Company's financial instruments measured at fair value at August 31, 2010 on a recurring basis are all within the Lennar Financial Services segment and are summarized below:

Financial Instruments (Dollars in thousands)	Fair Value Hierarchy	Fair Value at August 31, 2010
Loans held-for-sale (1)	Level 2	\$ 190,538
Mortgage loan commitments	Level 2	\$ 6,689
Forward contracts	Level 2	\$ (4,966)

(1) The aggregate fair value of loans held-for-sale of \$190.5 million exceeds its aggregate principal balance of \$183.3 million by \$7.2 million. The estimated fair values of the Lennar Financial Services segment financial instruments have been determined by using available market information and what the Company believes to be appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The following methods and assumptions are used by the Company in estimating fair values:

Loans held-for-sale Fair value is based on independent quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics. Management believes carrying loans held-for-sale at fair value improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivatives instruments used to economically hedge them without having to apply complex hedge accounting provisions.

Mortgage loan commitments Fair value of commitments to originate loans is based upon the difference between the current value of similar loans and the price at which the Lennar Financial Services segment has committed to originate the loans. The fair value of commitments to sell loan contracts is the estimated amount that the Lennar Financial Services segment would receive or pay to terminate the commitments at the reporting date based on market prices for similar financial instruments.

Forward contracts Fair value is based on quoted market prices for similar financial instruments.

Rialto real estate owned During the three months ended August 31, 2010, the Rialto Investments segment recorded real estate owned (REO) of \$58.9 million measured at fair value (Level 3) on a nonrecurring basis. REO is initially recorded at fair value at the date of taking title less estimated costs to sell. The fair value of the REO is either based upon the appraised value or broker's opinion value at the time of foreclosure.

(15) Consolidation of Variable Interest Entities

GAAP requires the consolidation of VIEs in which an enterprise has a controlling financial interest. A controlling financial interest will have both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIEs economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company's variable interest in VIEs may be in the form of (1) equity ownership, (2) contracts to purchase assets, (3) management and development agreements between the Company and a VIE, (4) loans provided by the Company to a VIE or other partner and/or (5) guarantees provided by members to banks and other third parties. The Company examines specific criteria and uses its judgment when determining if the Company is the primary beneficiary of a VIE. Factors considered in determining whether the Company is the primary beneficiary include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE's executive committee, existence of unilateral kick-out rights or voting rights, level of economic disproportionality between the Company and the other partner(s) and contracts to purchase assets from VIEs.

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Notes to Condensed Consolidated Financial Statements (Continued)

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Generally, all major decision making in the Company's joint ventures is shared between all partners. In particular, business plans and budgets are generally required to be unanimously approved by all partners. Usually, management and other fees earned by the Company are nominal and believed to be at market and there is no significant economic disproportionality between the Company and other partners. Generally, the Company purchases less than a majority of the joint venture's assets and the purchase prices under the Company's option contracts are believed to be at market.

Generally, Lennar Homebuilding unconsolidated entities become VIEs and consolidate when the other partner(s) lack the intent and financial wherewithal to remain in the entity. As a result, the Company continues to fund operations and debt paydowns through partner loans or substituted capital contributions.

The Company evaluated all joint venture agreements as of August 31, 2010. Based on the Company's evaluation, there were no material entities that consolidated during the three and nine months ended August 31, 2010, except for the LLCs in partnership with the FDIC in the Company's Rialto segment. The Company was determined to be the primary beneficiary because it has the power to direct the activities of the LLCs that most significantly impact the LLCs' economic performance through its management and servicer contracts. During the three and nine months ended August 31, 2010, there were no VIEs that deconsolidated other than the \$75.5 million of option contracts that deconsolidated as a result of the adoption of ASC 810.

At August 31, 2010 and November 30, 2009, the Company's recorded investments in Lennar Homebuilding unconsolidated entities were \$664.9 million and \$599.3 million, respectively, and the Rialto Investments segment's investments in unconsolidated entities as of August 31, 2010 and November 30, 2009 were \$78.8 million and \$9.9 million, respectively.

Consolidated VIEs

As of August 31, 2010, the carrying amount of the VIEs' assets and non-recourse liabilities that consolidated were \$2,259.8 million and \$953.7 million, respectively. Those assets are owned by, and those liabilities are obligations of, the VIEs, not the Company.

A VIE's assets can only be used to settle obligations of a VIE. The VIEs are not guarantors of Company's senior notes and other debts payable. In addition, the assets held by a VIE usually are collateral for that VIE's debt. The Company and other partners do not generally have an obligation to make capital contributions to a VIE unless the Company and/or the other partner(s) have entered into debt guarantees with a VIE's banks. Other than debt guarantee agreements with a VIE's banks, there are no liquidity arrangements or agreements to fund capital or purchase assets that could require the Company to provide financial support to a VIE. While the Company has option contracts to purchase land from certain of its VIEs, the Company is not required to purchase the assets and could walk away from the contracts.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Unconsolidated VIEs

At August 31, 2010 and November 30, 2009, the Company's recorded investments in VIEs that are unconsolidated and its estimated maximum exposure to loss were as follows:

As of August 31, 2010

(In thousands)	Investments in Unconsolidated VIEs	Lennar's Maximum Exposure to Loss
Lennar Homebuilding (1)	\$ 142,776	173,084
Rialto Investments (2)	78,777	92,047
Total	\$ 221,553	265,131

As of November 30, 2009

(In thousands)	Investments in Unconsolidated VIEs	Lennar's Maximum Exposure to Loss
Lennar Homebuilding (1)	\$ 84,352	84,352
Rialto Investments (2)	9,874	9,874
Total	\$ 94,226	94,226

- At August 31, 2010, the maximum exposure to loss of Lennar Homebuilding's investments in unconsolidated VIEs is limited to its investments in the unconsolidated VIEs in addition to \$30.0 million of recourse debt of one of the unconsolidated VIEs. At November 30, 2009, the maximum exposure to loss of Lennar Homebuilding's investments in unconsolidated VIEs is limited to its investments in the unconsolidated VIEs.
- For Rialto's investment in unconsolidated VIEs, the Company made a \$75 million commitment to fund capital in the AB PPIP fund. As of August 31, 2010, the Company had contributed \$63.8 million of the \$75 million commitment and it cannot walk away from its commitment to fund capital. Therefore, as of August 31, 2010, the maximum exposure to loss for Rialto's unconsolidated VIEs was higher than the carrying amount of its investment. At November 30, 2009, the maximum recourse exposure to loss of Rialto's investment in unconsolidated VIEs was limited to its investments in the unconsolidated entities.

