

LENNAR CORP /NEW/  
Form 10-K  
January 27, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

**For the fiscal year ended November 30, 2008**

**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)

Registrant's telephone number, including area code (305) 559-4000

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value 10¢	New York Stock Exchange
Class B Common Stock, par value 10¢	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the registrant's Class A and Class B common stock held by non-affiliates of the registrant (125,042,232 Class A shares and 9,731,683 Class B shares) as of May 31, 2008, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was \$2,258,050,557.

As of December 31, 2008, the registrant had outstanding 129,251,272 shares of Class A common stock and 31,284,003 shares of Class B common stock.

## DOCUMENTS INCORPORATED BY REFERENCE:

Related Section	Documents
III	Definitive Proxy Statement to be filed pursuant to Regulation 14A on or before March 30, 2009.

**Table of Contents**

**PART I**

**Item 1. Business.**

**Overview of Lennar Corporation**

We are one of the nation's largest homebuilders and a provider of financial services. Our homebuilding operations 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 unconsolidated entities in which we have investments. We have grouped our homebuilding activities into four reportable segments, which we refer to as Homebuilding East, Homebuilding Central, Homebuilding West and Homebuilding Houston. Information about homebuilding activities in states in which our homebuilding activities are not economically similar to those in other states in the same geographic area is grouped under Homebuilding Other. Our reportable homebuilding segments and Homebuilding Other have operations located in:

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

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

**West:** California and Nevada

**Houston:** Houston, Texas

**Other:** Illinois, Minnesota, New York, North Carolina and South Carolina

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

We have one Financial Services reportable segment that provides mortgage financing, title insurance, closing services and other ancillary services (including high-speed Internet and cable television) for both buyers of our homes and others. Substantially all of the loans that we originate are sold in the secondary mortgage market on a servicing released, non-recourse basis; although, we remain liable for certain limited representations and warranties related to loan sales. Our Financial Services segment operates generally in the same states as our homebuilding operations, as well as in other states. For financial information about both our homebuilding and financial services operations, you should review Management's Discussion and Analysis of Financial Condition and Results of Operations, which is Item 7 of this Report, and our consolidated financial statements and the notes to our consolidated financial statements, which are included in Item 8 of this Report.

**A Brief History of Our Company**

Our company was founded as a local Miami homebuilder in 1954. We completed our initial public offering in 1971, and listed our common stock on the New York Stock Exchange in 1972. During the 1980s and 1990s, we entered and expanded operations in some of our current major homebuilding markets including California, Florida and Texas through both organic growth and acquisitions such as Pacific Greystone Corporation in 1997, amongst others. In 1997, we completed the spin-off of our commercial real estate business to LNR Property Corporation. In 2000, we acquired U.S. Home Corporation, which expanded our operations into New Jersey, Maryland, Virginia, Minnesota and Colorado and strengthened our position in other states. During 2002 and 2003, we acquired several regional homebuilders, which brought us into new

markets and strengthened our position in several existing markets.

### Recent Business Developments

Throughout 2007 and 2008, market conditions in the homebuilding industry were negatively impacted by broad-based pressures such as rising unemployment, falling home prices, increased foreclosures, tighter credit and volatile equity markets, which further eroded consumer confidence and depressed home sales. These market conditions resulted in higher than historical cancellation rates (26% and 30%, respectively, in 2008 and 2007) and lower net new orders (new orders were down 48% and 39%, respectively, in 2008 and 2007) for our company despite our continued use of sales incentives. The market has continued to become more competitive and we have responded to competitive market pressure to reduce prices through the use of sales incentives and price reductions, as well as, consolidating divisions, repositioning our product and reducing land purchases, construction costs and overhead. During 2008, we filed net operating loss ( NOL ) carryback claims and received \$877.0 million of federal and state tax refunds, net. In addition, we have received \$251.0 million of federal tax refunds subsequent to November 30, 2008.

We continued evaluating our balance sheet quarterly for impairment on an asset-by-asset basis. Based on this assessment, during the years ended November 30, 2008, 2007 and 2006, we recorded \$340.5 million, \$2,445.1 million and \$501.8 million, respectively, of inventory adjustments, which included \$195.5 million, \$747.8 million and \$280.5 million, respectively, in 2008, 2007 and 2006 of Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for the Impairment of Long-lived Assets*, ( SFAS 144 ) valuation adjustments to finished homes, construction in progress and land on which we intend to build homes, \$47.8 million, \$1,167.3 million and \$69.1

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## **Table of Contents**

million, respectively, in 2008, 2007 and 2006 of SFAS 144 valuation adjustments to land we intend to sell or have sold to third parties and \$97.2 million, \$530.0 million and \$152.2 million, respectively, in 2008, 2007 and 2006 of write-offs of deposits and pre-acquisition costs. The \$1,167.3 million of valuation adjustments recorded in 2007 to land we intend to sell or have sold to third parties included \$740.4 million of SFAS 144 valuation adjustments related to a portfolio of land we sold to a strategic land investment venture with Morgan Stanley Real Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., which was formed in November 2007 and in which we have a 20% ownership interest. See Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Report for further details on the aforementioned transaction and land investment venture.

Additionally, during the years ended November 30, 2008, 2007 and 2006, we recorded \$205.0 million, \$496.4 million and \$140.9 million, respectively, of valuation adjustments to our investments in unconsolidated entities, which included \$32.2 million, \$364.2 million and \$126.4 million, respectively, in 2008, 2007 and 2006 of our share of SFAS 144 valuation adjustments related to assets of our unconsolidated entities and \$172.8 million, \$132.2 million and \$14.5 million, respectively, in 2008, 2007 and 2006 of valuation adjustments to our investments in unconsolidated entities in accordance with Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* ( APB 18 ).

The valuation adjustments recorded were estimated based on market conditions and assumptions made by management at the time the valuation adjustments were recorded, which may differ materially from actual results if market conditions or our assumptions change.

In June 2008, our LandSource Communities Development LLC ( LandSource ) unconsolidated joint venture and a number of its subsidiaries commenced proceedings under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. We own 16% of LandSource, and until 2007, we had owned 50%. In November 2008, our land purchase options with LandSource were terminated, thus we recognized a deferred profit of \$101.3 million (net of \$31.8 million of write-offs of option deposits and pre-acquisition costs and other write-offs) related to the 2007 recapitalization of LandSource in which our ownership interest was reduced to 16%. The bankruptcy filing could result in LandSource losing some or all of the properties it owns, termination of our management agreement with LandSource, claims against us and a substantial reduction (or total elimination) of our 16% ownership interest in LandSource, which had a carrying value of zero at November 30, 2008.

For a number of years, we created and participated in joint ventures that acquired and developed land for our homebuilding operations, for sale to third parties or for use in their own homebuilding operations. Through these joint ventures, we reduced the amount we had to invest in order to assure access to potential future homesites, thereby mitigating certain risks associated with land acquisitions, and, in some instances, we obtained access to land to which we could not otherwise have obtained access or could not have obtained access on as favorable terms. Although these ventures served their initial intended purpose of risk mitigation, as the homebuilding market deteriorated from 2006 through 2008 and asset impairments resulted in the loss of equity, some of our joint venture partners became financially unable or unwilling to fulfill their obligations. As a result, during 2007 and 2008, we re-evaluated all of our joint venture arrangements, with particular focus on those ventures with recourse indebtedness, and began to reduce the number of joint ventures in which we were participating and the recourse indebtedness of those joint ventures. As of November 30, 2008, we had reduced the number of unconsolidated joint ventures in which we were participating to 116 from 261 unconsolidated joint ventures at November 30, 2006. As of November 30, 2008, we had also reduced our net recourse exposure related to unconsolidated joint ventures to \$392.5 million from \$1,102.9 million at November 30, 2006.

## **Homebuilding Operations**

### Overview

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We primarily sell single-family attached and detached homes, and to a lesser extent, multi-level residential buildings, in communities targeted to first-time, move-up and active adult homebuyers. The average sales price of a Lennar home was \$270,000 in fiscal 2008, compared to \$297,000 in fiscal 2007. We operate primarily under the Lennar brand name.

## **Table of Contents**

Through our own efforts and unconsolidated entities in which we have investments, we are involved in all phases of planning and building in our residential communities including land acquisition, site planning, preparation and improvement of land and design, construction and marketing of homes. We view unconsolidated entities as a means to both expand our market opportunities and manage our risks. For additional information about our investments in and relationships with unconsolidated entities, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Report.

### Management and Operating Structure

We balance a local operating structure with centralized corporate level management. Decisions related to our overall strategy, acquisitions of land and businesses, risk management, financing, cash management and information systems are centralized at the corporate level. Our local operating structure consists of divisions, which are managed by individuals who generally have significant experience in the homebuilding industry and, in most instances, in their particular markets. They are responsible for operating decisions regarding land identification, entitlement and development, the management of inventory levels for our current volume levels, community development, home design, construction and marketing our homes.

### Diversified Program of Property Acquisition

During 2008, we significantly reduced our property acquisitions. We generally acquire land for development and for the construction of homes that we sell to homebuyers. Land is subject to specified underwriting criteria and is acquired through our diversified program of property acquisition consisting of the following:

Acquiring land directly from individual land owners/developers or homebuilders;

Acquiring local or regional homebuilders that own, or have options to purchase, land in strategic markets;

Acquiring land through option contracts, which generally enables us to control portions of properties owned by third parties (including land funds) and unconsolidated entities until we have determined whether to exercise the option; and

Acquiring parcels of land through joint ventures, primarily to reduce and share our risk, among other factors, by limiting the amount of our capital invested in land, while increasing our access to potential future homesites and allowing us to participate in strategic ventures.

At November 30, 2008, we owned 74,681 homesites and had access through option contracts to an additional 38,589 homesites, of which 12,718 were through option contracts with third parties and 25,871 were through option contracts with unconsolidated entities in which we have investments. At November 30, 2007, we owned 62,801 homesites and had access through option contracts to an additional 85,870 homesites, of which 22,877 were through option contracts with third parties and 62,993 were through option contracts with unconsolidated entities in which we have investments.

### Construction and Development



We generally supervise and control the development of land and the design and building of our residential communities with a relatively small labor force. We hire subcontractors for site improvements and virtually all of the work involved in the construction of homes. Generally, arrangements with our subcontractors provide that our subcontractors will complete specified work in accordance with price schedules and applicable building codes and laws. The price schedules may be subject to change to meet changes in labor and material costs or for other reasons. We believe that the sources and availability of raw materials to our subcontractors are adequate for our current and planned levels of operation. We generally do not own heavy construction equipment. We finance construction and land development activities primarily with cash generated from operations and public debt issuances, as well as cash borrowed under our revolving credit facility.

## Marketing

We offer a diversified line of homes for first-time, move-up and active adult homebuyers available in a variety of environments ranging from urban infill communities to golf course communities. We sell our homes primarily from models that we have designed and constructed. During 2008, those homes had an average sales price of \$270,000.

**Table of Contents**

We employ sales associates who are paid salaries, commissions or both to complete on-site sales of homes. We also sell homes through independent brokers. We advertise our communities in newspapers, radio advertisements and other local and regional publications, on billboards and on the Internet, including our website, [www.lennar.com](http://www.lennar.com). In addition, we advertise our active adult communities in areas where prospective active adult homebuyers live.

We have historically participated in charitable down-payment assistance programs. Through these programs, we made donations to non-profit organizations that provided financial assistance to a homebuyer who would not otherwise have sufficient funds for a down payment. During 2008, 35% of our homebuyers utilized the charitable down-payment assistance programs. The FHA Modernization Act of 2008 eliminated these programs after September 30, 2008 and their elimination has had an adverse impact on home sales since that point.

**Quality Service**

We strive to continually improve homeowner customer satisfaction throughout the pre-sale, sale, construction, closing and post-closing periods. Through the participation of sales associates, on-site construction supervisors and customer care associates, all working in a team effort, we strive to create a quality homebuying experience for our customers, which we believe leads to enhanced customer retention and referrals.

The quality of our homes is substantially affected by the efforts of on-site management and others engaged in the construction process, by the materials we use in particular homes or by other similar factors. To the extent bonuses have been paid, management incentives programs have consistently been contingent upon achieving certain customer satisfaction standards.

We warrant our new homes against defective materials and workmanship for a minimum period of one year after the date of closing. Although we subcontract virtually all segments of construction to others and our contracts call for the subcontractors to repair or replace any deficient items related to their trades, we are primarily responsible to the homebuyers for the correction of any deficiencies.

**Deliveries**

The table below indicates the number of deliveries for each of our homebuilding segments and Homebuilding Other during our last three fiscal years:

	2008	2007	2006
East	4,957	9,840	14,859
Central	2,442	7,020	11,287
West	4,031	8,739	13,333
Houston	2,736	4,380	5,782
Other	1,569	3,304	4,307
Total	15,735	33,283	49,568

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Of the total home deliveries listed above, 391, 1,701 and 2,536, respectively, represent deliveries from unconsolidated entities for the years ended November 30, 2008, 2007 and 2006.

### Backlog

Backlog represents the number of homes under sales contracts. Homes are sold using sales contracts, which are generally accompanied by sales deposits. In some instances, purchasers are permitted to cancel sales contracts if they fail to qualify for financing or under certain other circumstances. We experienced a cancellation rate of 26% in 2008, compared to 30% and 29%, respectively, in 2007 and 2006. Substantially all homes currently in backlog will be delivered within fiscal year 2009. We do not recognize revenue on homes under sales contracts until the sales are closed and title passes to the new homeowners, except for our multi-level residential buildings under construction for which revenue was recognized under percentage-of-completion accounting during 2006 and 2007. In 2008, we stopped recognizing revenues and expenses under percentage-of-completion accounting for our multi-level residential buildings under construction as a result of Emerging Issues Task Force 06-8, *Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums* ( EITF 06-8 ) (see Note 1 in Item 8 of this Report).

**Table of Contents**

The table below indicates the backlog dollar value for each of our homebuilding segments and Homebuilding Other as of the end of our last three fiscal years:

	2008	2007	2006
	(In thousands)		
East	\$ 202,791	587,100	1,460,213
Central	23,736	67,344	590,487
West	108,779	408,280	1,328,617
Houston	57,785	128,340	259,985
Other	63,179	193,073	341,126
Total	\$ 456,270	1,384,137	3,980,428

Of the dollar value of homes in backlog listed above, \$12,460, \$182,664 and \$478,707, respectively, represent the backlog dollar value from unconsolidated entities at November 30, 2008, 2007 and 2006.

**Financial Services Operations****Mortgage Financing**

We primarily originate conforming conventional, FHA-insured, VA-guaranteed residential mortgage loan products and other products to our homebuyers and others through our financial services subsidiaries, Universal American Mortgage Company, LLC and Eagle Home Mortgage, LLC, located generally in the same states as our homebuilding operations as well as other states. In 2008, our financial services subsidiaries provided loans to 85% of our homebuyers who obtained mortgage financing in areas where we offered services. Because of the availability of mortgage loans from our financial services subsidiaries, as well as independent mortgage lenders, we believe most creditworthy purchasers of our homes have access to financing.

During 2008, we originated approximately 18,300 mortgage loans totaling \$4.3 billion, compared to 30,900 mortgage loans totaling \$7.7 billion during 2007. Substantially all of the loans we originate are sold in the secondary mortgage market on a servicing released, non-recourse basis; although, we remain liable for certain limited representations. Therefore, we have little direct exposure related to the residential mortgages we sell.

We have a corporate risk management policy under which we hedge our interest rate risk on rate-locked loan commitments and loans held-for-sale to mitigate exposure to interest rate fluctuations. We finance our mortgage loan activities with borrowings under our financial services warehouse facilities or from our operating funds. Our syndicated warehouse repurchase facility matures in April 2009 (\$125 million, plus a \$50 million temporary accordion feature that expired in December 2008) and our warehouse repurchase facility matures in June 2009 (\$150 million). We expect both facilities to be renewed or replaced with other facilities when they mature. Additionally, we recently entered into an on going 60-day committed repurchase facility for \$75 million.

**Title Insurance and Closing Services**

We provide title insurance and closing services as well as other ancillary services to our homebuyers and others. During 2008, we provided title and closing services for approximately 105,900 real estate transactions, and issued approximately 96,700 title insurance policies through our underwriter, North American Title Insurance Company. Title and closing services are provided by agency subsidiaries in Arizona, California, Colorado, District of Columbia, Florida, Illinois, Maryland, Minnesota, Nevada, New Jersey, New York, Pennsylvania, Texas, Virginia and Wisconsin. Title insurance services are provided in these same states, as well, as in Delaware and the Carolinas.