While these entities are VIEs, the Company has determined that the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance is generally shared. While the Company generally manages the day-to-day operations of the VIEs, the VIEs have an executive committee made up of representatives from each partner. The members of the executive committee have equal vote and major decisions require unanimous consent and approval from all members. The Company does not have the unilateral ability to exercise participating voting rights without partner consent. Furthermore, the Company's economic interest is not significantly disproportionate to the point where it would indicate that the Company has the power to direct these activities.

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The Company and other partners do not generally have an obligation to make capital contributions to the VIEs, except for the Company's \$11.2 million remaining commitment to the AB PPIP fund and \$30.0 million of recourse debt of one of the Lennar Homebuilding unconsolidated VIEs. There are no liquidity arrangements or agreements to fund capital or purchase assets that could require the Company to provide financial support to the VIEs. While the Company has option contracts to purchase land from certain of its unconsolidated VIEs, the Company is not required to purchase the assets and could walk away from the contracts.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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Option Contracts

The Company has access to land through option contracts, which generally enables it to control portions of properties owned by third parties (including land funds) and unconsolidated entities until the Company has determined whether to exercise the option.

A majority of the Company's option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land. The Company's option contracts sometimes include price adjustment provisions, which adjust the purchase price of the land to its approximate fair value at the time of acquisition or are based on the fair value at the time of takedown.

The Company's investments in option contracts are recorded at cost unless those investments are determined to be impaired, in which case the Company's investments are written down to fair value. The Company reviews option contracts for indicators of impairment during each reporting period. The most significant indicator of impairment is a decline in the fair value of the optioned property such that the purchase and development of the optioned property would no longer meet the Company's targeted return on investment with appropriate consideration given to the length of time available to exercise the option. Such declines could be caused by a variety of factors including increased competition, decreases in demand or changes in local regulations that adversely impact the cost of development. Changes in any of these factors would cause the Company to re-evaluate the likelihood of exercising its land options.

Some option contracts contain a predetermined take-down schedule for the optioned land parcels. However, in almost all instances, the Company is not required to purchase land in accordance with those take-down schedules. In substantially all instances, the Company has the right and ability to not exercise its option and forfeit its deposit without further penalty, other than termination of the option and loss of any unapplied portion of its deposit and pre-acquisition costs. Therefore, in substantially all instances, the Company does not consider the take-down price to be a firm contractual obligation.

When the Company does not intend to exercise an option, it writes off any unapplied deposit and pre-acquisition costs associated with the option contract.

The Company evaluates all option contracts for land to determine whether they are VIEs and, if so, whether the Company is the primary beneficiary of certain of these option contracts. Although the Company does not have legal title to the optioned land, if the Company is deemed to be the primary beneficiary, it is required to consolidate the land under option at the purchase price of the optioned land. During the nine months ended August 31, 2010, the effect of consolidation of these option contracts was a net increase of \$10.5 million to consolidated inventory not owned with a corresponding increase to liabilities related to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of August 31, 2010. To reflect the purchase price of the inventory consolidated, the Company reclassified the related option deposits from land under development to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of August 31, 2010. The liabilities related to consolidated inventory not owned primarily represent the difference between the option exercise prices for the optioned land and the Company's cash deposits. However, consolidated inventory not owned decreased due to (1) the Company exercising its options to acquire land under certain contracts previously consolidated and (2) the deconsolidation of certain option contracts totaling \$75.5 million related to the adoption of certain new provisions under ASC 810, resulting in a decrease in consolidated inventory not owned of \$130.2 million for the nine months ended August 31, 2010.

The Company's exposure to loss related to its option contracts with third parties and unconsolidated entities consisted of its non-refundable option deposits and pre-acquisition costs totaling \$151.9 million and \$127.4 million, respectively, at August 31, 2010 and November 30, 2009. Additionally, the Company had posted \$48.8 million and \$58.2 million, respectively, of letters of credit in lieu of cash deposits under certain option contracts as of August 31, 2010 and November 30, 2009.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(16) Subsequent Events

On September 30, 2010, the Company completed the acquisitions of approximately \$740 million of distressed real estate assets, in separate transactions, from three large financial institutions. The combined portfolio includes 397 loans with a total unpaid principal balance of approximately \$529 million and 306 REO properties with an appraised value of approximately \$211 million. The distressed real estate assets were acquired at a discount. The Company paid \$310 million for the distressed real estate assets of which, \$125 million was a 5-year senior unsecured note provided by one of the selling financial institutions.

The loans consist primarily of non-performing residential and commercial acquisition development and construction loans. The real estate properties consist of land, lots, and single-family and multi-family residential communities at varying stages of completion. The acquired assets are located in 17 states, primarily in the Mid-Atlantic and Southeast regions of the United States with the largest concentration of assets in Florida, Georgia and North Carolina. In the combined portfolio, 65% of the assets are residential and 35% are commercial.

(17) New Accounting Pronouncements

In December 2007, the FASB updated certain provisions of ASC Topic 805, *Business Combinations*, (ASC 805). These provisions broaden the guidance of ASC 805, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition requirement of assets acquired, liabilities assumed and interests transferred as a result of business combinations. ASC 805 expands on required disclosures to improve the financial statement users' abilities to evaluate the nature and financial effects of business combinations. ASC 805 was effective for the Company for business combinations that close on or after December 1, 2009. The adoption of these new provisions did not have a material effect on the Company's condensed consolidated financial statements.