#### Communication Services

Lennar Communications provides cable television and high-speed Internet services to residents of our communities and others and oversees our interests and activities in relationships with providers of advanced communication services. We exited the Sacramento, California market during 2008. At December 31, 2008, we had approximately 3,100 subscribers in Texas.

## **Table of Contents**

### **Seasonality**

We have historically experienced variability in our results of operations from quarter-to-quarter due to the seasonal nature of the homebuilding business. Due to deteriorating market conditions, we are currently focusing our efforts, in all quarters, on inventory management in order to deliver inventory and generate cash.

### **Competition**

The residential homebuilding industry is highly competitive. We compete for homebuyers in each of the market regions where we operate with numerous national, regional and local homebuilders, as well as with resales of existing homes and with the rental housing market. Recently, lenders' efforts to sell foreclosed homes have become an increasingly competitive factor. We compete for homebuyers on the basis of a number of interrelated factors including location, price, reputation, amenities, design, quality and financing. In addition to competition for homebuyers, we also compete with other homebuilders for desirable properties, raw materials and reliable, skilled labor. We compete for land buyers with third parties in our efforts to sell land to homebuilders and others. We believe we are competitive in the market regions where we operate primarily due to our:

Balance sheet, where we continue to focus on inventory management and liquidity;

Access to land, particularly in land-constrained markets; and

Pricing to current market conditions through sales incentives offered to homebuyers.

Our financial services operations compete with other mortgage lenders, including national, regional and local mortgage bankers and brokers, banks, savings and loan associations and other financial institutions, in the origination and sale of mortgage loans. Principal competitive factors include interest rates and other features of mortgage loan products available to the consumer. We compete with other title insurance agencies and underwriters for closing services and title insurance. Principal competitive factors include service and price. We compete with other communication service providers in the sale of high-speed Internet and cable television services. Principal competitive factors include price, quality, service and availability.

### **Regulation**

Homes and residential communities that we build must comply with state and local laws and regulations relating to, among other things, zoning, construction permits or entitlements, construction material requirements, density requirements, and requirements relating to building design and property elevation, building codes and handling of waste. These include laws requiring the use of construction materials that reduce the need for energy-consuming heating and cooling systems. These laws and regulations are subject to frequent change and often increase construction costs. In some instances, we must comply with laws that require commitments from us to provide roads and other offsite infrastructure to be in place prior to the commencement of new construction. These laws and regulations are usually administered by counties and municipalities and may result in fees and assessments or building moratoriums. In addition, certain new development projects are subject to assessments for schools, parks, streets and highways and other public improvements, the costs of which can be substantial.

The residential homebuilding industry is also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. These environmental laws include such areas as storm water and surface water management, soil, groundwater and wetlands protection, subsurface conditions and air quality protection and enhancement. Environmental laws and existing conditions may result in delays, may cause us to incur substantial compliance and other costs and may prohibit or severely restrict homebuilding activity in environmentally sensitive regions or areas.

In recent years, several cities and counties in which we have developments have submitted to voters slow growth initiatives and other ballot measures that could impact the affordability and availability of land suitable for residential development within those localities. Although many of these initiatives have been defeated, we believe that if similar initiatives were approved, residential construction by us and others within certain cities or counties could be seriously impacted.

In order to make it possible for some of our homebuyers to obtain FHA-insured or VA-guaranteed mortgages, we must construct the homes they buy in compliance with regulations promulgated by those agencies.

## **Table of Contents**

Various states have statutory disclosure requirements relating to the marketing and sale of new homes. These disclosure requirements vary widely from state-to-state. In addition, some states require that each new home be registered with the state at or before the time title is transferred to a buyer (e.g., the Texas Residential Construction Commission Act).

In some states, we are required to be registered as a licensed contractor and comply with applicable rules and regulations. In various states, our new home consultants are required to be registered as licensed real estate agents and to adhere to the laws governing the practices of real estate agents.

Our mortgage and title subsidiaries must comply with applicable real estate laws and regulations. The subsidiaries are licensed in the states in which they do business and must comply with laws and regulations in those states. These laws and regulations include provisions regarding capitalization, operating procedures, investments, lending and privacy disclosures, forms of policies and premiums.

Our cable subsidiary is generally required to both secure a franchise agreement with each locality in which it operates and to satisfy requirements of the Federal Communications Commission in the ordinary conduct of its business.

A subsidiary of The Newhall Land and Farming Company, of which we currently, indirectly own 16%, provides water to a portion of Los Angeles County, California. This subsidiary is subject to extensive regulation by the California Public Utilities Commission.

## **Compliance Policy**

We have a Code of Business and Ethics that requires every associate (i.e., employee) and officer to at all times deal fairly with the Company's customers, subcontractors, suppliers, competitors and associates, and says that all our associates, officers and directors are expected to comply at all times with all applicable laws, rules and regulations. Despite this, there are instances in which subcontractors or others through which we do business engage in practices that do not comply with applicable regulations and guidelines. There have been instances in which some of our employees were aware of these practices and did not take steps to prevent them. When we learn of practices relating to homes we build or financing we provide that do not comply with applicable regulations or guidelines, we move actively to stop the non-complying practices as soon as possible and we have taken disciplinary action with regard to our employees who were aware of the practices, including in some instances terminating their employment. Our Code of Business and Ethics also has procedures in place that allows whistleblowers to submit their concerns regarding our operations, financial reporting, business integrity or any other related matter to the Audit Committee of our Board of Directors and/or to the non-management directors of our Board of Directors, thus ensuring their protection from retaliation.

## **Employees**

At December 31, 2008, we employed 4,704 individuals of whom 2,940 were involved in our homebuilding operations and 1,764 were involved in our financial services operations, compared to November 30, 2007, when we employed 7,745 individuals of whom 5,150 were involved in our homebuilding operations and 2,595 were involved in our financial services operations. We do not have collective bargaining agreements relating to any of our employees. However, we subcontract many phases of our homebuilding operations and some of the subcontractors we use have employees who are represented by labor unions.



**Relationship with LNR Property Corporation**

In 1997, we transferred our commercial real estate investment and management business to LNR Property Corporation ( LNR ), and spun-off LNR to our stockholders. As a result, LNR became a publicly-traded company, and the family of Stuart A. Miller, our President, Chief Executive Officer and a Director, which had voting control of us, became the controlling shareholder of LNR.

Since the spin-off, we have entered into a number of joint ventures and other transactions with LNR. Many of the joint ventures were formed to acquire and develop land, part of which was subsequently sold to us or other homebuilders for residential building and part of which was subsequently sold to LNR for commercial development. In February 2005, LNR was acquired by a privately-owned entity. Although Mr. Miller's family was required to purchase a 20.4% financial interest in that privately-owned entity, this interest is non-voting and neither Mr. Miller nor anyone else in his family is an officer or director, or otherwise is involved in the management, of LNR or its parent. Nonetheless, because the Miller family has a 20.4% financial, non-voting, interest in LNR's parent, significant transactions with LNR, or entities in which it has an interest, have historically been and continued to be reviewed and approved by the Independent Directors Committee of our Board of Directors.

## **Table of Contents**

### LandSource Transactions

In January 2004, a company of which we and LNR each owned 50% acquired The Newhall Land and Farming Company ( Newhall ) for approximately \$1 billion, including \$200 million we contributed and \$200 million that LNR contributed (the remainder came from borrowings and sales of properties to LNR). Subsequently, we and LNR each transferred our interests in most of our joint ventures to the jointly-owned company that had acquired Newhall, and that company was renamed LandSource Communities Development LLC ( LandSource ).

In February 2007, LandSource admitted MW Housing Partners as a new strategic partner. As part of the transaction, the joint venture obtained \$1.6 billion of non-recourse financing, which consisted of a \$200 million five-year Revolving Credit Facility, a \$1.1 billion six-year Term Loan B Facility and a \$244 million seven-year Second Lien Term Facility. The transaction resulted in a cash distribution to us of \$707.6 million. Our resulting ownership of LandSource was 16%. As a result of the recapitalization, we recognized a pretax financial statement gain of \$175.9 million in 2007.

In June 2008, our LandSource unconsolidated joint venture and a number of its subsidiaries commenced proceedings under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. In November 2008, our land purchase options with LandSource were terminated, thus we recognized a deferred profit of \$101.3 million (net of \$31.8 million of write-offs of option deposits and pre-acquisition costs and other write-offs) related to the 2007 recapitalization of LandSource. The bankruptcy filing could result in LandSource losing some or all of the properties it owns, termination of our management agreement with LandSource, claims against us and a substantial reduction (or total elimination) of our 16% ownership interest in LandSource, which had a carrying value of zero at November 30, 2008.

### **NYSE Certification**

We submitted our 2007 Annual CEO Certification to the New York Stock Exchange on April 14, 2008. The certification was not qualified in any respect.

### **Available Information**

Our corporate website is [www.lennar.com](http://www.lennar.com). We make available on our website, free of charge, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports, as soon as reasonably practicable after we electronically file these documents with, or furnish them to, the Securities and Exchange Commission. Information on our website is not part of this document.

Our website also includes printable versions of our Corporate Governance Guidelines, our Code of Business Conduct and Ethics and the charters for each of our Audit, Compensation and Nominating and Corporate Governance Committees of our Board of Directors. Each of these documents is also available in print to any stockholder who requests a copy by addressing a request to:

Lennar Corporation

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Attention: Office of the General Counsel

700 Northwest 107<sup>th</sup> Avenue

Miami, Florida 33172

**Item 1A. Risk Factors.**

The following risks may cause a material adverse effect upon our business, financial condition, results of operations, cash flows, strategies and prospects.

Homebuilding Market and Economic Risks

*The homebuilding industry is in the midst of a significant downturn. A continuing decline in demand for new homes coupled with an increase in the inventory of available new homes and alternatives to new homes could adversely affect our sales volume and pricing even more than has occurred to date.*

The homebuilding industry is in the midst of a significant downturn. As a result, we have experienced a significant decline in demand for newly built homes in almost all of our markets. Homebuilders' inventories of

## **Table of Contents**

unsold new homes have increased as a result of increased cancellation rates on pending contracts as new homebuyers sometimes find it more advantageous to forfeit a deposit than to complete the purchase of the home. In addition, an oversupply of alternatives to new homes, such as rental properties and used homes (including foreclosed homes), has depressed prices and reduced margins. This combination of lower demand and higher inventories affects both the number of homes we can sell and the prices at which we can sell them. In 2007 and 2008, we experienced a significant decline in our sales results, significant reductions in our margins as a result of higher levels of sales incentives and price concessions, and a higher than normal cancellation rate. We have no basis for predicting how long demand and supply will remain out of balance in markets where we operate or whether, even if demand and supply come back in balance, sales volumes or pricing will return to prior levels.

*Demand for new homes is sensitive to economic conditions over which we have no control, such as the availability of mortgage financing and the level of employment.*

Demand for homes is sensitive to changes in economic conditions such as the level of employment, consumer confidence, consumer income, the availability of financing and interest rate levels. During 2007 and 2008, the mortgage lending industry experienced significant instability. As a result of increased default rates, particularly (but not entirely) with regard to sub-prime and other non-conforming loans, many lenders have reduced their willingness to make, and tightened their credit requirements with regard to, residential mortgage loans. Fewer loan products and stricter loan qualification standards have made it more difficult for some borrowers to finance the purchase of our homes. Although our finance company subsidiaries offer mortgage loans to potential buyers of most of the homes we build, we may no longer be able to offer financing terms that are attractive to our potential buyers. Lack of availability of mortgage financing at acceptable rates reduces demand for the homes we build, including in some instances causing potential buyers to cancel contracts they have signed.

There has also been a substantial loss of jobs in the United States during 2008. People who are not employed or are concerned about loss of their jobs are unlikely to purchase new homes and may be forced to try to sell the homes they owned. Therefore, the current employment situation can adversely affect us both by reducing demand for the homes we build and by increasing the supply of homes for sale.

*Mortgage defaults by homebuyers who financed homes using non-traditional financing products are increasing the number of homes available for resale.*

During the period of high demand in the homebuilding industry, many homebuyers financed their purchases using non-traditional adjustable rate or interest only mortgages or other mortgages, including sub-prime mortgages that involved at least during initial years, monthly payments that were significantly lower than those required by conventional fixed rate mortgages. As a result, new homes became more affordable. However, as monthly payments for these homes increase either as a result of increasing adjustable interest rates or as a result of principal payments coming due, some of these homebuyers have defaulted on their payments and had their homes foreclosed, which has increased the inventory of homes available for resale. This is likely to continue. Foreclosure sales and other distress sales may result in further declines in market prices for homes. In an environment of declining prices, many homebuyers may delay purchases of homes in anticipation of lower prices in the future. In addition, as lenders perceive deterioration in credit quality among homebuyers, lenders have been eliminating some of the available non-traditional and sub-prime financing products and increasing the qualifications needed for mortgages or adjusting their terms to address increased credit risk. In general, to the extent mortgage rates increase or lenders make it more difficult for prospective buyers to finance home purchases, it becomes more difficult or costly for customers to purchase our homes, which has an adverse effect on our sales volume.

*We have had to take significant write-downs of the carrying values of the land we own and of our investments in unconsolidated entities, and a continuing decline in land values could result in additional write-downs.*

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Some of the land we currently own was purchased at high prices. Also, we obtained options to purchase land at prices that no longer are attractive, and in connection with those options we made non-refundable deposits and, in some instances, agreed to incur pre-acquisition land development costs. When demand fell, we were required to take substantial write-downs of the carrying value of our land inventory and we elected not to exercise high price options, even though that required us to forfeit deposits and write-off pre-acquisition land development costs.

## **Table of Contents**

Additionally, as a result of these market conditions, we recorded significant valuation adjustments relating to our investments in unconsolidated entities. The valuation adjustments were SFAS 144 valuation adjustments to assets of our unconsolidated entities and APB 18 valuation adjustments to our investments in unconsolidated entities.

The combination of land value write-downs and forfeitures in addition to valuation adjustments relating to our investments in unconsolidated entities had a material negative effect on our operating results for fiscal 2006, 2007 and 2008, contributing to most of our net losses in fiscal 2007 and 2008. If market conditions continue to deteriorate, some of our assets may be subject to further write-downs in the future, decreasing the assets reflected on our balance sheet and adversely affecting our stockholders' equity.

### ***Inflation can adversely affect us, particularly in a period of declining home sale prices.***

Inflation can have a long-term impact on us because increasing costs of land, materials and labor require us to attempt to increase the sale prices of homes in order to maintain satisfactory margins. Although an excess of supply over demand for new homes, such as the one we are currently experiencing, requires that we reduce prices, rather than increasing them, it does not necessarily result in reductions, or prevent increases, in the costs of materials and labor. Under those circumstances, the effect of cost increases is to reduce the margins on the homes we sell. That makes it more difficult for us to recover the full cost of previously purchased land, and has contributed to the significant reductions in the value of our land inventory.

### ***We face significant competition in our efforts to sell homes.***

The homebuilding industry is highly competitive. We compete in each of our markets with numerous national, regional and local homebuilders. This competition with other homebuilders could reduce the number of homes we deliver or cause us to accept reduced margins in order to maintain sales volume.

We also compete with the resale of existing homes, including foreclosed homes, sales by housing speculators and available rental housing. As demand for homes has slowed, competition, including competition with homes purchased for speculation rather than as places to live and competition with foreclosed homes, has created increased downward pressure on the prices at which we are able to sell homes, as well as upon the number of homes we can sell.

## **Operational Risks**

### ***Homebuilding is subject to warranty and liability claims in the ordinary course of business that can be significant.***

As a homebuilder, we are subject to home warranty and construction defect claims arising in the ordinary course of business. We are also subject to liability claims arising in the course of construction activities. We record warranty and other reserves for the homes we sell based on historical experience in our markets and our judgment of the qualitative risks associated with the types of homes we built. We have, and many of our subcontractors have, general liability, property, errors and omissions, workers compensation and other business insurance. These insurance

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policies protect us against a portion of our risk of loss from claims, subject to certain self-insured retentions, deductibles and other coverage limits. However, because of the uncertainties inherent in these matters, we cannot provide assurance that our insurance coverage or our subcontractors' insurance and financial resources will be adequate to address all warranty, construction defect and liability claims in the future. Additionally, the coverage offered and the availability of general liability insurance for construction defects are currently limited and costly. As a result, an increasing number of our subcontractors are unable to obtain insurance, and we have in many cases waived our customary insurance requirements. There can be no assurance that coverage will not be further restricted and become even more costly.

*Natural disasters and severe weather conditions could delay deliveries, increase costs and decrease demand for new homes in affected areas.*

Many of our homebuilding operations are conducted in areas that are subject to natural disasters and severe weather. The occurrence of natural disasters or severe weather conditions can delay new home deliveries, increase costs by damaging inventories and negatively impact the demand for new homes in affected areas. Furthermore, if our insurance does not fully cover business interruptions or losses resulting from these events, our results of operations, liquidity or capital resources could be adversely affected.