In April 2010, the FASB issued Accounting Standards Update (ASU) 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*, (ASU 2010-18). Under ASU 2010-18, modification of loans accounted for within a pool under provisions for loans acquired with deteriorated credit quality does not result in removal of such loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity must continue to consider whether the pool of assets in which the modified loan is included is impaired if expected cash flows for the pool change. ASU 2010-18 does not affect the accounting for loans acquired with deteriorated credit quality that are not accounted for within a pool. Loans accounted for individually that were acquired with deteriorated credit quality continue to be subject to the accounting provisions for troubled debt restructuring by creditors. The amended guidance is to be applied prospectively, with early application permitted. ASU 2010-18 is effective for modifications of loans accounted for within a pool that occur on or after September 1, 2010. The adoption of this ASU did not have a material effect on the Company's condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(18) Supplemental Financial Information

The indentures governing the principal amounts of the Company's 5.125% senior notes due 2010, 5.95% senior notes due 2011, 5.95% senior notes due 2013, 5.50% senior notes due 2014, 5.60% senior notes due 2015, 6.50% senior notes due 2016, 12.25% senior notes due 2017, 6.95% senior notes due 2018 and 2.00% convertible senior notes due 2020 require that, if any of the Company's subsidiaries directly or indirectly guarantee at least \$75 million principal amount of debt of Lennar Corporation, those subsidiaries must also guarantee Lennar Corporation's obligations with regard to its senior notes. Until recently, the Company had a Credit Facility that required that substantially all of the Company's subsidiaries guarantee Lennar Corporation's obligations under the Credit Facility, and therefore, those subsidiaries also guaranteed the Company's obligations with regard to its senior notes. The Company recently terminated the Credit Facility and therefore there are no guarantors of Lennar Corporation's obligations with regard to its senior notes. The entities referred to as guarantors in the following tables are subsidiaries that would have been guarantors if the Credit Facility were still in effect. Supplemental financial information for the guarantors is presented as follows:

Condensed Consolidating Balance Sheet

August 31, 2010

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
Lennar Homebuilding:					
Cash and cash equivalents, restricted cash, receivables, net and income tax receivables	\$ 876,278	125,998	67,440		1,069,716
Inventories		3,694,853	579,474		4,274,327
Investments in unconsolidated entities		628,050	36,866		664,916
Other assets	39,311	102,700	154,001		296,012
Investments in subsidiaries	3,381,274	871,437		(4,252,711)	
	4,296,863	5,423,038	837,781	(4,252,711)	6,304,971
Rialto Investments	85,153		1,329,781		1,414,934
Lennar Financial Services		150,635	409,359		559,994
Total assets	\$ 4,382,016	5,573,673	2,576,921	(4,252,711)	8,279,899
LIABILITIES AND EQUITY					
Lennar Homebuilding:					
Accounts payable and other liabilities	\$ 230,006	654,011	65,611		949,628
Liabilities related to consolidated inventory not owned		393,051			393,051
Senior notes and other debts payable	2,394,820	190,501	257,908		2,843,229
Intercompany	(750,598)	900,480	(149,882)		
	1,874,228	2,138,043	173,637		4,185,908
Rialto Investments	6,025		632,965		638,990
Lennar Financial Services		54,356	332,222		386,578
Total liabilities	1,880,253	2,192,399	1,138,824		5,211,476
Stockholders' equity	2,501,763	3,381,274	871,437	(4,252,711)	2,501,763
Noncontrolling interests			566,660		566,660

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Total equity	2,501,763	3,381,274	1,438,097	(4,252,711)	3,068,423
Total liabilities and equity	\$ 4,382,016	5,573,673	2,576,921	(4,252,711)	8,279,899

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(18) Supplemental Financial Information (Continued)

Condensed Consolidating Balance Sheet

November 30, 2009

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
Lennar Homebuilding:					
Cash and cash equivalents, restricted cash, receivables, net and income tax receivables	\$ 1,564,529	198,524	33,256		1,796,309
Inventories		3,493,784	594,205		4,087,989
Investments in unconsolidated entities		563,984	35,282		599,266
Other assets	44,232	63,040	156,531		263,803
Investments in subsidiaries	3,389,625	522,148		(3,911,773)	
	4,998,386	4,841,480	819,274	(3,911,773)	6,747,367
Rialto Investments	9,874				9,874
Lennar Financial Services		153,545	404,005		557,550
Total assets	\$ 5,008,260	4,995,025	1,223,279	(3,911,773)	7,314,791
LIABILITIES AND EQUITY					
Lennar Homebuilding:					
Accounts payable and other liabilities	\$ 246,501	702,091	83,588		1,032,180
Liabilities related to consolidated inventory not owned		518,359			518,359
Senior notes and other debts payable	2,234,093	223,545	303,714		2,761,352
Intercompany	84,187	102,454	(186,641)		
	2,564,781	1,546,449	200,661		4,311,891
Rialto Investments					
Lennar Financial Services		58,951	355,935		414,886
Total liabilities	2,564,781	1,605,400	556,596		4,726,777
Stockholders equity	2,443,479	3,389,625	522,148	(3,911,773)	2,443,479
Noncontrolling interests			144,535		144,535
Total equity	2,443,479	3,389,625	666,683	(3,911,773)	2,588,014
Total liabilities and equity	\$ 5,008,260	4,995,025	1,223,279	(3,911,773)	7,314,791

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(18) Supplemental Financial Information (Continued)