## **Table of Contents**

*Supply shortages and other risks related to the demand for skilled labor and building materials could increase costs and delay deliveries.*

Increased costs or shortages of skilled labor and/or lumber, framing, concrete, steel and other building materials could cause increases in construction costs and construction delays. We generally are unable to pass on increases in construction costs to customers who have already entered into sales contracts, as those sales contracts generally fix the price of the homes at the time the contracts are signed, which may be well in advance of the construction of the home. Sustained increases in construction costs may, over time, erode our margins, particularly if pricing competition restricts our ability to pass on any additional costs of materials or labor, thereby decreasing our margins.

*Reduced numbers of home sales force us to absorb additional costs.*

We incur many costs even before we begin to build homes in a community. These include costs of preparing land and installing roads, sewage and other utilities, as well as taxes and other costs related to ownership of the land on which we plan to build homes. Reducing the rate at which we build homes extends the length of time it takes us to recover these costs. Also, we frequently acquire options to purchase land and make deposits that will be forfeited if we do not exercise the options within specified periods. Because of current market conditions, we have had to terminate a number of these options, resulting in significant forfeitures of deposits we made with regard to the options.

*If our financial performance further declines, we may not be able to maintain compliance with the covenants in our credit facilities and senior debt securities.*

Our credit facility imposes certain restrictions on our operations. The most significant restrictions relate to debt incurrence, sales of assets, cash distributions and investments by us and certain of our subsidiaries. In addition, our credit facility requires compliance with certain financial covenants, including a minimum adjusted consolidated tangible net worth requirement and a maximum permitted leverage ratio. Also, because we currently do not have investment grade debt ratings, we can only borrow up to specified percentages of the book values of various types of our assets, referred to in the credit agreement as our borrowing base. In January and November 2008, we completed amendments to the credit facility that modified the minimum adjusted consolidated tangible net worth requirement and restructured the borrowing base among other changes. The amendments also limit the amount of permissible joint venture recourse obligations, requiring that those obligations be reduced quarterly through July 2011. Under the November 2008 amendment, the commitment was reduced from \$1.5 billion to \$1.1 billion.

While \$1.1 billion of borrowing capacity should be sufficient in the current depressed market, if markets strengthen, we might have to seek increased borrowing capacity.

While we currently are in compliance with the financial covenants in the amended credit agreement, if we had to record significant additional impairments in the future, they could cause us to fail to comply with the amended credit agreement debt covenants. In addition, if we default in the payment or performance of certain obligations relating to the debt of unconsolidated entities above a specified threshold amount, we would be in default under the amended credit agreement. Either of those events would give the lenders the right to cause any amounts we owe under that credit facility to become immediately due. If we were unable to repay the borrowings when they became due, that could entitle the holders of \$2.2 billion of debt securities we have sold into the capital markets to cause the sums evidenced by those debt securities to become due immediately. We would not be able to repay those amounts without selling substantial assets, which we might have to do at prices well below the long term fair values, and the carrying values, of the assets.



*We may be unable to obtain suitable financing and bonding for the development of our communities.*

Our business depends upon our ability to obtain financing for the development of our residential communities and to provide bonds to ensure the completion of our projects. We currently use our credit facility to provide some of the financing we need. In addition, we have from time-to-time raised funds by selling debt securities into public and private capital markets although this would be difficult to do under current market conditions. As is noted above, a recent amendment to our credit agreement reduced the commitment to \$1.1 billion. The willingness of lenders to make funds available to us has been affected both by factors relating to us as a borrower, and by a decrease in the willingness of banks and other lenders to lend to homebuilders generally. If we were unable to finance the development of our communities through our credit facility or other debt, or if we were unable to provide required surety bonds for our projects, our business operations and revenues could suffer materially.

## **Table of Contents**

*Our ability to continue to grow our business and operations in a profitable manner depends to a significant extent upon our ability to access capital on favorable terms.*

Our ability to access capital on favorable terms has been an important factor in growing our business and operations in a profitable manner. Recently, each of the principal credit rating agencies lowered our credit rating, and we no longer have investment grade ratings. This will make it more difficult and costly for us to access the debt capital markets for funds we may require in order to implement our business plans and achieve our growth objectives. If we are subject to a further downgrade, it would exacerbate such difficulties.

*The credit facilities of our Financial Services segment will expire in 2009.*

Our Financial Services segment has a syndicated warehouse repurchase facility, which matures in April 2009 (\$125 million, plus a \$50 million temporary accordion feature that expired in December 2008) and a warehouse repurchase facility, which matures in June 2009 (\$150 million). The Financial Services segment uses these facilities to finance its mortgage lending activities until the mortgage loans are sold to investors and expects both facilities to be renewed or replaced with other facilities when they mature. If we are unable to renew or replace these facilities when they mature in April 2009 and June 2009, it could seriously impede the activities of our Financial Services segment. The risk of inability to renew or replace these facilities may be significant if, as currently is the case, capital market participants are reluctant to purchase securities backed by residential mortgages.

*Our competitive position could suffer if we were unable to take advantage of acquisition opportunities.*

Our growth strategy depends in part on our ability to identify and purchase suitable acquisition candidates, as well as our ability to successfully integrate acquired operations into our business. Given current market conditions, executing this strategy by identifying opportunities to purchase at favorable prices companies that are having problems contending with the current difficult homebuilding environment may be particularly important. Not properly executing this strategy could put us at a disadvantage in our efforts to compete with other major homebuilders who are able to take advantage of such favorable acquisition opportunities.

*We might have difficulty integrating acquired companies into our operations.*

The integration of operations of acquired companies with our operations, including the consolidation of systems, procedures, personnel and facilities, the relocation of staff, and the achievement of anticipated cost savings, economies of scale and other business efficiencies, presents significant challenges to our management, particularly if several acquisitions occur at the same time.

*We conduct some of our operations through unconsolidated joint ventures with independent third parties in which we do not have a controlling interest and we can be adversely impacted by joint venture partners' failure to fulfill their obligations.*

For a number of years, we created and participated in joint ventures that acquired and developed land for our homebuilding operations, for sale to third parties or for use in their own homebuilding operations. Through these joint ventures, we reduced the amount we had to invest in order

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to assure access to potential future homesites, and, in some instances, we obtained access to land to which we could not otherwise have obtained access or could not have obtained access on as favorable terms. However, as the homebuilding market deteriorated from 2006 through 2008, many of our joint venture partners became financially unable or unwilling to fulfill their obligations.

Most joint ventures borrowed money to help finance their activities, and although recourse on the loans was generally limited to the joint ventures and their properties, frequently we and our joint venture partners were required to provide maintenance guarantees (guarantees that the values of the joint ventures' assets would be at least specified percentages of their borrowings) or limited repayment guarantees.

Our joint venture strategy depends in large part on the ability of our joint venture partners to perform their obligations under our agreements with them. If a joint venture partner does not perform its obligations, we may be required to make significant financial expenditures or otherwise undertake the performance of obligations not satisfied by our partner at significant cost to us. Also, when we have guaranteed joint venture obligations, we have been given the right to be reimbursed by our joint venture partners for any amounts by which we pay more than our pro rata share of the joint ventures' obligations. However, particularly if our joint venture partners are having financial problems, we may have difficulty collecting the sums they owe us, and therefore, we may be

## **Table of Contents**

required to pay a disproportionately large portion of the guaranteed amounts. In addition, because we lack a controlling interest in these joint ventures, we are usually unable to require that they sell assets, return invested capital or take any other action without the consent of at least one of our joint venture partners. As a result, without joint venture partner consent, we may be unable to liquidate our joint venture investments to generate cash. Even if we are able to liquidate joint venture investments, the amounts received upon liquidation may be insufficient to cover the costs we have incurred in satisfying joint venture obligations.

During 2007 and 2008, we began to reduce the number of joint ventures in which we participate and the recourse indebtedness of such joint ventures. However, the risks to us from joint ventures in which we are a participant are likely to continue at least as long as the value of residential properties continues to decline.

### ***The unconsolidated entities in which we have investments may not be able to modify the terms of their debt arrangements.***

Some of the unconsolidated entities' debt arrangements contain financial covenants they may not be able to meet. Additionally, certain joint venture loan agreements have minimum number of homesite takedown requirements in which the joint ventures are required to sell a minimum amount of homesites over a stated amount of time. Due to the deterioration of the homebuilding market, many of the joint ventures are in the process of repaying, refinancing, renegotiating or extending our joint venture loans. This action may be required, for example, in the case of an expired maturity date or a failure to comply with the loans' covenants. There can be no assurance that we will be able to successfully finance, refinance, renegotiate or extend, on terms we deem acceptable, all of the joint venture loans that we are currently in the process of negotiating. If we were unsuccessful in these efforts, we could be required to repay one or more of these loans.

### ***We could be injured by the LandSource Chapter 11 filing.***

LandSource was the largest joint venture in which we were a participant. Originally, we owned 50% of LandSource. However, in February 2007, LandSource admitted a new strategic partner and LandSource was recapitalized, which resulted in a cash distribution to us of \$707.6 million, but reduced our ownership to 16%. In connection with the recapitalization, we entered into a new agreement to manage LandSource and received land purchase options from LandSource.

In June 2008, LandSource and a number of its subsidiaries commenced proceedings under Chapter 11 of the Bankruptcy Code. In November 2008, our land purchase options with LandSource were terminated (which resulted in us recognizing a deferred profit of \$101.3 million, net of \$31.8 million of write-offs, related to the 2007 recapitalization). It is possible that LandSource will seek to disaffirm our management agreement as well. It is also possible that LandSource will seek to recover at least some of what was distributed to us in the recapitalization.

### ***We could be adversely impacted by the loss of key management personnel.***

Our future success depends, to a significant degree, on the efforts of our senior management. Our operations could be adversely affected if key members of senior management cease to be active in our company. As a result of a decline in our stock price, previous retention mechanisms, such as equity awards, have diminished in value.

*If our ability to resell mortgages to investors is impaired, we may be required to broker loans or fund them ourselves.*

We sell substantially all of the loans we originate within a short period in the secondary mortgage market on a servicing released, non-recourse basis; although, we remain liable for certain limited representations and warranties related to loan sales. If there is a decline in the secondary mortgage market, our ability to sell mortgages could be adversely impacted and we could be required to fund our commitments to our buyers with our own financial resources or require our buyers to find other sources of financing. If we became unable to sell loans into the secondary mortgage market or directly to the Federal National Mortgage Association ( Fannie Mae ) and the Federal Home Loan Mortgage Corporation ( Freddie Mac ), we would either have to curtail our origination of mortgage loans, which among other things, could significantly reduce our ability to sell homes, or to commit our own funds to long term investments in mortgage loans, which could, among other things, delay the time when we recognize revenues from home sales on our statements of operations.

## **Table of Contents**

*Our Financial Services segment could be adversely affected by reduced demand for our homes.*

A majority of the mortgage loans made by our Financial Services segment are made to buyers of homes we build. Therefore, a decrease in the demand for our homes adversely affects the financial results of this segment of our business.

*If housing markets improve, we may not be able to acquire land suitable for residential homebuilding at reasonable prices, which could increase our costs and reduce our revenues, earnings and margins.*

Our long-term ability to build homes depends upon our acquiring land suitable for residential building at reasonable prices in locations where we want to build. For a number of years, we experienced an increase in competition for suitable land as a result of land constraints in many of our markets. That increased the price we had to pay to acquire land. Then, when demand for new homes began to drop beginning in 2006, we started to reduce our land inventory to bring it in line with the reduced rate at which we were absorbing land into our operations. While the current low demand for new single family homes is making it possible to purchase land at prices far below those we were required to pay prior to 2006, in the long term, competition for suitable land is likely to increase again, and as available land is developed, the cost of acquiring additional suitable land could rise, and in some areas suitable land might not be available at reasonable prices. Any land shortages or any decrease in the supply of suitable land at reasonable prices could limit our ability to develop new communities or result in increased land costs that we are not able to pass through to our customers. This could adversely impact our revenues, earnings and margins.

## **Regulatory Risks**

*Federal laws and regulations that adversely affect liquidity in the secondary mortgage market could hurt our business.*

Changes in federal laws and regulations could have the effect of curtailing the activities of Fannie Mae and Freddie Mac. These organizations provide significant liquidity to the secondary mortgage market. Any curtailment of their activities could increase mortgage interest rates and increase the effective cost of our homes, which could reduce demand for our homes and adversely affect our results of operations.

*Government entities in regions where we operate have adopted or may adopt, slow or no growth initiatives, which could adversely affect our ability to build or timely build in these areas.*

Some state and local governments in areas where we operate have approved, and others where we operate may approve, various slow growth or no growth homebuilding initiatives and other ballot measures that could negatively impact the availability of land and building opportunities within those jurisdictions. Approval of slow growth, no growth or similar initiatives (including the effect of these initiatives on existing entitlements and zoning) could adversely affect our ability to build or timely build and sell homes in the affected markets and/or create additional administrative and regulatory requirements and costs, which, in turn, could have an adverse effect on our future revenues and earnings.

*Compliance with federal, state and local regulations related to our business could create substantial costs both in time and money, and some regulations could prohibit or restrict some homebuilding ventures.*

We are subject to extensive and complex laws and regulations that affect the land development and homebuilding process, including laws and regulations related to zoning, permitted land uses, levels of density, building design, elevation of properties, water and waste disposal and use of open spaces. In addition, we are subject to laws and regulations related to workers' health and safety. We also are subject to a variety of local, state and federal laws and regulations concerning the protection of health and the environment. In some of the markets where we operate, we are required by law to pay environmental impact fees, use energy-saving construction materials and give commitments to municipalities to provide certain infrastructure such as roads and sewage systems. We generally are required to obtain permits, entitlements and approvals from local authorities to commence and carry out residential development or home construction. Such permits, entitlements and approvals may, from time-to-time, be opposed or challenged by local governments, neighboring property owners or other interested parties, adding delays, costs and risks of non-approval to the process. Our obligation to comply with the laws and regulations under which we operate, and our obligation to ensure that our employees, subcontractors and other agents comply with these laws and regulations, could result in delays in construction and land development, cause us to incur substantial costs and prohibit or restrict land development and homebuilding activity in certain areas in which we operate.

## **Table of Contents**

*We can be injured by failures of persons who act on our behalf to comply with applicable regulations and guidelines.*

Although we expect all of our associates (i.e., employees), officers and directors to comply at all times with all applicable laws, rules and regulations, there are instances in which subcontractors or others through whom we do business engage in practices that do not comply with applicable regulations or guidelines. Sometimes our employees have been aware of these practices but did not take steps to prevent them. When we learn of practices relating to homes we build or financing we provide that do not comply with applicable regulations or guidelines, we move actively to stop the non-complying practices as soon as possible and we have taken disciplinary action with regard to our employees who were aware of the practices, including in some instances terminating their employment. However, regardless of the steps we take after we learn of practices that do not comply with applicable regulations or guidelines, we can in some instances be subject to fines or other governmental penalties, and our reputation can be injured, due to the practices having taken place.

*Tax law changes could make home ownership more expensive or less attractive.*

Significant expenses of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for the purpose of calculating an individual's federal, and in some cases state, taxable income. If the government were to make changes to income tax laws that eliminate or substantially reduce these income tax deductions, the after-tax cost of owning a new home would increase substantially. This could adversely impact demand for, and/or sales prices of, new homes.

*Recent proposed rule change by HUD could negatively impact our operations and revenue.*

On November 17, 2008, the United States Department of Housing and Urban Development ( HUD ) issued a final rule ( Final Rule ) that amended the regulations pertaining to permissible affiliated business arrangements under the Real Estate Settlement Procedures Act ( RESPA ). The Final Rule has the effect of prohibiting homebuilders from providing incentives to their buyers for their buyers to use affiliated businesses. The Final Rule was to go into effect on January 16, 2009. A lawsuit has been filed against HUD alleging among other things that HUD did not have the statutory authority to prohibit such incentives. HUD has agreed to delay the implementation of the Final Rule until at least April 16, 2009 in order to give the court time to decide the legality of the Final Rule. If the Final Rule is implemented, it could have an adverse impact on our homebuilding, mortgage lending and title company operations.

## Other Risks

*We have a stockholder who can exercise significant influence over matters that are brought to a vote of our stockholders.*

Stuart A. Miller, our President, Chief Executive Officer and a Director, has voting control, through personal holdings and family-owned entities, of Class A and Class B common stock that enables Mr. Miller to cast approximately 49% of the votes that may be cast by the holders of our outstanding Class A and Class B common stock combined. That effectively gives Mr. Miller the power to control the election of our directors and the approval of matters that are presented to our stockholders. Mr. Miller's voting power might discourage someone from acquiring us or from making a significant equity investment in us, even if we needed the investment to meet our obligations and to operate our business. Also, because of his voting power, Mr. Miller may be able to authorize actions that are contrary to our other stockholders' desires.



**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Table of Contents**

**Executive Officers of Lennar Corporation**

The following individuals are our executive officers as of January 26, 2009:

<b>Name</b>	<b>Position</b>	<b>Age</b>
Stuart A. Miller	President and Chief Executive Officer	51
Jonathan M. Jaffe	Vice President and Chief Operating Officer	49
Richard Beckwitt	Executive Vice President	49
Bruce E. Gross	Vice President and Chief Financial Officer	50
Diane J. Bessette	Vice President and Treasurer	48
Mark Sustana	Secretary and General Counsel	47
David M. Collins	Controller	39

Mr. Miller has served as our President and Chief Executive Officer since 1997 and is one of our Directors. Before 1997, Mr. Miller held various executive positions with us.

Mr. Jaffe has served as Vice President since 1994 and has served as our Chief Operating Officer since December 2004. Before that time, Mr. Jaffe served as a Regional President in our Homebuilding operations. Additionally, prior to his appointment as Chief Operating Officer, Mr. Jaffe was one of our Directors from 1997 through June 2004.

Mr. Beckwitt has served as our Executive Vice President since March 2006. In this position, Mr. Beckwitt is involved in all operational aspects of our company. Mr. Beckwitt served on the Board of Directors of D.R. Horton, Inc. from 1993 to November 2003. From 1993 to March 2000, he held various executive officer positions at D.R. Horton, including President of the company.

Mr. Gross has served as Vice President and our Chief Financial Officer since 1997. Before that, Mr. Gross was Senior Vice President, Controller and Treasurer of Pacific Greystone Corporation.

Ms. Bessette joined us in 1995 and served as our Controller from 1997 to 2008. Since February 2008, she has served as our Treasurer. She was appointed a Vice President in 2000.

Mr. Sustana has served as our Secretary and General Counsel since 2005. Before joining Lennar, Mr. Sustana held various legal positions at GenTek, Inc., a manufacturer of communication products, industrial components and performance chemicals.

Mr. Collins joined us in 1998 and has served as our Controller since February 2008. Before becoming Controller, Mr. Collins served as our Executive Director of Financial Reporting.

**Item 2. Properties.**

We lease and maintain our executive offices in an office complex in Miami, Florida. Our homebuilding and financial services offices are located in the markets where we conduct business, primarily in leased space. We believe that our existing facilities are adequate for our current and planned levels of operation.

Because of the nature of our homebuilding operations, significant amounts of property are held as inventory in the ordinary course of our homebuilding business. We discuss these properties in the discussion of our homebuilding operations in Item 1 of this Report.

**Item 3. Legal Proceedings.**

We are party to various claims and lawsuits which arise in the ordinary course of business, but we do not consider the volume of our claims and lawsuits unusual given the number of homes we deliver and the fact that the lawsuits often relate to homes delivered several years before the lawsuits are commenced. Although the specific allegations in the lawsuits differ, they most commonly involve claims that we failed to construct homes in particular communities in accordance with plans and specifications or applicable construction codes and seek reimbursement for sums allegedly needed to remedy the alleged deficiencies, assert contract issues or relate to personal injuries. Lawsuits of these types are common within the homebuilding industry. We are a plaintiff in many cases in which we seek contribution from our subcontractors for home repair costs. The costs incurred by us in construction defect lawsuits are offset by warranty reserves, our third party insurers, subcontractor insurers and indemnity contributions from subcontractors. We do not believe that the ultimate resolution of these claims

**Table of Contents**

or lawsuits will have a material adverse effect on our business, financial position, results of operations or cash flows. From time-to-time, we also receive notices from environmental agencies regarding alleged violations of environmental laws. We typically settle these matters before they reach litigation for amounts that are not material to us.

In May 2008, we were named as the nominal defendant in a derivative suit in the United States District Court for the Southern District of Florida, Miami Division, entitled *Doris Staehr, Derivatively on Behalf of Lennar Corporation v. Stuart A. Miller, et al.*, Case No. 08-20990-CIV, in which the plaintiff purports to assert claims for our benefit against some of our current and former officers and directors, primarily relating to allegedly inadequate or incorrect disclosures about the likelihood of a decline in the housing market and the effects it would have on us. We have moved to dismiss an amended complaint on the ground that the plaintiff failed to make a demand on our directors that under most circumstances is a prerequisite to a derivative suit. The actual defendants have moved to dismiss for that and other reasons. Because the suit is allegedly brought for our benefit, it does not seek any damages from us.

The following table discloses as of January 22, 2009, the approximate number of pending adversarial proceedings against us (including counterclaims against us in suits we brought) and the approximate number of pending suits by us, to the best of our knowledge. The table excludes simple mortgage foreclosures in which we have no interest and ordinary course disputes involving North American Title Group, Inc. It groups the proceedings against us by the amounts demanded in the complaints or a post-complaint demand. However, some complaints demand only the minimum amount required to bring suit in a particular forum, with the plaintiff intending to amend at a later point to insert a more specific claim for damages or to make some other damages assertion. Other complaints seek amounts many times the maximum conceivable damages. Accordingly, the groupings are not necessarily indicative of the amounts involved in the litigations.

Claims Against Lennar (and Lennar Claims Against Others) in Active Litigation or Arbitration as of January 22, 2009

	Amount of Claims Not Specified, or Lennar - Asserted Without Counterclaim	Amount of Claims Against Lennar < \$100,000	Amount of Claims Against Lennar - \$100,000 - \$250,000	Amount of Claims Against Lennar > \$250,000	Total Claims
Construction	52	46	15	90	203
Contract	61	57	24	47	189
Premises liability/personal injury	32	13	5	15	65
Employment	5	3	3	7	18
Other	62	28	10	25	125
Total	212	147	57	184	600(1)

(1) Lennar is the plaintiff in 62 of the claims and the defendant in 538 of the claims.

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

Not applicable.



**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our Class A and Class B common stock are listed on the New York Stock Exchange under the symbols LEN and LEN.B, respectively. The following table shows the high and low sales prices for our Class A and Class B common stock for the periods indicated, as reported by the NYSE, and cash dividends declared per share:

Fiscal Quarter	Class A Common Stock				Cash Dividends	
	High/Low Prices				Per Class A Share	
	2008	2007	2008	2007	2008	2007
First	\$21.64	11.98	\$ 56.54	48.33	16¢	16¢
Second	\$22.73	13.40	\$ 49.90	40.65	16¢	16¢
Third	\$17.22	9.33	\$ 45.90	26.92	16¢	16¢
Fourth	\$16.90	3.42	\$ 28.96	14.00	4¢	16¢

  

Fiscal Quarter	Class B Common Stock				Cash Dividends	
	High/Low Prices				Per Class B Share	
	2008	2007	2008	2007	2008	2007
First	\$20.10	11.14	\$ 52.42	45.27	16¢	16¢
Second	\$20.92	12.41	\$ 46.44	38.35	16¢	16¢
Third	\$15.43	8.46	\$ 42.53	25.61	16¢	16¢
Fourth	\$15.34	2.26	\$ 27.39	13.00	4¢	16¢

As of December 31, 2008, the last reported sale price of our Class A common stock was \$8.67 and the last reported sale price of our Class B common stock was \$6.48. As of December 31, 2008, there were approximately 1,000 and 700 holders of record, respectively, of our Class A and Class B common stock.

On January 13, 2009, our Board of Directors declared a quarterly cash dividend of \$0.04 per share for both our Class A and Class B common stock, which is payable on February 13, 2009 to holders of record at the close of business on February 3, 2009. We regularly evaluate with our Board of Directors the decision whether to declare a dividend and the amount of the dividend.

In June 2001, our Board of Directors authorized a stock repurchase program to permit future purchases of up to 20 million shares of our outstanding common stock. During the three months ended November 30, 2008, there were no shares repurchased under this program.

The information required by Item 201(d) of Regulation S-K is provided in Item 12 of this Report.

**Table of Contents**

Performance Graph

The following graph compares the five-year cumulative total return of our Class A common stock with the Dow Jones U.S. Home Construction Index and the Dow Jones U.S. Total Market Index. The graph assumes \$100 invested on November 30, 2003 in our Class A common stock, the Dow Jones U.S. Home Construction Index and the Dow Jones U.S. Total Market Index, and the reinvestment of all dividends. Because of our dividend of Class B common stock in April 2003, our returns for the fiscal years ended November 30, 2008, 2007, 2006, 2005 and 2004 are based on the sales price of one share of our Class A common stock and one-tenth of the sale price of one share of our Class B common stock.

**Comparison of Five - Year Cumulative Total Return**

**Fiscal Year Ended November 30**

**(2003=\$100)**

	2003	2004	2005	2006	2007	2008
Lennar Corporation	\$ 100	92	120	110	34	15
Dow Jones U.S. Home Construction Index	\$ 100	114	154	123	51	36
Dow Jones U.S. Total Market Index	\$ 100	113	125	143	154	94

**Table of Contents****Item 6. Selected Financial Data.**

The following table sets forth our selected consolidated financial and operating information as of or for each of the years ended November 30, 2004 through 2008. The information presented below is based upon our historical financial statements, except for the results of operations of a subsidiary of the Financial Services segment's title company that was sold in May 2005, which have been classified as discontinued operations.

	2008	At or for the Years Ended November 30,			2004 (1)
		2007	2006	2005	
	(Dollars in thousands, except per share amounts)				
<b>Results of Operations:</b>					
Revenues:					
Homebuilding	\$ 4,263,038	9,730,252	15,623,040	13,304,599	10,000,632
Financial services	\$ 312,379	456,529	643,622	562,372	500,336
Total revenues	\$ 4,575,417	10,186,781	16,266,662	13,866,971	10,500,968
Operating earnings (loss) from continuing operations:					
Homebuilding (2)	\$ (400,786)	(2,913,999)	986,153	2,277,091	1,548,488
Financial services (3)	\$ (30,990)	6,120	149,803	104,768	110,731
Corporate general and administrative expenses	\$ (129,752)	(173,202)	(193,307)	(187,257)	(141,722)
Loss on redemption of 9.95% senior notes	\$			(34,908)	
Earnings (loss) from continuing operations before (provision) benefit for income taxes	\$ (561,528)	(3,081,081)	942,649	2,159,694	1,517,497
Earnings from discontinued operations before (provision) for income taxes (4)	\$			17,261	1,570
Earnings (loss) from continuing operations (5)	\$ (1,109,085)	(1,941,081)	593,869	1,344,410	944,642
Earnings from discontinued operations	\$			10,745	977
Net earnings (loss)	\$ (1,109,085)	(1,941,081)	593,869	1,355,155	945,619
Diluted earnings (loss) per share:					
Earnings (loss) from continuing operations	\$ (7.00)	(12.31)	3.69	8.17	5.70
Earnings from discontinued operations	\$			0.06	
Net earnings (loss)	\$ (7.00)	(12.31)	3.69	8.23	5.70
Cash dividends declared per share Class A common stock	\$ 0.52	0.64	0.64	0.573	0.513
Cash dividends declared per share Class B common stock	\$ 0.52	0.64	0.64	0.573	0.513
<b>Financial Position:</b>					
Total assets (6)	\$ 7,424,898	9,102,747	12,408,266	12,541,225	9,165,280
Debt:					
Homebuilding	\$ 2,544,935	2,295,436	2,613,503	2,592,772	2,021,014
Financial services	\$ 225,783	541,437	1,149,231	1,269,782	896,934
Stockholders' equity	\$ 2,623,007	3,822,119	5,701,372	5,251,411	4,052,972
Shares outstanding (000s)	160,558	159,887	158,155	157,559	156,230
Stockholders' equity per share	\$ 16.34	23.91	36.05	33.33	25.94
<b>Homebuilding Data (including unconsolidated entities):</b>					
Number of homes delivered	15,735	33,283	49,568	42,359	36,204
New orders	13,391	25,753	42,212	43,405	37,667
Backlog of home sales contracts	1,599	4,009	11,608	18,565	15,546
Backlog dollar value	\$ 456,270	1,384,137	3,980,428	6,884,238	5,055,273

(1) In May 2005, we sold a subsidiary of our Financial Services segment's title company. As a result of the sale, the subsidiary's results of operations have been reclassified as discontinued operations to conform with the 2005 presentation.



**Table of Contents**

- (2) Homebuilding operating earnings (loss) from continuing operations include \$340.5 million, \$2,445.1 million, \$501.8 million and \$20.5 million, respectively, of SFAS 144 valuation adjustments for the years ended November 30, 2008, 2007, 2006 and 2005. In addition, it includes \$32.2 million, \$364.2 million and \$126.4 million, respectively, of SFAS 144 valuation adjustments related to assets of our investments in unconsolidated entities for the years ended November 30, 2008, 2007 and 2006, and \$172.8 million, \$132.2 million and \$14.5 million, respectively of APB 18 valuation adjustments to our investments in unconsolidated entities for the years ended November 30, 2008, 2007 and 2006. During the year ended November 30, 2007, homebuilding operating earnings (loss) from continuing operations also includes \$190.2 million of goodwill impairments. There were no other material valuation adjustments for the years ended November 30, 2005 and 2004.
- (3) Financial Services operating loss from continuing operations for the year ended November 30, 2008 includes a \$27.2 million impairment of the Financial Services segment's goodwill.
- (4) Earnings from discontinued operations before provision for income taxes includes a gain of \$15.8 million for the year ended November 30, 2005 related to the sale of a subsidiary of the Financial Services segment's title company.
- (5) Earnings (loss) from continuing operations for the year ended November 30, 2008 includes a \$730.8 million valuation allowance recorded against our deferred tax assets.
- (6) As of November 30, 2004, the Financial Services segment had assets of discontinued operations of \$1.0 million related to a subsidiary of the segment's title company that was sold in May 2005.

## **Table of Contents**

### **Item 7. 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 Selected Financial Data and our audited consolidated financial statements and accompanying notes included elsewhere in this Report.

#### **Special Note Regarding Forward-Looking Statements**

Some of the statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Annual Report on Form 10-K, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements 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* in Item 1A of this Report. We do not undertake any obligation to update forward-looking statements, except as required by Federal securities laws.

#### **Outlook**

The housing market continues to be compromised by the most significant domestic economic downturn in recent history. General economic pressures continue to drive down the volume and prices of homes being sold, as rising levels of foreclosures add inventory to an already saturated marketplace. Overall consumer sentiment has continued to deteriorate, resulting in fewer potential home purchasers willing to enter the market. These conditions have fostered a competitive need amongst homebuilders to drive pricing downward through the use of incentives, price reductions and incentivized brokerage fees. Although there is optimism that the new administration taking federal office will offer stimulus to fix the sliding housing environment, we currently do not have visibility as to when these deteriorating market conditions will subside. Whether or not there is additional federal stimulus, there could be further deterioration in market conditions, which may lead to additional valuation adjustments in the future.

In midst of this environment, we remained balance sheet focused with great emphasis on liquidity and positioning ourselves for future opportunities. We continued to reduce overhead in an effort to be right-sized for anticipated lower volume levels in fiscal 2009. In addition, we continued to carefully manage our inventory levels through curtailing land purchases, reducing home starts and adjusting prices to deliver completed homes.

We also have diligently worked on restructuring, repositioning and reducing our joint ventures. We have reduced the number of joint ventures in which we participate to 116 unconsolidated joint ventures at November 30, 2008, compared to 270 unconsolidated joint ventures at the peak in 2006. We have also reduced our net recourse indebtedness exposure with regard to joint ventures to \$392.5 million at November 30, 2008, compared to \$1.1 billion at the peak in 2006.

In 2009, cash generation will continue to be our top priority. We will convert inventory to cash and reduce both our land purchases and homebuilding starts. In addition, we will reduce our cash outflows by continuing to right-size our overhead to improve our selling, general and

administrative expenses as a percentage of revenues.

## Results of Operations

### Overview

Our net loss in 2008 was \$1.1 billion, or \$7.00 per basic and diluted share, compared to a net loss of \$1.9 billion, or \$12.31 per basic and diluted share, in 2007. The current year net loss was attributable to weakness in the housing market that has persisted during 2008 and has impacted all of our operations. Our gross margin percentage increased due to our lower inventory basis and continued focus on repositioning our product and reducing construction costs, despite Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for the Impairment of Long-lived Assets*, ( SFAS 144 ) valuation adjustments and a decrease in the average sales price of homes delivered during 2008, compared to 2007. Our 2008 results were also impacted by a non-cash SFAS 109, *Accounting for Income Taxes*, ( SFAS 109 ) valuation allowance of \$730.8 million, or \$4.61 per basic and diluted share, recorded against our deferred tax assets.