Condensed Consolidating Statement of Operations

Three Months Ended August 31, 2010

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues:					
Lennar Homebuilding	\$	705,693	12,456		718,149
Lennar Financial Services		38,756	44,884	(14,814)	68,826
Rialto Investments	866		37,134		38,000
Total revenues	866	744,449	94,474	(14,814)	824,975
Costs and expenses:					
Lennar Homebuilding		646,072	19,189	(1,599)	663,662
Lennar Financial Services		38,598	35,611	(12,196)	62,013
Rialto Investments	8,753		17,403		26,156
Corporate general and administrative	22,686			1,308	23,994
Total costs and expenses	31,439	684,670	72,203	(12,487)	775,825
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities		1,173	(187)		986
Other income, net	9,653	370		(9,699)	324
Other interest expense	(12,026)	(17,668)		12,026	(17,668)
Rialto Investments equity in earnings from unconsolidated entities	6,643				6,643
Earnings (loss) before income taxes	(26,303)	43,654	22,084		39,435
Benefit (provision) for income taxes	14,587	(12,274)	(2,918)		(605)
Equity in earnings from subsidiaries	41,751	10,371		(52,122)	
Net earnings (including net earnings attributable to noncontrolling interests)	30,035	41,751	19,166	(52,122)	38,830
Less: Net earnings attributable to noncontrolling interests			8,795		8,795
Net earnings attributable to Lennar	\$ 30,035	41,751	10,371	(52,122)	30,035

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(18) Supplemental Financial Information (Continued)

Condensed Consolidating Statement of Operations

Three Months Ended August 31, 2009

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues:					
Lennar Homebuilding	\$	636,918	6,695		643,613
Lennar Financial Services		43,750	49,406	(16,039)	77,117
Rialto Investments					
Total revenues		680,668	56,101	(16,039)	720,730
Costs and expenses:					
Lennar Homebuilding		694,217	12,078	(1,935)	704,360
Lennar Financial Services		40,699	37,258	(11,996)	65,961
Rialto Investments	496				496
Corporate general and administrative	25,823			1,734	27,557
Total costs and expenses	26,319	734,916	49,336	(12,197)	798,374
Lennar Homebuilding equity in loss from unconsolidated entities		(42,211)	(92)		(42,303)
Other income (expense), net	8,198	(29,283)		(8,184)	(29,269)
Other interest expense	(12,026)	(22,428)		12,026	(22,428)
Earnings (loss) before income taxes	(30,147)	(148,170)	6,673		(171,644)
Benefit (provision) for income taxes	2,789	(2,401)	(3,128)		(2,740)
Equity in earnings (loss) from subsidiaries	(144,247)	6,324		137,923	
Net earnings (loss) (including net loss attributable to noncontrolling interests)	(171,605)	(144,247)	3,545	137,923	(174,384)
Less: Net loss attributable to noncontrolling interests			(2,779)		(2,779)
Net earnings (loss) attributable to Lennar	\$ (171,605)	(144,247)	6,324	137,923	(171,605)

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(18) Supplemental Financial Information (Continued)

Condensed Consolidating Statement of Operations

Nine Months Ended August 31, 2010

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues:					
Lennar Homebuilding	\$	1,903,889	40,364		1,944,253
Lennar Financial Services		113,845	127,103	(44,221)	196,727
Rialto Investments	2,990		69,928		72,918
Total revenues	2,990	2,017,734	237,395	(44,221)	2,213,898
Costs and expenses:					
Lennar Homebuilding		1,763,857	62,997	(4,538)	1,822,316
Lennar Financial Services		111,956	101,241	(36,035)	177,162
Rialto Investments	15,519		31,554		47,073
Corporate general and administrative	65,117			3,751	68,868
Total costs and expenses	80,636	1,875,813	195,792	(36,822)	2,115,419
Lennar Homebuilding equity in loss from unconsolidated entities		(9,084)	(226)		(9,310)
Other income, net	28,391	14,302		(28,419)	14,274
Other interest expense	(35,818)	(53,849)		35,818	(53,849)
Rialto Investments equity in earnings from unconsolidated entities	6,350				6,350
Earnings (loss) before income taxes	(78,723)	93,290	41,377		55,944
Benefit (provision) for income taxes	48,852	(23,418)	(3,437)		21,997
Equity in earnings from subsidiaries	93,102	23,230		(116,332)	
Net earnings (including net earnings attributable to noncontrolling interests)	63,231	93,102	37,940	(116,332)	77,941
Less: Net earnings attributable to noncontrolling interests			14,710		14,710
Net earnings attributable to Lennar	\$ 63,231	93,102	23,230	(116,332)	63,231

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(18) Supplemental Financial Information (Continued)

Condensed Consolidating Statement of Operations

Nine Months Ended August 31, 2009

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues:					
Lennar Homebuilding	\$	1,947,066	30,810		1,977,876
Lennar Financial Services		123,941	146,512	(42,683)	227,770
Rialto Investments					
Total revenues		2,071,007	177,322	(42,683)	2,205,646
Costs and expenses:					
Lennar Homebuilding		2,116,834	50,368	(17,008)	2,150,194
Lennar Financial Services		113,785	106,365	(20,567)	199,583
Rialto Investments	1,517				1,517
Corporate general and administrative	79,690			5,116	84,806
Total costs and expenses	81,207	2,230,619	156,733	(32,459)	2,436,100
Lennar Homebuilding equity in loss from unconsolidated entities		(104,872)	(238)		(105,110)
Other income (expense), net	25,636	(73,145)		(25,594)	(73,103)
Other interest expense	(35,818)	(48,950)		35,818	(48,950)
Earnings (loss) before income taxes	(91,389)	(386,579)	20,351		(457,617)
(Provision) benefit for income taxes	10,207	(5,310)	(11,032)		(6,135)
Equity in earnings (loss) from subsidiaries	(371,537)	20,352		351,185	
Net earnings (loss) (including net loss attributable to noncontrolling interests)	(452,719)	(371,537)	9,319	351,185	(463,752)
Less: Net loss attributable to noncontrolling interests			(11,033)		(11,033)
Net earnings (loss) attributable to Lennar	\$ (452,719)	(371,537)	20,352	351,185	(452,719)

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(18) Supplemental Financial Information (Continued)

Condensed Consolidating Statement of Cash Flows

Nine Months Ended August 31, 2010

(Dollars in thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from operating activities:					
Net earnings (including net earnings attributable to noncontrolling interests)	\$ 63,231	93,102	37,940	(116,332)	77,941
Adjustments to reconcile net earnings (including net earnings attributable to noncontrolling interests) to net cash provided by (used in) operating activities	339,037	(308,908)	(35,315)	116,332	111,146
Net cash provided by (used in) operating activities	402,268	(215,806)	2,625		189,087
Cash flows from investing activities:					
Increase in restricted cash related to cash collateralized letters of credit	(121,976)				(121,976)
Investments in and contributions to Lennar Homebuilding unconsolidated entities, net		(140,434)	(2,239)		(142,673)
Investments in and contributions to Rialto Investments unconsolidated entities	(64,310)				(64,310)
Investments in and contributions to Rialto Investments consolidated entities (net of \$93.3 million cash and cash equivalents consolidated)	(265,059)		93,281		(171,778)
Increase in Rialto Investments defeasance cash to retire notes payable			(62,855)		(62,855)
Receipts of principal payments of loans receivable			10,430		10,430
Other	(959)	(2,268)	(771)		(3,998)
Net cash provided by (used in) investing activities	(452,304)	(142,702)	37,846		(557,160)
Cash flows from financing activities:					
Net repayments of Lennar Financial Services debt		(21)	(14,330)		(14,351)
Net proceeds from senior notes	515,038				515,038
Partial redemption of senior notes	(375,421)				(375,421)
Net repayments on other borrowings		(76,937)	(50,317)		(127,254)
Exercise of land option contracts from an unconsolidated land investment venture		(35,784)			(35,784)
Net receipts related to noncontrolling interests			8,157		8,157
Common stock:					
Issuances	1,769				1,769
Repurchases	(1,806)				(1,806)

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Dividends	(22,179)			(22,179)
Intercompany	(551,152)	452,631	98,521	
Net cash provided by (used in) financing activities	(433,751)	339,889	42,031	(51,831)
Net increase (decrease) in cash and cash equivalents	(483,787)	(18,619)	82,502	(419,904)
Cash and cash equivalents at beginning of period	1,223,169	154,313	79,956	1,457,438
Cash and cash equivalents at end of period	\$ 739,382	135,694	162,458	1,037,534

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(18) Supplemental Financial Information (Continued)

Condensed Consolidating Statement of Cash Flows

Nine Months Ended August 31, 2009

(Dollars in thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from operating activities:					
Net earnings (loss) (including net loss attributable to noncontrolling interests)	\$ (452,719)	(371,537)	9,319	351,185	(463,752)
Adjustments to reconcile net earnings (loss) (including net loss attributable to noncontrolling interests) to net cash provided by (used in) operating activities	144,275	1,060,910	(3,332)	(351,185)	850,668
Net cash provided by (used in) operating activities	(308,444)	689,373	5,987		386,916
Cash flows from investing activities:					
Investments in and contributions to Lennar					
Homebuilding unconsolidated entities, net		(196,155)	(48,004)		(244,159)
Investments in and contributions to Rialto Investments unconsolidated entities	(9,874)				(9,874)
Other	(52)	19,966	(460)		19,454
Net cash used in investing activities	(9,926)	(176,189)	(48,464)		(234,579)
Cash flows from financing activities:					
Net repayments of Lennar Financial Services debt		(69)	(81,110)		(81,179)
Net proceeds from senior notes	386,892				386,892
Redemption of senior notes	(281,477)				(281,477)
Partial redemption of senior notes	(23,824)				(23,824)
Net repayments on other borrowings		(4,664)	(45,505)		(50,169)
Exercise of land option contracts from an unconsolidated land investment venture		(22,907)			(22,907)
Net receipts related to noncontrolling interests			222		222
Common stock:					
Issuances	221,125				221,125
Repurchases	(1,130)				(1,130)
Dividends	(20,260)				(20,260)
Intercompany	275,181	(474,123)	198,942		
Net cash provided by (used in) financing activities	556,507	(501,763)	72,549		127,293
Net increase in cash and cash equivalents	238,137	11,421	30,072		279,630

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Cash and cash equivalents at beginning of period	1,007,594	125,437	70,391	1,203,422
Cash and cash equivalents at end of period	\$ 1,245,731	136,858	100,463	1,483,052

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included under Item 1 of this Report and our audited consolidated financial statements and accompanying notes for our fiscal year ended November 30, 2009 filed on Form 8-K dated April 26, 2010.

Some of the statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Quarterly Report on Form 10-Q, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include statements regarding our business, financial condition, results of operations, cash flows, strategies and prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption *Risk Factors* included in Item 1A of our Annual Report on Form 10-K for our fiscal year ended November 30, 2009. We do not undertake any obligation to update forward-looking statements, except as required by Federal securities laws.

Outlook

During the first nine months of our 2010 fiscal year, we continued to see a housing market that was trying to stabilize. The expiration of the Federal homebuyer tax credit at the end of April has been more impactful than originally anticipated. As a result, our new sales orders for the third quarter were down 15% from the prior year. We believe that the recovery in the housing market is in a rocky stabilization process that will ultimately give way to improvement in the market; however, the timing and the degree of improvement remain uncertain.

We have remained focused on improving our core business and returning our company to profitability in 2010 and have achieved year-to-date profitability through our third quarter. Our principal focus in our homebuilding operations is on maintaining and improving our gross profit margin on the homes we sell rather than increasing sales volume. We have taken steps over the past several years to reduce costs and right-size our overhead structure. We have also repositioned our product offering to target first-time and value-focused homebuyers, the result of which has only recently begun to be reflected in our operating results. We continue to make carefully underwritten strategic acquisitions in well-positioned markets that will support our homebuilding operations going forward. As a result, we are beginning to open communities with land that we purchased relatively recently at prices that reflect the recent depressed state of the market with respect to land that is suitable for residential homebuilding.