**Table of Contents**

The following table sets forth financial and operational information for the years indicated related to our operations. The results of operations of the homebuilders we acquired during 2006 were not material to our consolidated financial statements and are included in the tables since the respective dates of the acquisitions.

	2008	Years Ended November 30,	
		2007	2006
	(Dollars in thousands, except average sales price)		
<b>Homebuilding revenues:</b>			
Sales of homes	\$ 4,150,717	9,462,940	14,854,874
Sales of land	112,321	267,312	768,166
Total homebuilding revenues	4,263,038	9,730,252	15,623,040
<b>Homebuilding costs and expenses:</b>			
Cost of homes sold	3,641,090	8,892,268	12,114,433
Cost of land sold	245,536	1,928,451	798,165
Selling, general and administrative	655,255	1,368,358	1,764,967
Total homebuilding costs and expenses	4,541,881	12,189,077	14,677,565
Gain on recapitalization of unconsolidated entity	133,097	175,879	
Goodwill impairments		(190,198)	
Equity in loss from unconsolidated entities	(59,156)	(362,899)	(12,536)
Management fees and other income (expense), net	(199,981)	(76,029)	66,629
Minority interest income (expense), net	4,097	(1,927)	(13,415)
<b>Homebuilding operating earnings (loss)</b>	<b>(400,786)</b>	<b>(2,913,999)</b>	<b>986,153</b>
Financial services revenues	312,379	456,529	643,622
Financial services costs and expenses (1)	343,369	450,409	493,819
<b>Financial services operating earnings (loss)</b>	<b>(30,990)</b>	<b>6,120</b>	<b>149,803</b>
<b>Total operating earnings (loss)</b>	<b>(431,776)</b>	<b>(2,907,879)</b>	<b>1,135,956</b>
Corporate general and administrative expenses	(129,752)	(173,202)	(193,307)
<b>Earnings (loss) before (provision) benefit for income taxes</b>	<b>\$ (561,528)</b>	<b>(3,081,081)</b>	<b>942,649</b>
Gross margin on home sales	12.3%	6.0%	18.4%
SG&A expenses as a % of revenues from home sales	15.8%	14.5%	11.9%
Operating margin as a % of revenues from home sales	(3.5)%	(8.4)%	6.6%
Gross margin on home sales excluding valuation adjustments (2)	17.0%	13.9%	20.3%
Operating margin as a % of revenues from home sales excluding valuation adjustments (2)	1.2%	(0.5)%	8.5%
Average sales price	\$ 270,000	\$ 297,000	315,000

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- (1) Financial Services costs and expenses for the year ended November 30, 2008 include a \$27.2 million impairment of goodwill.
- (2) Gross margins on home sales excluding valuation adjustments and operating margin as a percentage of revenues from home sales excluding valuation adjustments are non-GAAP financial measures disclosed by certain of our competitors and have been presented because we find it useful in evaluating our performance and believe that it helps readers of our financial statements compare our operations with those of our competitors.

### 2008 versus 2007

Revenues from home sales decreased 56% in the year ended November 30, 2008 to \$4.2 billion from \$9.5 billion in 2007. Revenues were lower primarily due to a 51% decrease in the number of home deliveries and a 9% decrease in the average sales price of homes delivered in 2008. New home deliveries, excluding unconsolidated entities, decreased to 15,344 homes in the year ended November 30, 2008 from 31,582 homes last year. In the year ended November 30, 2008, new home deliveries were lower in each of our homebuilding segments and Homebuilding Other, compared to 2007. The average sales price of homes delivered decreased to \$270,000 in the year ended November 30, 2008 from \$297,000 in 2007, due to reduced pricing. Sales incentives offered to homebuyers were \$48,700 and \$48,000 per home delivered, respectively, in the years ended November 30, 2008 and 2007.

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**Table of Contents**

Gross margins on home sales excluding SFAS 144 valuation adjustments were \$705.1 million, or 17.0%, in the year ended November 30, 2008, compared to \$1.3 billion, or 13.9%, in 2007. Gross margin percentage on home sales, excluding SFAS 144 valuation adjustments, improved compared to last year primarily due to our lower inventory basis and continued focus on repositioning our product and reducing construction costs. Gross margins on home sales were \$509.6 million, or 12.3%, in the year ended November 30, 2008, which included \$195.5 million of SFAS 144 valuation adjustments, compared to gross margins on home sales of \$570.7 million, or 6.0%, in the year ended November 30, 2007, which included \$747.8 million of SFAS 144 valuation adjustments. Gross margins on home sales excluding SFAS 144 valuation adjustments is a non-GAAP financial measure disclosed by certain of our competitors and has been presented because we find it useful in evaluating our performance and believe that it helps readers of our financial statements compare our operations with those of our competitors.

Homebuilding interest expense (primarily included in cost of homes sold and cost of land sold) was \$130.4 million in 2008, compared to \$203.7 million in 2007. The decrease in interest expense was due to lower interest costs resulting from lower average debt during 2008, as well as decreased deliveries during 2008, compared to 2007. Our homebuilding debt to total capital ratio as of November 30, 2008 was 49.2%, compared to 37.5% as of November 30, 2007. Our net homebuilding debt to total capital ratio as of November 30, 2008 was 35.7% compared to 30.2% as of November 30, 2007. The net homebuilding debt to total capital ratio consists of net homebuilding debt (homebuilding debt less homebuilding cash) divided by total capital (net homebuilding debt plus stockholders' equity).

Selling, general and administrative expenses were reduced by \$713.1 million, or 52%, in the year ended November 30, 2008, compared to last year, primarily due to the consolidation of divisions, which resulted in reductions in associate headcount, variable selling expense and fixed costs. As a percentage of revenues from home sales, selling, general and administrative expenses increased to 15.8% in the year ended November 30, 2008, from 14.5% in 2007, due to lower revenues.

Losses on land sales totaled \$133.2 million in the year ended November 30, 2008, which included \$47.8 million of SFAS 144 valuation adjustments and \$97.2 million of write-offs of deposits and pre-acquisition costs related to approximately 8,200 homesites under option that we do not intend to purchase. In the year ended November 30, 2007, losses on land sales totaled \$1,661.1 million, which included \$1,167.3 million of SFAS 144 valuation adjustments and \$530.0 million of write-offs of deposits and pre-acquisition costs related to approximately 36,900 homesites that were under option.

Equity in loss from unconsolidated entities was \$59.2 million in the year ended November 30, 2008, which included \$32.2 million of our share of SFAS 144 valuation adjustments related to assets of unconsolidated entities in which we have investments, compared to equity in loss from unconsolidated entities of \$362.9 million in the year ended November 30, 2007, which included \$364.2 million of our share of SFAS 144 valuation adjustments related to assets of unconsolidated entities in which we have investments.

Management fees and other income (expense), net totaled (\$200.0) million in the year ended November 30, 2008, which included \$172.8 million of APB 18 valuation adjustments to our investments in unconsolidated entities and \$25.0 million of write-offs of notes receivable, compared to management fees and other income (expense), net of (\$76.0) million in the year ended November 30, 2007, which included \$132.2 million of APB 18 valuation adjustments to our investments in unconsolidated entities.

Minority interest income (expense), net was \$4.1 million in the year ended November 30, 2008, compared to minority interest income (expense), net of (\$1.9) million in the year ended November 30, 2007.

Due to the termination of our rights to purchase certain assets from our LandSource unconsolidated joint venture, we recognized deferred profit of \$101.3 million in the year ended November 30, 2008 (net of \$31.8 million of write-offs of option deposits and pre-acquisition costs and other

write-offs) related to the 2007 recapitalization of LandSource.

Sales of land, equity in loss from unconsolidated entities, management fees and other income (expense), net and minority interest income (expense), net may vary significantly from period to period depending on the timing of land sales and other transactions entered into by us and unconsolidated entities in which we have investments.

Operating loss for the Financial Services segment was \$31.0 million in the year ended November 30, 2008, compared to operating earnings of \$6.1 million in the same period last year. The decline in profitability was

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**Table of Contents**

primarily due to a goodwill impairment of \$27.2 million related to the segment's mortgage operations and fewer transactions in the segment's title and mortgage operations.

Corporate general and administrative expenses were reduced by \$43.5 million, or 25%, for the year ended November 30, 2008, compared to 2007. As a percentage of total revenues, corporate general and administrative expenses increased to 2.8% in the year ended November 30, 2008, from 1.7% in the same period last year, due to lower revenues.

SFAS 109 requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance, if based on available evidence, it is more likely than not that such assets will not be realized. As a result of our operational results for the year ended November 30, 2008, we have now incurred cumulative losses over the evaluation period we established in accordance with SFAS 109. Accordingly, based on our evaluation of available evidence including our cumulative losses in the evaluation period, our current level of profits and losses and current market conditions, we have recorded a \$730.8 million non-cash valuation allowance against our deferred tax assets during the year ended November 30, 2008. In future periods, this valuation allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of the our deferred tax assets will be realized.

At November 30, 2008, we owned 74,681 homesites and had access to an additional 38,589 homesites through either option contracts with third parties or agreements with unconsolidated entities in which we have investments. At November 30, 2008, 2% of the homesites we owned were subject to home purchase contracts. Our backlog of sales contracts was 1,599 homes (\$456.3 million) at November 30, 2008, compared to 4,009 homes (\$1,384.1 million) at November 30, 2007. The lower backlog was attributable to challenged market conditions that persisted throughout 2008, which resulted in lower new orders in 2008, compared to 2007.

**2007 versus 2006**

Revenues from home sales decreased 36% in the year ended November 30, 2007 to \$9.5 billion from \$14.9 billion in 2006. Revenues were lower primarily due to a 33% decrease in the number of home deliveries and a 6% decrease in the average sales price of homes delivered in 2007. New home deliveries, excluding unconsolidated entities, decreased to 31,582 homes in the year ended November 30, 2007 from 47,032 homes in 2006. In the year ended November 30, 2007, new home deliveries were lower in each of our homebuilding segments and Homebuilding Other, compared to 2006. The average sales price of homes delivered decreased to \$297,000 in the year ended November 30, 2007 from \$315,000 in 2006, primarily due to higher sales incentives offered to homebuyers (\$48,000 per home delivered in 2007, compared to \$32,000 per home delivered in 2006).

Gross margins on home sales excluding SFAS 144 valuation adjustments were \$1.3 billion, or 13.9%, in the year ended November 30, 2007, compared to \$3.0 billion, or 20.3%, in 2006. Gross margin percentage on home sales decreased compared to 2006 in all of our homebuilding segments primarily due to higher sales incentives offered to homebuyers. Gross margins on home sales were \$570.7 million, or 6.0%, in the year ended November 30, 2007, which included \$747.8 million of SFAS 144 valuation adjustments, compared to gross margins on home sales of \$2,740.4 million, or 18.4%, in the year ended November 30, 2006, which included \$280.5 million of SFAS 144 inventory valuation adjustments. Gross margins on home sales excluding SFAS 144 valuation adjustments is a non-GAAP financial measure disclosed by certain of our competitors and has been presented because we find it useful in evaluating its performance and believe that it helps readers of our financial statements compare our operations with those of our competitors.

Homebuilding interest expense (primarily included in cost of homes sold and cost of land sold) was \$203.7 million in 2007, compared to \$241.1 million in 2006. The decrease in interest expense was due to lower interest costs resulting from lower average debt during 2007, as well as



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decreased deliveries during 2007, compared to 2006. Our homebuilding debt to total capital ratio as of November 30, 2007 was 37.5%, compared to 31.4% as of November 30, 2006. Our net homebuilding debt to total capital ratio as of November 30, 2007 was 30.2% compared to 25.5% as of November 30, 2006. The net homebuilding debt to total capital ratio consists of net homebuilding debt (homebuilding debt less homebuilding cash) divided by total capital (net homebuilding debt plus stockholders' equity).

Selling, general and administrative expenses were reduced by \$396.6 million, or 22%, in the year ended November 30, 2007, compared to 2006, primarily due to reductions in associate headcount and variable selling expenses. As a percentage of revenues from home sales, selling, general and administrative expenses increased to 14.5% in the year ended November 30, 2007, from 11.9% in 2006. The 260 basis point increase was primarily due to lower revenues.

**Table of Contents**

Loss on land sales totaled \$1,661.1 million in the year ended November 30, 2007, which included \$740.4 million of SFAS 144 valuation adjustments on the inventory acquired by the Morgan Stanley land investment venture discussed below, \$426.9 million of SFAS 144 valuation adjustments and \$530.0 million of write-offs of deposits and pre-acquisition costs related to 36,900 homesites under option that we do not intend to purchase. In the year ended November 30, 2006, loss on land sales totaled \$30.0 million, which included \$69.1 million of SFAS 144 valuation adjustments and \$152.2 million of write-offs of deposits and pre-acquisition costs related to 24,200 homesites that were under option.

In November 2007, we and Morgan Stanley Real Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., formed a strategic land investment venture to acquire, develop, manage and sell residential real estate. We acquired a 20% ownership interest and 50% voting rights in the land investment venture. Concurrent with the formation of the land investment venture, we sold a diversified portfolio of our land to the venture for \$525 million. The properties acquired by the new entity consist of approximately 11,000 homesites in 32 communities located throughout the country. The properties sold by us had a net book value of approximately \$1.3 billion. As part of the transaction, we entered into option agreements and obtained rights of first offer providing us the opportunity to purchase certain finished homesites. The exercise price of the options is based on a fixed percentage of the future home price. We have no obligation to exercise these options and cannot acquire a majority of the entity's assets. We are managing the land investment venture's operations and receive fees for our services. We will also receive disproportionate distributions if the investment venture exceeds certain financial targets.

Due to our continuing involvement, the transaction did not qualify as a sale under GAAP; thus, the inventory remained on our balance sheet in consolidated inventory not owned as of November 30, 2007. Additionally, the \$445 million of net cash received from the transaction was recorded in liabilities related to consolidated inventory not owned in the consolidated balance sheet and classified as cash flows from financing activities in the consolidated statement of cash flows. In connection with the transaction, we recorded a SFAS 144 valuation adjustment of \$740.4 million on the inventory sold to the land investment venture.

Equity in loss from unconsolidated entities was \$362.9 million in the year ended November 30, 2007, which included \$364.2 million of our share of SFAS 144 valuation adjustments related to the assets of our investments in unconsolidated entities, compared to equity in loss from unconsolidated entities of \$12.5 million in the year ended November 30, 2006, which included \$126.4 million of our share of SFAS 144 valuation adjustments related to the assets of our investments in unconsolidated entities.

During the year ended November 30, 2007, we recorded goodwill impairments of \$190.2 million related to our homebuilding operations.

Management fees and other income (expense), net, totaled (\$76.0) million in the year ended November 30, 2007, which included \$132.2 million of APB 18 valuation adjustments to our investments in unconsolidated entities, compared to management fees and other income (expense), net, of \$66.6 million in the year ended November 30, 2006, net of \$14.5 million of APB 18 valuation adjustments to our investments in unconsolidated entities.

Minority interest income (expense), net was (\$1.9) million and (\$13.4) million, respectively, in the years ended November 30, 2007 and 2006.

Sales of land, equity in loss from unconsolidated entities, management fees and other income (expense), net and minority interest income (expense), net may vary significantly from period to period depending on the timing of land sales and other transactions entered into by us and unconsolidated entities in which we have investments.

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In February 2007, our LandSource joint venture admitted MW Housing Partners as a new strategic partner. As part of the transaction, the joint venture obtained \$1.6 billion of non-recourse financing, which consisted of a \$200 million five-year Revolving Credit Facility, a \$1.1 billion six-year Term Loan B Facility and a \$244 million seven-year Second Lien Term Facility. The transaction resulted in a cash distribution to us of \$707.6 million, but reduced our resulting ownership of LandSource to 16%. As a result of the recapitalization, we recognized a pretax gain of \$175.9 million in 2007.

Operating earnings for the Financial Services segment were \$6.1 million in the year ended November 30, 2007, compared to \$149.8 million in 2006. The decrease was primarily due to a decline in profitability from both the segment's mortgage and title operations and \$28.4 million of partial write-offs of land seller notes receivable.

## Table of Contents

The decline in profitability was due to the overall weakness in the housing market, which led to a decrease in volume and transactions for the mortgage and title operations compared to 2006.

Corporate general and administrative expenses were reduced by \$20.1 million, or 10%, in the year ended November 30, 2007, compared to 2006. As a percentage of total revenues, corporate general and administrative expenses increased to 1.7% in the year ended November 30, 2007, compared to 1.2% in 2006, primarily due to lower revenues.