Along with the improvement in our homebuilding operations, our recently formed Rialto Investments segment has already started to contribute to our bottom line results. During the nine months ended August 31, 2010, our Rialto Investments segment generated \$11.8 million of operating earnings primarily from the Federal Deposit Insurance Corporation (FDIC) loan portfolios acquired in the first quarter, fees for sub-advisory services and equity in earnings from unconsolidated entities. We expect this segment to be a growing component of our operating earnings in the future as we continue to evaluate and execute on potential opportunities.

Our balance sheet strength positions us to capitalize on future high-return investment opportunities. Although, we remain cautious about the immediate future, we believe that our core businesses are on the right track to achieving sustainable profitability and that we've properly positioned our company to capitalize on opportunities as they present themselves in an evolving market.

(1) Results of Operations

Overview

We historically have experienced, and expect to continue to experience, variability in quarterly results. Our results of operations for the three and nine months ended August 31, 2010 are not necessarily indicative of the results to be expected for the full year.

Net earnings attributable to Lennar were \$30.0 million, or \$0.16 per basic and diluted share, in the third quarter of 2010, compared to net loss attributable to Lennar of \$171.6 million, or \$0.97 per basic and diluted share, in the third quarter of 2009. Net earnings attributable to Lennar was \$63.2 million, or \$0.34 per basic and diluted share, in the nine months ended August 31, 2010, compared to net loss attributable to Lennar of \$452.7 million, or \$2.72 per basic and diluted share, in the nine months ended August 31, 2009. The improvement in operating results year over year was a result of lower valuation adjustments, reduced sales incentives and cost reduction initiatives implemented during the downturn such as lowering our construction costs, repositioning our product offering to target first-time value-focused homebuyers and reducing our overhead structure. In addition, during fiscal 2010 our operating results have been positively impacted by our Rialto Investments segment, which began to generate revenues from the FDIC loan portfolios acquired in the first quarter and equity in earnings from its unconsolidated entities. Gross margin percentage on home sales improved for the three and nine months ended August 31, 2010, compared to the same periods last year, primarily due to a reduction in valuation adjustments in the three and nine months ended August 31, 2010, and reduced sales incentives offered to homebuyers as a percentage of revenues from home sales. Although sales incentives offered to homebuyers were lower for the third quarter of 2010 compared to the third quarter of 2009 and the second quarter of 2010, it is likely there will be at least some increase in the sales incentives offered to homebuyers in the fourth quarter of 2010 compared to the third quarter of 2010.

Financial information relating to our operations was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31, 2010	2009	August 31, 2010	2009
Lennar Homebuilding revenues:				
Sales of homes	\$ 697,413	635,266	1,905,519	1,946,624
Sales of land	20,736	8,347	38,734	31,252
Total homebuilding revenues	718,149	643,613	1,944,253	1,977,876
Lennar Homebuilding costs and expenses:				
Cost of homes sold	549,994	585,770	1,516,313	1,786,854
Cost of land sold	16,452	17,792	31,090	48,839
Selling, general and administrative	97,216	100,798	274,913	314,501
Total homebuilding costs and expenses	663,662	704,360	1,822,316	2,150,194
Lennar Homebuilding operating margins	54,487	(60,747)	121,937	(172,318)
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	986	(42,303)	(9,310)	(105,110)
Other income (expense), net	324	(29,269)	14,274	(73,103)
Other interest expense	(17,668)	(22,428)	(53,849)	(48,950)
Lennar Homebuilding operating earnings (loss)	\$ 38,129	(154,747)	73,052	(399,481)
Lennar Financial Services revenues	\$ 68,826	77,117	196,727	227,770
Lennar Financial Services costs and expenses	62,013	65,961	177,162	199,583
Lennar Financial Services operating earnings	\$ 6,813	11,156	19,565	28,187
Rialto Investments revenues	\$ 38,000		72,918	
Rialto Investments costs and expenses	26,156	496	47,073	1,517
Rialto Investments equity in earnings from unconsolidated entities	6,643		6,350	
Rialto Investments operating earnings (loss) (1)	\$ 18,487	(496)	32,195	(1,517)
Total operating earnings (loss)	\$ 63,429	(144,087)	124,812	(372,811)
Corporate general and administrative expenses	(23,994)	(27,557)	(68,868)	(84,806)
Earnings (loss) before income taxes	\$ 39,435	(171,644)	55,944	(457,617)

(1) Rialto Investments operating earnings (loss) for the three and nine months ended August 31, 2010 include \$10.8 million and \$20.4 million, respectively, of net earnings attributable to noncontrolling interests.

Three Months Ended August 31, 2010 versus Three Months Ended August 31, 2009

Revenues from home sales increased 10% in the third quarter of 2010 to \$697.4 million from \$635.3 million in 2009. Revenues were higher primarily due to a 9% increase in the number of home deliveries, excluding unconsolidated entities. New home deliveries, excluding unconsolidated entities, increased to 2,909 homes in the third quarter of 2010 from 2,660 homes last year. The average sales price of homes delivered increased to \$240,000 in the third quarter of 2010 from \$239,000 in the same period last year. Sales incentives offered to homebuyers were \$30,600 per home delivered in the third quarter of 2010, or 11.3% as a percentage of home sales revenue, compared to \$42,200 per home delivered in the same period last year, or 15.0% as a percentage of home sales revenue.

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Gross margins on home sales were \$147.4 million, or 21.1%, in the third quarter of 2010, which included \$11.3 million of valuation adjustments, compared to gross margins on home sales of \$49.5 million, or 7.8%, in the third quarter of 2009, which included \$49.4 million of valuation adjustments. Gross margin for the third quarter of 2010 includes third-party recoveries related to Chinese drywall, offset by valuation adjustments, which resulted in a net 80 basis points benefit to the gross margin percentage.