At November 30, 2007, we owned 62,801 homesites and had access to an additional 85,870 homesites through either option contracts with third parties or agreements with unconsolidated entities in which we have investments. At November 30, 2007, 5% of the homesites we owned were subject to home purchase contracts. Our backlog of sales contracts was 4,009 homes (\$1.4 billion) at November 30, 2007, compared to 11,608 homes (\$4.0 billion) at November 30, 2006. The lower backlog was attributable to weak market conditions that persisted during 2007, which resulted in lower new orders in 2007, compared to 2006.

## Homebuilding Segments

Our Homebuilding operations construct and sell homes primarily for first-time, move-up and active adult homebuyers primarily under the Lennar brand name. In addition, our homebuilding operations also purchase, develop and sell land to third parties. In certain circumstances, we diversify our operations through strategic alliances and minimize our risks by investing with third parties in joint ventures.

We have disaggregated our Houston homebuilding division from our Homebuilding Central reportable segment and have presented Houston as a separate reportable segment due to the division achieving a quantitative threshold set forth in SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information* ( SFAS 131 ) as of and for the year ended November 30, 2008. All segment information related to prior years has been restated to conform to the fiscal 2008 presentation. The change in reportable segments has no effect on our consolidated financial position, results of operations or cash flows.

Information about homebuilding activities in states in which our homebuilding activities are not economically 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 November 30, 2008, our revised reportable homebuilding segments and Homebuilding Other consisted of homebuilding operations located in:

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

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

**West:** California and Nevada.

**Houston:** Houston, Texas.

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**Other:** Illinois, Minnesota, New York, North Carolina and South Carolina.

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

**Table of Contents**

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

**Selected Financial and Operational Data**

	Years Ended November 30,		
	2008	2007	2006
	(In thousands)		
<b>Revenues:</b>			
<b>East:</b>			
Sales of homes	\$ 1,252,725	2,691,198	4,642,582
Sales of land	23,033	63,452	129,297
<b>Total East</b>	<b>1,275,758</b>	<b>2,754,650</b>	<b>4,771,879</b>
<b>Central:</b>			
Sales of homes	512,957	1,549,020	2,549,138
Sales of land	20,153	56,819	80,168
<b>Total Central</b>	<b>533,110</b>	<b>1,605,839</b>	<b>2,629,306</b>
<b>West:</b>			
Sales of homes	1,408,051	3,460,667	5,466,437
Sales of land	32,112	83,045	503,075
<b>Total West</b>	<b>1,440,163</b>	<b>3,543,712</b>	<b>5,969,512</b>
<b>Houston:</b>			
Sales of homes	542,288	815,250	996,036
Sales of land	8,565	23,000	23,879
<b>Total Houston</b>	<b>550,853</b>	<b>838,250</b>	<b>1,019,915</b>
<b>Other:</b>			
Sales of homes	434,696	946,805	1,200,681
Sales of land	28,458	40,996	31,747
<b>Total Other</b>	<b>463,154</b>	<b>987,801</b>	<b>1,232,428</b>
<b>Total homebuilding revenues</b>	<b>\$ 4,263,038</b>	<b>9,730,252</b>	<b>15,623,040</b>

**Table of Contents**

	Years Ended November 30,		
	2008	2007	2006
	(In thousands)		
<b>Operating earnings (loss):</b>			
<b>East:</b>			
Sales of homes	\$ (37,361)	(366,153)	305,397
Sales of land	(41,242)	(400,830)	(63,729)
Goodwill impairments		(46,274)	
Equity in loss from unconsolidated entities	(31,422)	(58,069)	(14,947)
Management fees and other income (expense), net	(64,106)	(20,910)	14,335
Minority interest income (expense), net	3,924	(923)	(4,402)
<b>Total East</b>	<b>(170,207)</b>	<b>(893,159)</b>	<b>236,654</b>
<b>Central:</b>			
Sales of homes	(67,124)	(110,663)	113,960
Sales of land	(11,330)	(142,330)	(878)
Goodwill impairments		(31,293)	
Equity in earnings (loss) from unconsolidated entities	(1,310)	(25,378)	7,931
Management fees and other income (expense), net	(11,006)	(18,834)	6,297
Minority interest income (expense), net	(407)	(85)	689
<b>Total Central</b>	<b>(91,177)</b>	<b>(328,583)</b>	<b>127,999</b>
<b>West:</b>			
Sales of homes	(67,757)	(347,018)	532,456
Sales of land	(74,987)	(950,316)	84,749
Gain on recapitalization of unconsolidated entity	133,097	175,879	
Goodwill impairments		(43,955)	
Equity in loss from unconsolidated entities	(25,113)	(274,267)	(6,449)
Management fees and other income (expense), net	(100,597)	(38,404)	38,918
Minority interest income (expense), net	440	(723)	(9,757)
<b>Total West</b>	<b>(134,917)</b>	<b>(1,478,804)</b>	<b>639,917</b>
<b>Houston:</b>			
Sales of homes	39,897	76,378	77,732
Sales of land	807	1,151	5,989
Equity in loss from unconsolidated entities	(920)	(752)	(168)
Management fees and other income (expense), net	(978)	2,878	3,834
Minority interest income, net		22	
<b>Total Houston</b>	<b>38,806</b>	<b>79,677</b>	<b>87,387</b>
<b>Other:</b>			
Sales of homes	(13,283)	(50,230)	(54,071)
Sales of land	(6,463)	(168,814)	(56,130)
Goodwill impairments		(68,676)	
Equity in earnings (loss) from unconsolidated entities	(391)	(4,433)	1,097
Management fees and other income (expense), net	(23,294)	(759)	3,245
Minority interest income (expense), net	140	(218)	55
<b>Total Other</b>	<b>(43,291)</b>	<b>(293,130)</b>	<b>(105,804)</b>
<b>Total homebuilding operating earnings (loss)</b>	<b>\$ (400,786)</b>	<b>(2,913,999)</b>	<b>986,153</b>





**Table of Contents****Summary of Homebuilding Data**

	At or for the Years Ended		
	2008	November 30, 2007	2006
<b>Deliveries</b>			
East	4,957	9,840	14,859
Central	2,442	7,020	11,287
West	4,031	8,739	13,333
Houston	2,736	4,380	5,782
Other	1,569	3,304	4,307
<b>Total</b>	<b>15,735</b>	<b>33,283</b>	<b>49,568</b>

Of the total home deliveries listed above, 391, 1,701 and 2,536, respectively, represent deliveries from unconsolidated entities for the years ended November 30, 2008, 2007 and 2006.

<b>New Orders</b>			
East	3,953	7,492	11,290
Central	2,280	5,055	10,292
West	3,396	6,765	11,119
Houston	2,416	3,621	5,828
Other	1,346	2,820	3,683
<b>Total</b>	<b>13,391</b>	<b>25,753</b>	<b>42,212</b>

Of the new orders listed above, 174, 1,091 and 1,921, respectively, represent new orders from unconsolidated entities for the years ended November 30, 2008, 2007 and 2006.

<b>Backlog Homes</b>			
East	787	1,797	4,139
Central	123	285	2,250
West	247	942	2,991
Houston	269	589	1,348
Other	173	396	880
<b>Total</b>	<b>1,599</b>	<b>4,009</b>	<b>11,608</b>

Of the homes in backlog listed above, 8 homes, 364 homes and 1,089 homes, respectively, represent homes in backlog from unconsolidated entities at November 30, 2008, 2007 and 2006.

<b>Backlog Dollar Value (In thousands)</b>			
East	\$ 202,791	587,100	1,460,213
Central	23,736	67,344	590,487
West	108,779	408,280	1,328,617
Houston	57,785	128,340	259,985
Other	63,179	193,073	341,126
<b>Total</b>	<b>\$ 456,270</b>	<b>1,384,137</b>	<b>3,980,428</b>

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Of the dollar value of homes in backlog listed above, \$12,460, \$182,664 and \$478,707, respectively, represent the backlog dollar value from unconsolidated entities at November 30, 2008, 2007 and 2006.

**Table of Contents**

Backlog represents the number of homes under sales contracts. Homes are sold using sales contracts, which are generally accompanied by sales deposits. In some instances, purchasers are permitted to cancel sales if they fail to qualify for financing or under certain other circumstances. We experienced cancellation rates in our homebuilding segments and Homebuilding Other as follows:

<b>Cancellation Rates</b>	<b>Years Ended November 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
East	31%	34%	32%
Central	22%	29%	29%
West	24%	29%	30%
Houston	27%	32%	24%
Other	23%	20%	22%
<b>Total</b>	<b>26%</b>	<b>30%</b>	<b>29%</b>

During the fourth quarter of 2008, our cancellation rate was 32%. Although we continued to experience a higher than normal cancellation rate during 2008, we remained focused on reselling these homes, which, in many instances, included the use of sales incentives (discussed below as a percentage of revenues from home sales) to avoid the build up of excess inventory. We do not recognize revenue on homes under sales contracts until the sales are closed and title passes to the new homeowners, except for our multi-level residential buildings under construction for which revenue was recognized under percentage-of-completion accounting during 2006 and 2007. In 2008, we stopped recognizing revenues and expenses under percentage-of-completion accounting for our multi-level residential buildings under construction as a result of Emerging Issues Task Force 06-8, *Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums* ( EITF 06-8 ) (see Note 1 in Item 8 of this Report).

**2008 versus 2007**

**East:** Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries and in the average sales price of homes delivered in all of the states in this segment. Gross margins on home sales excluding SFAS 144 valuation adjustments were \$241.3 million, or 19.3%, in 2008, compared to \$368.0 million, or 13.7%, in 2007. Gross margin percentage on home sales increased compared to last year due to our lower inventory basis and continued focus on reducing costs. As a percentage of home sales revenues, sales incentives were 17.2% in 2008 and 16.9% in 2007. Gross margins on home sales were \$164.5 million, or 13.1% in 2008 including SFAS 144 valuation adjustments of \$76.8 million, compared to gross margins on home sales of \$89.0 million, or 3.3%, in 2007 including \$279.1 million of SFAS 144 valuation adjustments.

Losses on land sales were \$41.2 million in 2008 (including \$19.0 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$23.3 million of SFAS 144 valuation adjustments), compared to losses on land sales of \$400.8 million in 2007 (including \$119.6 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$307.5 million of SFAS 144 valuation adjustments).

**Central:** Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries in all of the states in this segment. Gross margins on home sales excluding SFAS 144 valuation adjustments were \$59.9 million, or 11.7%, in 2008, compared to \$193.3 million, or 12.5%, in 2007. Gross margin percentage on home sales decreased compared to last year primarily due to higher sales incentives offered to homebuyers (15.9% in 2008, compared to 13.0% in 2007). Gross margins on home sales were \$31.8 million, or 6.2% in 2008 including SFAS 144 valuation adjustments of \$28.1 million, compared to gross margins on home sales of \$102.0 million, or 6.6%, in

2007 including \$91.4 million of SFAS 144 valuation adjustments.

Losses on land sales were \$11.3 million in 2008 (including \$6.0 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$12.4 million of SFAS 144 valuation adjustments), compared to losses on land sales of \$142.3 million in 2007 (including \$56.3 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$79.1 million of SFAS 144 valuation adjustments).

**West:** Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries and average sales price of homes delivered in all of the states in this segment. Gross margins on home sales excluding SFAS 144 valuation adjustments were \$229.7 million, or 16.3%, in 2008,

**Table of Contents**

compared to \$451.0 million, or 13.0%, in 2007. Gross margin percentage on home sales increased compared to last year primarily due to our lower inventory basis and continued focus on reducing costs, despite higher sales incentives offered to homebuyers (15.3% in 2008, compared to 14.3% in 2007). Gross margins on home sales were \$154.1 million, or 10.9% in 2008 including SFAS 144 valuation adjustments of \$75.6 million, compared to gross margins on home sales of \$119.1 million, or 3.4%, in 2007 including \$331.8 million of SFAS 144 valuation adjustments.

Losses on land sales were \$75.0 million in 2008 (including \$62.4 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$11.1 million of SFAS 144 valuation adjustments), compared to losses on land sales of \$950.3 million in 2007 (including \$310.8 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$648.6 million of SFAS 144 valuation adjustments).

**Houston:** Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries in this segment. Gross margins from home sales excluding SFAS 144 valuation adjustments were \$106.2 million, or 19.6%, in 2008, compared to \$174.5 million, or 21.4%, in 2007. Gross margin percentage on home sales decreased compared to last year primarily due to higher sales incentives offered to homebuyers (11.1% in 2008, compared to 7.7% in 2007). Gross margins on home sales were \$103.9 million, or 19.2% in 2008 including SFAS 144 valuation adjustments of \$2.3 million, compared to gross margins on home sales of \$171.7 million, or 21.1%, in 2007 including \$2.8 million of SFAS 144 valuation adjustments.

Gross profits on land sales were \$0.8 million in 2008 (net of \$0.7 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$0.1 million of SFAS 144 valuation adjustments), compared to gains on land sales of \$1.2 million in 2007 (net of \$0.8 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$1.8 million of SFAS 144 valuation adjustments).

**Other:** Homebuilding revenues decreased in 2008, compared to 2007, primarily due to a decrease in the number of home deliveries in all of the states in Homebuilding Other, and a decrease in the average sales price of homes delivered in all of the states in this segment except in Minnesota. Gross margins from home sales excluding SFAS 144 valuation adjustments were \$68.0 million, or 15.7%, in 2008, compared to \$131.7 million, or 13.9%, in 2007. Gross margin percentage on home sales increased compared to last year primarily due to our lower inventory basis and continued focus on reducing costs, despite higher sales incentives offered to homebuyers (13.6% in 2008, compared to 9.1% in 2007). Gross margins on home sales were \$55.3 million, or 12.7% in 2008 including SFAS 144 valuation adjustments of \$12.7 million, compared to gross margins on home sales of \$88.9 million, or 9.4%, in 2007 including \$42.8 million of SFAS 144 valuation adjustments.

Losses on land sales were \$6.5 million in 2008 (including \$9.0 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$0.9 million of SFAS 144 valuation adjustments), compared to losses on land sales of \$168.8 million in 2007 (including \$42.4 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$130.3 million of SFAS 144 valuation adjustments).

## 2007 versus 2006

**East:** Homebuilding revenues decreased in 2007, compared to 2006, primarily due to a decrease in the number of home deliveries in Florida and a decrease in the average sales price of homes delivered in all of the states in this segment. Gross margins on home sales excluding SFAS 144 valuation adjustments were \$368.0 million, or 13.7%, in 2007, compared to \$1,020.7 million, or 22.0%, in 2006. Gross margins decreased compared to 2006 primarily due to higher sales incentives offered to homebuyers (16.9% in 2007, compared to 11.4% in 2006). Gross margins

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on home sales were \$89.0 million, or 3.3% in 2007 including SFAS 144 valuation adjustments of \$279.1 million, compared to gross margins on home sales of \$865.0 million, or 18.6%, in 2006 including \$155.7 million of SFAS 144 valuation adjustments.

Losses on land sales were \$400.8 million in 2007 (including \$119.6 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$307.5 million of SFAS 144 valuation adjustments), compared to losses on land sales of \$63.7 million in 2006 (including \$80.5 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$24.7 million of SFAS 144 valuation adjustments).

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**Table of Contents**

**Central:** Homebuilding revenues decreased in 2007, compared to 2006, primarily due to a decrease in the number of home deliveries in all of the states in this segment, and a decrease in the average sales price of homes delivered in Arizona and Colorado. Gross margins on home sales excluding SFAS 144 valuation adjustments were \$193.3 million, or 12.5%, in 2007, compared to \$442.0 million, or 17.3%, in 2006. Gross margins decreased compared to 2006 primarily due to higher sales incentives offered to homebuyers (13.0% in 2007, compared to 10.2% in 2006). Gross margins on home sales were \$102.0 million, or 6.6%, in 2007 including \$91.4 million of SFAS 144 valuation adjustments, compared to gross margins on home sales of \$414.9 million, or 16.3%, in 2006 including \$27.1 million of SFAS 144 valuation adjustments primarily in Arizona and Colorado.

Losses on land sales were \$142.3 million in 2007 (including \$56.3 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$79.1 million of SFAS 144 valuation adjustments), compared to losses on land sales of \$0.9 million in 2006 (including \$2.5 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$16.3 million of SFAS 144 valuation adjustments).