Selling, general and administrative expenses were reduced by \$3.6 million, or 4%, in the third quarter of 2010, compared to the same period last year, primarily due to reductions in legal and occupancy expenses. As a percentage of revenues from home sales, selling, general and administrative expenses improved to 13.9% in the third quarter of 2010, from 15.9% in 2009.

Gross profits on land sales totaled \$4.3 million in the third quarter of 2010, compared to losses on land sales of \$9.4 million in the third quarter of 2009, which included \$8.7 million in write-offs of deposits and pre-acquisition costs.

Lennar Homebuilding equity in earnings (loss) from unconsolidated entities was \$1.0 million in the third quarter of 2010, which included a net pre-tax gain of \$7.7 million as a result of a transaction by one of our unconsolidated entities, offset by \$9.2 million of valuation adjustments related to assets of unconsolidated entities in which we have investments. In the third quarter of 2009, Lennar Homebuilding equity in earnings (loss) from unconsolidated entities was (\$42.3) million, which included \$31.0 million of valuation adjustments related to assets of unconsolidated entities in which we have investments.

Other income (expense), net, totaled \$0.3 million in the third quarter of 2010, compared to other income (expense), net, of (\$29.3) million in the third quarter of 2009, which included \$27.5 million of valuation adjustments to our investments in unconsolidated entities.

Homebuilding interest expense was \$36.7 million in the third quarter of 2010 (\$18.1 million was included in cost of homes sold, \$0.9 million in cost of land sold and \$17.7 million in other interest expense), compared to \$40.7 million in the third quarter of 2009 (\$17.8 million was included in cost of homes sold, \$0.5 million in cost of land sold and \$22.4 million in other interest expense). Despite an increase in debt, interest expense decreased primarily due to an increase in qualifying assets eligible for interest capitalization and savings resulting from the termination of our senior unsecured revolving credit facility during the first quarter of 2010.

Net earnings (loss) attributable to noncontrolling interests were \$8.8 million and (\$2.8) million, respectively, in the third quarter of 2010 and 2009.

Sales of land, Lennar Homebuilding equity in earnings (loss) from unconsolidated entities, other income (expense), net and net earnings (loss) attributable to noncontrolling interests may vary significantly from period to period depending on the timing of land sales and other transactions entered into by the Company and unconsolidated entities in which it has investments.

Operating earnings for the Lennar Financial Services segment was \$6.8 million in the third quarter of 2010, compared to operating earnings of \$11.2 million in the same period last year. The decrease in operating earnings was primarily due to lower profits per loan in the segment's mortgage operations.

In the third quarter of 2010, operating earnings for the Rialto Investments segment were \$18.5 million (which included \$10.8 million of net earnings attributable to noncontrolling interests), compared to an operating loss of \$0.5 million in the same period last year. In the third quarter of 2010, revenues in this segment were \$38.0 million, which consisted primarily of accretable interest income associated with the portfolio of real estate loans acquired in partnership with the FDIC. In the third quarter of 2010, expenses in this segment were \$26.2 million, which consisted primarily of carrying costs related to that portfolio of real estate loans, underwriting expenses and general and administrative expenses. The segment also had equity in earnings from unconsolidated entities of \$6.6 million during the third quarter of 2010, consisting primarily of unrealized gains and interest income related to the Company's investment in the AllianceBernstein L.P. (AB) fund formed under the Federal government's Public-Private Investment Program (PPIP).

Corporate general and administrative expenses were reduced by \$3.6 million, or 13%, in the third quarter of 2010, compared to the third quarter of 2009 primarily due to our cost reduction initiatives implemented during the downturn. Corporate general and administrative expenses as a percentage of total revenues decreased to 2.9% in the third quarter of 2010, from 3.8% in the third quarter of 2009.

During the three months ended August 31, 2010, we recorded a reversal to our deferred tax asset valuation allowance of \$12.0 million due to the net earnings generated during the period.

Our overall effective income tax rates were 1.98% and (1.62%), respectively, for the three months ended August 31, 2010 and 2009. The change in the effective tax rate, compared to the same period during 2009, resulted primarily from tax-related interest expense under Accounting Standard Codification (ASC) Topic 740, *Income Taxes*.

Nine Months Ended August 31, 2010 versus Nine Months Ended August 31, 2009

Revenues from home sales decreased 2% in the nine months ended August 31, 2010 to \$1,905.5 million from \$1,946.6 million in 2009. Revenues were lower primarily due to a 2% decrease in the number of home deliveries, excluding unconsolidated entities. New home deliveries, excluding unconsolidated entities, decreased to 7,799 homes in the nine months ended August 31, 2010 from 7,934 homes last year. The average sales price of homes delivered for both the nine months ended August 31, 2010 and 2009 was \$245,000. Sales incentives offered to homebuyers as a percentage of home sales revenue were \$32,500 per home delivered in the nine months ended August 31, 2010, or 11.7% as a percentage of home sales revenue, compared to \$48,600 per home delivered in the same period last year, or 16.5% as a percentage of home sales revenue.

Gross margins on home sales were \$389.2 million, or 20.4%, in the nine months ended August 31, 2010, which included \$22.4 million of valuation adjustments, compared to gross margins on home sales of \$159.8 million, or 8.2%, in the nine months ended August 31, 2009, which included \$124.7 million of valuation adjustments. Gross margin percentage on home sales improved compared to last year primarily due to a reduction in valuation adjustments and reduced sales incentives offered to homebuyers as a percentage of revenues from home sales.

Selling, general and administrative expenses were reduced by \$39.6 million, or 13%, in the nine months ended August 31, 2010, compared to the same period last year, primarily due to reductions in legal and occupancy expenses. As a percentage of revenues from home sales, selling, general and administrative expenses improved to 14.4% in the nine months ended August 31, 2010, from 16.2% in 2009.

Gross profits on land sales totaled \$7.6 million in the nine months ended August 31, 2010, compared to losses on land sales of \$17.6 million in the nine months ended August 31, 2009, which included \$6.5 million of valuation adjustments and \$20.8 million in write-offs of deposits and pre-acquisition costs.