**West:** Homebuilding revenues decreased in 2007, compared to 2006, primarily due to a decrease in the number of home deliveries and average sales price of homes delivered in all of the states in this segment. Gross margins on home sales excluding SFAS 144 valuation adjustments were \$451.0 million, or 13.0%, in 2007, compared to \$1,224.8 million, or 22.4%, in 2006. Gross margins decreased compared to 2006 primarily due to higher sales incentives offered to homebuyers (14.3% in 2007, compared to 7.5% in 2006). Gross margins on home sales were \$119.1 million, or 3.4% in 2007 including SFAS 144 valuation adjustments of \$331.8 million, compared to gross margins on home sales of \$1,144.6 million, or 20.9%, in 2006 including \$80.2 million of SFAS 144 valuation adjustments in all states.

Losses on land sales were \$950.3 million in 2007 (including \$310.8 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$648.6 million of SFAS 144 valuation adjustments), compared to gains on land sales of \$84.7 million in 2006 (net of \$44.0 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase).

**Houston:** Homebuilding revenues decreased in 2007, compared to 2006, primarily due to a decrease in the number of home deliveries in this segment. Gross margins on home sales excluding SFAS 144 valuation adjustments were \$174.5 million, or 21.4%, in 2007, compared to \$189.5 million, or 19.0%, in 2006. Gross margins on home sales decreased compared to 2006 primarily due to higher sales incentives offered to homebuyers (7.7% in 2007, compared to 5.9% in 2006). Gross margins on home sales were \$171.7 million, or 21.1%, in 2007 including SFAS 144 valuation adjustments of \$2.8 million, compared to gross margins on home sales of \$189.5 million, or 19.0%, in 2006.

Gross profits on land sales were of \$1.2 million in 2007 (net of \$0.8 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$1.8 million of SFAS 144 valuation adjustments), compared to gains on land sales of \$6.0 million in 2006 (including \$0.5 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$1.0 million of SFAS 144 valuation adjustments).

**Other:** Homebuilding revenues decreased in 2007, compared to 2006, primarily due to a decrease in the number of home deliveries in all of the states in this segment, and a decrease in the average sales price of homes delivered in Illinois. Gross margins on home sales excluding SFAS 144 valuation adjustments were \$131.7 million, or 13.9%, in 2007, compared to \$143.9 million, or 12.0%, in 2006. Gross margins on home sales decreased compared to 2006 primarily due to the decrease in homebuilding revenues and higher sales incentives offered to homebuyers (9.1% in 2007, compared to 7.8% in 2006). Gross margins on home sales were \$88.9 million, or 9.4% in 2007 including SFAS 144 valuation adjustments of \$42.8 million, compared to gross margins on home sales of \$126.5 million, or 10.5%, in 2006 including \$17.4 million of SFAS 144 valuation adjustments primarily in Arizona and Colorado.

Losses on land sales were \$168.8 million in 2007 (including \$42.4 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$130.3 million of SFAS 144 valuation adjustments), compared to losses on land sales of \$56.1 million in 2006 (including \$24.8 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$27.1 million of SFAS 144 valuation adjustments).



**Table of Contents**

## Financial Services Segment

We have one Financial Services reportable segment that provides mortgage financing, title insurance, closing services and other ancillary services (including high-speed Internet and cable television) for both buyers of our homes and others. Substantially all of the loans the Financial Services segment originates are sold in the secondary mortgage market on a servicing released, non-recourse basis; although, we remain liable for certain limited representations. The following table sets forth selected financial and operational information relating to our Financial Services segment. The results of operations of companies we acquired during 2006 were not material to our consolidated financial statements and are included in the table since the respective dates of the acquisitions.

	Years Ended November 30,		
	2008	2007	2006
	(Dollars in thousands)		
<b>Revenues</b>	<b>\$ 312,379</b>	456,529	643,622
<b>Costs and expenses (1)</b>	<b>343,369</b>	450,409	493,819
<b>Operating earnings (loss) (1)</b>	<b>\$ (30,990)</b>	6,120	149,803
Dollar value of mortgages originated	<b>\$ 4,290,000</b>	7,740,000	10,480,000
Number of mortgages originated	<b>18,300</b>	30,900	41,800
Mortgage capture rate of Lennar homebuyers	<b>85%</b>	73%	66%
Number of title and closing service transactions	<b>105,900</b>	136,300	161,300
Number of title policies issued	<b>96,700</b>	146,200	195,700

- (1) Financial Services costs and expenses and operating loss for the year ended November 30, 2008 include a \$27.2 million impairment of goodwill.

During 2007 and 2008, concern in the mortgage market about a likely increase in defaults (which, in fact, has occurred) led to tightening lending standards, which among other things, has resulted in a significant decline in the availability of sub-prime loans (loans to persons with a FICO score under 620) and Alt A loans (loans to persons with FICO scores of 620 or more who do not have conventional documentation of their incomes or net worths). Because we sell all the loans we originate, we had to conform our lending standards to the tightened industry standards. This reduced the number of persons who qualified for loans from us. During the year ended November 30, 2008, the number of sub-prime and Alt A loans made by our Financial Services segment to purchasers of our homes were negligible, compared to approximately 2% and 29%, respectively, of sub-prime and Alt A loans made during the year ended November 30, 2007.

**Financial Condition and Capital Resources**

At November 30, 2008, we had cash and cash equivalents related to our homebuilding and financial services operations of \$1,203.4 million, compared to \$795.2 million at November 30, 2007.

We finance our land acquisition and development activities, construction activities, financial services activities and general operating needs primarily with cash generated from our operations and public debt issuances, as well as cash borrowed under our revolving credit facility and our warehouse lines of credit.

#### Operating Cash Flow Activities

During 2008 and 2007, cash flows provided by operating activities amounted to \$1,100.8 million and \$444.5 million, respectively. During 2008, cash flows provided by operating activities included a decrease in our inventory as a result of reduced land purchases, a reduction in construction in progress resulting from lower new home starts and write-offs and valuation adjustments pertaining to the respective inventory. In order to improve liquidity in 2008, we continued to focus our efforts on adjusting pricing to meet market conditions, as we pulled back production and curtailed land purchases where possible in order to keep our balance sheet positioned for future opportunities. Cash flows provided by operating activities were also impacted by a decrease in our receivables primarily related to the collection of our income tax receivables, a decrease in loans held-for-sale resulting from a decrease in our new home deliveries during the year and our deferred income tax provision. Cash flows provided by operating activities were partially offset by our net loss and a decrease in accounts payable and other liabilities primarily due to a decrease in our land purchases.

**Table of Contents**

During 2007, cash flows provided by operating activities consisted primarily of the change in inventories including inventory write-offs and valuation adjustments, our equity in loss from unconsolidated entities including our share of valuation adjustments related to assets of the unconsolidated entities, partially offset by our net loss, a deferred income tax benefit and a decrease in accounts payable and other liabilities.

**Investing Cash Flow Activities**

Cash flows used in investing activities totaled \$265.7 million in the year ended November 30, 2008, compared to cash provided by investing activities of \$307.0 million in 2007. During the year ended November 30, 2008, we contributed \$403.7 million of cash to unconsolidated entities, compared to \$608.0 million in 2007. Our investing activities also included distributions of capital from unconsolidated entities of \$87.8 million and \$542.3 million, respectively, during the years ended November 30, 2008 and 2007. During 2007, we received distributions of \$354.6 million in excess of our investment in LandSource due to its recapitalization.

We are always looking at the possibility of acquiring homebuilders and other companies. However, at November 30, 2008, we had no agreements or understandings regarding any significant transactions.

**Financing Cash Flow Activities**

During 2008, our financing cash flow activities primarily related to net repayments under financial services debt, principal payments on other borrowings and dividends paid, partially offset by receipts related to minority interests.

During 2007, we sold a diversified portfolio of land to our land investment joint venture with Morgan Stanley Real Estate Fund II, L.P. for \$525 million. As part of the transaction, we entered into option agreements and obtained rights of first offer, providing us the opportunity to purchase certain finished homesites. Due to our continuing involvement, the transaction did not qualify as a sale under GAAP; thus, the inventory remained on our balance sheet as of November 30, 2007. As a result of the transaction in 2007, we received \$445 million of cash (net of our deposit on the homesites under option and our invested contribution to the land investment venture). During 2008, we exercised certain land option contracts from the land investment venture, reducing the liabilities reflected on our consolidated balance sheet related to consolidated inventory not owned by \$48.4 million.

Homebuilding debt to total capital and net homebuilding debt to total capital are financial measures commonly used in the homebuilding industry and are presented to assist in understanding the leverage of our homebuilding operations. Management believes providing a measure of leverage of our homebuilding operations enables readers of our financial statements to better understand our financial position and performance and we find it useful in evaluating our performance. Homebuilding debt to total capital and net homebuilding debt to total capital are calculated as follows:

	November 30,	
	2008	2007
	(Dollars in thousands)	
Homebuilding debt	\$ 2,544,935	2,295,436
Stockholders equity	2,623,007	3,822,119

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Total capital	<b>\$ 5,167,942</b>	6,117,555
Homebuilding debt to total capital	<b>49.2%</b>	37.5%
Homebuilding debt	<b>\$ 2,544,935</b>	2,295,436
Less: Homebuilding cash and cash equivalents	<b>1,091,468</b>	642,467
Net homebuilding debt	<b>\$ 1,453,467</b>	1,652,969
Net homebuilding debt to total capital (1)	<b>35.7%</b>	30.2%

- (1) Net homebuilding debt to total capital consists of net homebuilding debt (homebuilding debt less homebuilding cash and cash equivalents) divided by total capital (net homebuilding debt plus stockholders' equity).

At November 30, 2008, homebuilding debt to total capital was higher compared to prior year because of the decrease in stockholders' equity primarily due to our net loss as a result of inventory valuation adjustments,

**Table of Contents**

write-offs of option deposits and pre-acquisition costs, SFAS 144 valuation adjustments related to assets of unconsolidated entities, APB 18 valuation adjustments to investments in unconsolidated entities and a SFAS 109 valuation allowance against our deferred tax assets, all of which are non-cash items. At November 30, 2008, net homebuilding debt to total capital was higher compared to November 30, 2007 due to a decrease in stockholders' equity despite an increase in homebuilding cash and cash equivalents of \$449.0 million.

In addition to the use of capital in our homebuilding and financial services operations, we actively evaluate various other uses of capital, which fit into our homebuilding and financial services strategies and appear to meet our profitability and return on capital goals. This may include acquisitions of, or investments in, other entities, the payment of dividends or repurchases of our outstanding common stock or debt. These activities may be funded through any combination of our credit facilities, cash generated from operations, sales of assets or the issuance of public debt, common stock or preferred stock.

The following table summarizes our homebuilding senior notes and other debts payable:

	November 30,	
	2008	2007
	(Dollars in thousands)	
7 <sup>5</sup> / <sub>8</sub> % senior notes due 2009	\$ 280,976	279,491
5.125% senior notes due 2010	299,877	299,825
5.95% senior notes due 2011	249,615	249,516
5.95% senior notes due 2013	346,851	346,268
5.50% senior notes due 2014	248,088	247,806
5.60% senior notes due 2015	501,618	501,804
6.50% senior notes due 2016	249,733	249,708
Mortgage notes on land and other debt	368,177	121,018
	<b>\$ 2,544,935</b>	<b>2,295,436</b>

Our average debt outstanding was \$2.3 billion in 2008, compared to \$3.1 billion in 2007. The average rate for interest incurred was 5.8% in 2008 and 2007. Interest incurred related to homebuilding debt for the year ended November 30, 2008 was \$148.3 million, compared to \$199.1 million in 2007. The majority of our short-term financing needs, including financings for land acquisition and development activities and general operating needs, are met with cash generated from operations and funds available under our senior unsecured revolving credit facility (the "Credit Facility").

The Credit Facility consists of a \$1.1 billion revolving credit facility maturing in July 2011. Our borrowings under the Credit Facility are limited by a borrowing base calculation, consisting of specified percentages of various types of our assets. Under the Credit Facility, we are required to maintain a leverage ratio of 55% for the fourth quarter of 2008 and our 2009 fiscal year and a leverage ratio of 52.5% for our 2010 and 2011 fiscal years. If our minimum tangible net worth, as defined by our Credit Facility, goes below \$1.6 billion, our Credit Facility would be reduced from \$1.1 billion to \$0.9 billion. In no event can our minimum tangible net worth, as defined by our Credit Facility, be less than \$1.3 billion. At November 30, 2008, we believe we were in compliance with our debt covenants.

In addition to other requirements, the Credit Facility limits our investments in joint ventures and requires us to effect quarterly reductions of our maximum recourse exposure related to joint ventures in which we have investments by a total of \$200 million by November 30, 2009 of which we have already made significant progress. We must also effect quarterly reductions during our 2010 fiscal year totaling \$180 million and during the first six months of our 2011 fiscal year totaling \$80 million. By May 31, 2011, our maximum recourse exposure related joint ventures in which we have investments cannot exceed \$275 million.

The Credit Facility is guaranteed by substantially all of our subsidiaries. Interest rates on outstanding borrowings are LIBOR-based, with margins determined based on changes in our credit ratings, or an alternate base rate, as described in the credit agreement. During the years ended November 30, 2008 and 2007, the average daily borrowings under the Credit Facility were \$21.3 million and \$143.2 million, respectively. At both November 30, 2008 and 2007, we had no outstanding balance under the Credit Facility. However, at November 30, 2008 and 2007, \$275.2 million and \$443.5 million, respectively, of our total letters of credit outstanding discussed below, were collateralized against certain borrowings available under the Credit Facility.

Our performance letters of credit outstanding were \$167.5 millions and \$390.2 million, respectively, at November 30, 2008 and 2007. Our financial letters of credit outstanding were \$278.5 million and \$424.2 million,

## Table of Contents

respectively, at November 30, 2008 and 2007. Performance letters of credit are generally posted with regulatory bodies to guarantee our performance of certain development and construction activities, and financial letters of credit are generally posted in lieu of cash deposits on option contracts.

In June 2007, we redeemed our \$300 million senior floating-rate notes due 2009. The redemption price was \$300.0 million, or 100% of the principal amount of the outstanding notes due 2009, plus accrued and unpaid interest as of the redemption date.

In November 2006, we redeemed our \$200 million senior floating-rate notes due 2007. The redemption price was \$200.0 million, or 100% of the principal amount of outstanding notes due 2007, plus accrued and unpaid interest as of the redemption date.

In April 2006, substantially all of our outstanding 5.125% zero-coupon convertible senior subordinated notes due 2021, (the Convertible Notes ) were converted by the noteholders into 4.9 million Class A common shares. The Convertible Notes were convertible at a rate of 14.2 shares of our Class A common stock per \$1,000 principal amount at maturity. Convertible Notes not converted by the noteholders were not material and were redeemed by us on April 4, 2006. The redemption price was \$468.10 per \$1,000 principal amount at maturity, which represented the original issue price plus accrued original issue discount to the redemption date.

In April 2006, we issued \$250 million of 5.95% senior notes due 2011 and \$250 million of 6.50% senior notes due 2016 (collectively, the New Senior Notes ) at prices of 99.766% and 99.873%, respectively, in a private placement under SEC Rule 144A. Proceeds from the offering of the New Senior Notes, after initial purchaser's discount and expenses, were \$248.7 million and \$248.9 million, respectively. We added the proceeds to our working capital to be used for general corporate purposes. Interest on the New Senior Notes is due semi-annually. The New Senior Notes are unsecured and unsubordinated, and substantially all of our subsidiaries guarantee the New Senior Notes. In October 2006, we completed an exchange offer of the New Senior Notes for substantially identical notes registered under the Securities Act of 1933 (the Exchange Notes ), with substantially all of the New Senior Notes being exchanged for the Exchange Notes. At November 30, 2008 and 2007, the carrying amount of the Exchange Notes was \$499.3 million and \$499.2 million, respectively.

In September 2005, we sold \$300 million of 5.125% senior notes due 2010 (the 5.125% Senior Notes ) at a price of 99.905% in a private placement. Proceeds from the offering, after initial purchaser's discount and expenses, were \$298.2 million. We added the proceeds to our working capital to be used for general corporate purposes. Interest on the 5.125% Senior Notes is due semi-annually. The 5.125% Senior Notes are unsecured and unsubordinated. Substantially all of our subsidiaries guaranteed the 5.125% Senior Notes. In 2006, we exchanged the 5.125% Senior Notes for registered notes. The registered notes have substantially identical terms as the 5.125% Senior Notes, except that the registered notes do not include transfer restrictions that are applicable to the 5.125% Senior Notes. At November 30, 2008 and 2007, the carrying amount of the 5.125% Senior Notes was \$299.9 million and \$299.8 million, respectively.