Lennar Homebuilding equity in earnings (loss) from unconsolidated entities was (\$9.3) million in the nine months ended August 31, 2010, which included \$10.5 million of valuation adjustments related to assets of unconsolidated entities in which we have investments, partially offset by a net pre-tax gain of \$7.7 million as a result of a transaction by one of our unconsolidated entities. In the nine months ended August 31, 2009, Lennar Homebuilding equity in earnings (loss) from unconsolidated entities was (\$105.1) million, which included \$81.0 million of valuation adjustments related to assets of unconsolidated entities in which we have investments.

Other income (expense), net, totaled \$14.3 million in the nine months ended August 31, 2010, which included a \$19.4 million pre-tax gain on the extinguishment of other debt and other income, partially offset by a \$11.7 million pre-tax loss related to the repurchase of senior notes. Other income (expense), net, totaled (\$73.1) million in the nine months ended August 31, 2009, which included \$71.7 million of valuation adjustments to our investments in unconsolidated entities.

Homebuilding interest expense was \$107.0 million in the nine months ended August 31, 2010 (\$51.8 million was included in cost of homes sold, \$1.4 million in cost of land sold and \$53.8 million in other interest expense), compared to \$99.5 million in the nine months ended August 31, 2009 (\$45.5 million was included in cost of homes sold, \$5.0 million in cost of land sold and \$49.0 million in other interest expense). Interest expense increased primarily due to the interest related to the \$400 million 12.25% senior notes due 2017 issued during the second quarter of 2009, partially offset by savings resulting from the termination of the our senior unsecured revolving credit facility during the first quarter of 2010.

Net earnings (loss) attributable to noncontrolling interests were \$14.7 million and (\$11.0) million, respectively, in the nine months ended August 31, 2010 and 2009.

Sales of land, Lennar Homebuilding equity in earnings (loss) from unconsolidated entities, other income (expense), net and net earnings (loss) attributable to noncontrolling interests may vary significantly from period to period depending on the timing of land sales and other transactions entered into by the Company and unconsolidated entities in which it has investments.

Operating earnings for the Lennar Financial Services segment were \$19.6 million in the nine months ended August 31, 2010, compared to operating earnings of \$28.2 million in the same period last year. The decrease in operating earnings was primarily due to decreased volume in the segment's mortgage and title operations, partially offset by \$5.1 million of proceeds received from the previous sale of a cable system.

In the nine months ended August 31, 2010, operating earnings for the Rialto Investments segment were \$32.2 million (which included \$20.4 million of net earnings attributable to noncontrolling interests), compared to an operating loss of \$1.5 million in the same period last year. In the nine months ended August 31, 2010, revenues in this segment were \$72.9 million, which consisted primarily of accretable interest income associated with the portfolio of real estate loans acquired in partnership with the FDIC. In the nine months ended August 31, 2010, expenses in this segment were \$47.1 million, which consisted primarily of carrying costs related to that portfolio of real estate loans, underwriting expenses and general and administrative expenses. The segment also had equity in earnings from unconsolidated entities of \$6.4 million during the nine months ended August 31, 2010, consisting primarily of unrealized gains and interest income related to the Company's investment in the AB PPIP fund.

Corporate general and administrative expenses were reduced by \$15.9 million, or 19%, in the nine months ended August 31, 2010, compared to the same period last year primarily due to our cost reduction initiatives implemented during the downturn. As a percentage of total revenues, corporate general and administrative expenses decreased to 3.1% in the nine months ended August 31, 2010, from 3.8% in the same period last year.

During the nine months ended August 31, 2010, we recorded a reversal to our deferred tax asset valuation allowance of \$7.2 million primarily due to the net earnings generated during the period.

Our overall effective income tax rates were (53.35%) and (1.37%), respectively, for the nine months ended August 31, 2010 and 2009. The change in the effective tax rate, compared to the same period in 2009, resulted primarily from the reversal of gross unrecognized tax benefits as a result of the withdrawal of an issue by the IRS and settlement with state taxing authorities.

Homebuilding Segments

We have grouped our homebuilding activities into four reportable segments, which we refer to as Homebuilding East, Homebuilding Central, Homebuilding West and Homebuilding Houston, based primarily upon similar economic characteristics, geography and product type. Information about homebuilding activities in states that do not have economic characteristics that are similar to those in other states in the same geographic area is grouped under Homebuilding Other. References in this Management's Discussion and Analysis of Financial Condition and Results of Operations to homebuilding segments are to those reportable segments.

At August 31, 2010, our reportable homebuilding segments and Homebuilding Other consisted of homebuilding divisions 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.

The following tables set forth selected financial and operational information related to our homebuilding operations for the periods indicated:

Selected Financial and Operational Data

(In thousands)	Three Months Ended August 31,		Nine Months Ended August 31,	
	2010	2009	2010	2009
Revenues:				
East:				
Sales of homes	\$ 253,628	190,321	611,422	583,630
Sales of land	3,553	1,735	11,706	18,171
Total East	257,181	192,056	623,128	601,801
Central:				
Sales of homes	95,837	94,297	261,697	247,823
Sales of land	6,471	2,616	8,565	4,388
Total Central	102,308	96,913	270,262	252,211
West:				
Sales of homes	164,957	170,974	505,100	587,970
Sales of land	8,968	1,844	12,409	3,791
Total West	173,925	172,818	517,509	591,761
Houston:				
Sales of homes	89,905	100,442	264,675	295,596
Sales of land	1,744	1,970	6,054	4,720
Total Houston	91,649	102,412	270,729	300,316
Other:				
Sales of homes	93,086	79,232	262,625	231,605
Sales of land		182		182
Total Other	93,086	79,414	262,625	231,787
Total homebuilding revenues	\$ 718,149	643,613	1,944,253	1,977,876

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31,		August 31,	
	2010	2009	2010	2009
Operating earnings (loss):				
East:				
Sales of homes	\$ 51,362	(37,616)	90,061	(56,400)
Sales of land				