In April 2005, we sold \$300 million of 5.60% Senior Notes due 2015 (the Senior Notes ) at a price of 99.771%. Proceeds from the offering, after initial purchaser's discount and expenses, were \$297.5 million. In July 2005, we sold \$200 million of 5.60% Senior Notes due 2015 at a price of 101.407%. The Senior Notes were the same issue as the Senior Notes we sold in April 2005. Proceeds from the offering, after initial purchaser's discount and expenses, were \$203.9 million. We added the proceeds of both offerings to our working capital to be used for general corporate purposes. Interest on the Senior Notes is due semi-annually. The Senior Notes are unsecured and unsubordinated. Substantially all of our subsidiaries guaranteed the Senior Notes. The Senior Notes were subsequently exchanged for identical Senior Notes that had been registered under the Securities Act of 1933. At November 30, 2008 and 2007, the carrying amount of the Senior Notes sold in April and July 2005 was \$501.6 million and \$501.8 million, respectively.

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Substantially all of our wholly-owned subsidiaries have guaranteed all our Senior Notes (the "Guaranteed Notes"). The guarantees are full and unconditional and the guarantor subsidiaries are 100% directly and indirectly owned by Lennar Corporation. The principal reason our wholly-owned subsidiaries guaranteed the Guaranteed Notes is so holders of the Guaranteed Notes will have rights at least as great with regard to our subsidiaries as any other holders of a material amount of our unsecured debt. Therefore, the guarantees of the Guaranteed Notes will remain in effect while the guarantor subsidiaries guarantee a material amount of the debt of Lennar Corporation, as a separate entity, to others. At any time, however, when a guarantor subsidiary is no longer guaranteeing at least \$75 million of Lennar Corporation's debt other than the Guaranteed Notes, either directly or by guaranteeing other subsidiaries' obligations as guarantors of Lennar Corporation's debt, the



## Table of Contents

guarantor subsidiaries' guarantee of the Guaranteed Notes will be suspended. Currently, the only debt the guarantor subsidiaries are guaranteeing other than the Guaranteed Notes is Lennar Corporation's principal revolving bank credit line (currently the Credit Facility). Therefore, if, the guarantor subsidiaries cease guaranteeing Lennar Corporation's obligations under its principal revolving bank credit line and are not guarantors of any new debt, the guarantor subsidiaries' guarantees of the Guaranteed Notes will be suspended until such time, if any, as they again are guaranteeing at least \$75 million of Lennar Corporation's debt other than the Guaranteed Notes.

If the guarantor subsidiaries are guaranteeing a revolving credit line totaling at least \$75 million, we will treat the guarantees of the Guaranteed Notes as remaining in effect even during periods when Lennar Corporation's borrowings under the revolving credit line is less than \$75 million. Because it is possible that our banks will permit some or all of the guarantor subsidiaries to stop guaranteeing our revolving credit line, it is possible that, at some time or times in the future, the Guaranteed Notes will no longer be guaranteed by the guarantor subsidiaries.

At November 30, 2008, our Financial Services segment had a syndicated warehouse repurchase facility, which matures in April 2009 (\$125 million, plus a \$50 million temporary accordion feature that expired in December 2008) and a warehouse repurchase facility, which matures in June 2009 (\$150 million).

Our Financial Services segment uses these facilities to finance its lending activities until the mortgage loans are sold to investors and expects both facilities to be renewed or replaced with other facilities when they mature. At November 30, 2008 and 2007, borrowings under the lines of credit were \$209.5 million and \$505.4 million, respectively, and were collateralized by mortgage loans and receivables on loans sold but not yet funded by investors with outstanding principal balances of \$286.7 million and \$540.9 million, respectively, at November 30, 2008 and 2007. These facilities have several interest rate-pricing options, which fluctuate with market rates. The combined effective interest rate on the facilities at November 30, 2008 was 3.5%.

At November 30, 2008 and 2007, our Financial Services segment had advances under a different conduit funding agreement totaling \$10.8 million and \$11.8 million, respectively, which had an effective interest rate of 2.9% and 5.8%, respectively, at November 30, 2008 and 2007. During 2008, our Financial Services segment entered into a new on going 60-day committed repurchase facility for \$75 million. As of November 30, 2008, it had advances under this facility totaling \$5.2 million, which had an effective interest rate of 3.7%.

Our Financial Services segment, in the normal course of business, uses derivative financial instruments to reduce its exposure to fluctuations in interest rates. The Financial Services segment enters into forward commitments and, to a lesser extent, option contracts to protect the value of loans held-for-sale from increases in market interest rates. We do not anticipate that we will suffer credit losses from counterparty non-performance.

## Changes in Capital Structure

In June 2001, our Board of Directors authorized a stock repurchase program to permit the purchase of up to 20 million shares of our outstanding common stock. During 2008 and 2007, there were no material share repurchases of common stock under the stock repurchase program. During 2006, we repurchased 6.2 million shares of common stock under the stock repurchase program for an aggregate purchase price including commissions of \$320.1 million, or \$51.59 per share. As of November 30, 2008, 6.2 million shares of common stock can be repurchased in the future under the program.

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Treasury stock increased by 0.5 million Class A common shares and 0.8 million Class A common shares during the years ended November 30, 2008 and November 30, 2007, primarily related to forfeitures of restricted stock. In addition to the common shares purchased under our stock repurchase program during the year ended November 30, 2006, we repurchased approximately 0.1 million Class A common shares related to the vesting of restricted stock and distribution of common stock from our deferred compensation plan.

In October 2008, the Company's Board of Directors voted to decrease the annual dividend rate with regard to the Company's Class A and Class B common stock to \$0.16 per share per year (payable quarterly) from \$0.64 per share per year (payable quarterly). During 2008, 2007 and 2006, Class A and Class B common stockholders received per share annual dividends of \$0.52, \$0.64 and \$0.64, respectively.

Based on our current financial condition and credit relationships, we believe that our operations and borrowing resources will provide for our current and long-term capital requirements at our anticipated levels of activity.

**Table of Contents****Off-Balance Sheet Arrangements**

## Investments in Unconsolidated Entities

At November 30, 2008, we had equity investments in 116 unconsolidated entities, compared to 214 unconsolidated entities at November 30, 2007. Due to current market conditions, we are focused on continuing to reduce the number of unconsolidated entities that we have investments in. Our investments in unconsolidated entities by type of venture were as follows:

	November 30,	
	2008	2007
	(In thousands)	
Land development	\$ 633,652	738,481
Homebuilding	133,100	195,790
<b>Total investment</b>	<b>\$ 766,752</b>	<b>934,271</b>

During 2008, as homebuilding market conditions remained challenged, we recorded \$32.2 million of our share of SFAS 144 valuation adjustments related to the assets of unconsolidated entities in which we have investments, compared to \$364.2 million for the year ended November 30, 2007. In addition, we recorded \$172.8 million and \$132.2 million, respectively, of APB 18 valuation adjustments to our investments in unconsolidated entities for the years ended November 30, 2008 and 2007. We will continue to monitor our investments in joint ventures and the recoverability of assets owned by those joint ventures.

We strategically invest in unconsolidated entities that acquire and develop land (1) for our homebuilding operations or for sale to third parties or (2) for the construction of homes for sale to third-party homebuyers. Through these entities, we primarily seek to reduce and share our risk by limiting the amount of our capital invested in land, while obtaining access to potential future homesites and allowing us to participate in strategic ventures. The use of these entities also, in some instances, enables us to acquire land to which we could not otherwise obtain access, or could not obtain access on as favorable terms, without the participation of a strategic partner. Participants in these joint ventures are land owners/developers, other homebuilders and financial or strategic partners. Joint ventures with land owners/developers give us access to homesites owned or controlled by our partner. Joint ventures with other homebuilders provide us with the ability to bid jointly with our partner for large land parcels. Joint ventures with financial partners allow us to combine our homebuilding expertise with access to our partners' capital. Joint ventures with strategic partners allow us to combine our homebuilding expertise with the specific expertise (e.g. commercial or infill experience) of our partner. Each joint venture is governed by an executive committee consisting of members from the partners.

Although the strategic purposes of our joint ventures and the nature of our joint ventures partners vary, the joint ventures are generally designed to acquire, develop and/or sell specific assets during a limited life-time. The joint ventures are typically structured through non-corporate entities in which control is shared with our venture partners. Each joint venture is unique in terms of its funding requirements and liquidity needs. We and the other joint venture participants typically make pro-rata cash contributions to the joint venture. In many cases, our risk is limited to our equity contribution and potential future capital contributions. The capital contributions usually coincide in time with the acquisition of properties by the joint venture. Additionally, most joint ventures obtain third-party debt to fund a portion of the acquisition, development and construction costs of their communities. The joint venture agreements usually permit, but do not require, the joint ventures to make additional capital calls in the future. However, capital calls relating to the repayment of joint venture debt under payment or maintenance guarantees generally is required.

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Under the terms of our joint venture agreements, we generally have the right to share in earnings and distributions of the entities on a pro-rata basis based on our ownership percentage. Some joint venture agreements provide for a different allocation of profit and cash distributions if and when the cumulative results of the joint venture exceed specified targets (such as a specified internal rate of return). Our equity in earnings (loss) from unconsolidated entities excludes our pro-rata share of joint ventures' earnings resulting from land sales to our homebuilding divisions. Instead, we account for those earnings as a reduction of our costs of purchasing the land from the joint ventures. This in effect defers recognition of our share of the joint ventures' earnings related to these sales until we deliver a home and title passes to a third-party homebuyer.

In some instances, we are designated as the manager of the unconsolidated entity and receive fees for such services. In addition, we often enter into option contracts to acquire properties from our joint ventures, generally for market prices at specified dates in the future. Option contracts generally require us to make deposits using

## **Table of Contents**

cash or irrevocable letters of credit toward the exercise price. These option deposits generally approximate 10% of the exercise price.

We regularly monitor the results of our unconsolidated joint ventures and any trends that may affect their future liquidity or results of operations. Joint ventures in which we have investments are subject to a variety of financial and non-financial debt covenants related primarily to equity maintenance, fair value of collateral and minimum homesite takedown or sale requirements. We monitor the performance of joint ventures in which we have investments on a regular basis to assess compliance with debt covenants. For those joint ventures not in compliance with the debt covenants, we evaluate and assess possible impairment of our investment.

Our arrangements with joint ventures generally do not restrict our activities or those of the other participants. However, in certain instances, we agree not to engage in some types of activities that may be viewed as competitive with the activities of these ventures in the localities where the joint ventures do business.

As discussed above, the joint ventures in which we invest generally supplement equity contributions with third-party debt to finance their activities. In many instances, the debt financing is non-recourse, thus neither we nor the other equity partners are a party to the debt instruments. In other cases, we and the other partners agree to provide credit support in the form of repayment or maintenance guarantees.

Material contractual obligations of our unconsolidated joint ventures primarily relate to the debt obligations described above. The joint ventures generally do not enter into lease commitments because the entities are managed either by us, or another of the joint venture participants, who supply the necessary facilities and employee services in exchange for market-based management fees. However, they do enter into management contracts with the participants who manage them. Some joint ventures also enter into agreements with developers, which may be us or other joint venture participants, to develop raw land into finished homesites or to build homes.

The joint ventures often enter into option agreements with buyers, which may include us or other joint venture participants, to deliver homesites or parcels in the future at market prices. Option deposits are recorded by the joint ventures as liabilities until the exercise dates at which time the deposit and remaining exercise proceeds are recorded as revenue. Any forfeited deposit is recognized as revenue at the time of forfeiture. Our unconsolidated joint ventures generally do not enter into off-balance sheet arrangements.

As described above, the liquidity needs of joint ventures in which we have investments vary on an entity-by-entity basis depending on each entity's purpose and the stage in its life cycle. During formation and development activities, the entities generally require cash, which is provided through a combination of equity contributions and debt financing, to fund acquisition and development of properties. As the properties are completed and sold, cash generated is available to repay debt and for distribution to the joint venture's members. Thus, the amount of cash available for a joint venture to distribute at any given time is primarily a function of the scope of the joint venture's activities and the stage in the joint venture's life cycle.

We track our share of cumulative earnings and cumulative distributions of our joint ventures. For purposes of classifying distributions received from joint ventures in our statements of cash flows, cumulative distributions are treated as returns *on* capital to the extent of cumulative earnings and included in our consolidated statements of cash flows as operating activities. Cumulative distributions in excess of our share of cumulative earnings are treated as returns *of* capital and included in our consolidated statements of cash flows as investing activities.

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At November 30, 2008, the unconsolidated entities in which we had investments had total assets of \$7.8 billion and total liabilities of \$5.1 billion, which included \$4.1 billion of debt. These unconsolidated entities usually finance their activities with a combination of partner equity and debt financing. As of November 30, 2008, our equity in these unconsolidated entities represented 29% of the entities' total equity, down from 34% at November 30, 2007. Indebtedness of an unconsolidated entity is secured by its own assets. There is no cross collateralization of debt to different unconsolidated entities. Some unconsolidated entities own multiple properties and other assets. We also do not use our investment in one unconsolidated entity as collateral for the debt in another unconsolidated entity or commingle funds among our unconsolidated entities.

In connection with a loan to an unconsolidated entity, we and our partners often guarantee to a lender either jointly and severally or on a several basis, any, or all of the following: (i) the completion of the development, in whole or in part, (ii) indemnification of the lender from environmental issues, (iii) indemnification of the lender from bad boy acts of the unconsolidated entity (or full recourse liability in the event of unauthorized transfer or

**Table of Contents**

bankruptcy) and (iv) that the loan to value and/or loan to cost will not exceed a certain percentage (maintenance or remargining guarantee) or that a percentage of the outstanding loan will be repaid (repayment guarantee).

In connection with loans to an unconsolidated entity where there is a joint and several guarantee, we generally have a reimbursement agreement with our partner. The reimbursement agreement provides that neither party is responsible for more than its proportionate share of the guarantee. However, if our joint venture partner does not have adequate financial resources to meet its obligations under the reimbursement agreement, we may be liable for more than our proportionate share, up to our maximum exposure, which is the full amount covered by the joint and several guarantee.

The summary of our net recourse exposure related to the unconsolidated entities in which we have investments was as follows:

	November 30,	
	2008	2007
	(In thousands)	
Several recourse debt repayment	\$ 78,547	123,022
Several recourse debt maintenance	167,941	355,513
Joint and several recourse debt repayment	138,169	263,364
Joint and several recourse debt maintenance	123,051	291,727
Land seller debt recourse exposure	12,170	
Our maximum recourse exposure	519,878	1,033,626
Less joint and several reimbursement agreements with our partners	(127,428)	(238,692)
Our net recourse exposure	\$ 392,450	794,934

The recourse debt exposure in the table above represents our maximum exposure to loss from guarantees and does not take into account the underlying value of the collateral.

Although we, in some instances, guarantee the indebtedness of unconsolidated entities in which we have an investment, our unconsolidated entities that have recourse debt have a significant amount of assets and equity. The summarized balance sheets of our unconsolidated entities with recourse debt were as follows:

	November 30,	
	2008	2007
	(In thousands)	
Assets	\$ 2,846,819	3,220,695
Liabilities	1,565,148	2,311,216
Equity	1,281,671	909,479

In addition, we and/or our partners sometimes guarantee the obligations of an unconsolidated entity in order to help secure a loan to that entity. When we and/or our partners provide guarantees, the unconsolidated entity generally receives more favorable terms from its lenders than would otherwise be available to it. In a repayment guarantee, we and our 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. The maintenance guarantees only apply if the value of the collateral (generally land and improvements) is less than a specified percentage of the loan balance. If we are 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 may constitute a capital contribution or loan to the unconsolidated entity and increase our share of any funds the unconsolidated entity distributes. During the years ended November 30, 2008 and 2007, amounts paid under our maintenance guarantees were \$74.0 million and \$84.1 million, respectively. In accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, as of November 30, 2008, the fair values of the maintenance guarantees and repayment guarantees were not material. We believe that as of November 30, 2008, in the event we become legally obligated to perform under a guarantee of the obligations of an 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 we and our partners would contribute additional capital into the venture.

In many of the loans to unconsolidated entities, we and another entity or entities generally related to our subsidiary's joint venture partner(s), have been required to give guarantees of completion to the lenders. Those



**Table of Contents**

completion guarantees may require that the guarantors complete the construction of the improvements for which the financing was obtained. If the construction was to be done in phases, very often the guarantee is to complete only the phases as to which construction has already commenced and for which loan proceeds were used. Under many of the completion guarantees, the guarantors are permitted, under certain circumstances, to use undisbursed loan proceeds to satisfy the completion of obligations, and in many of those cases, the guarantors only pay interest on those funds, with no repayment of the principal of such funds required.

In certain circumstances, we have placed performance letters of credit and surety bonds with municipalities for our joint ventures.

The total debt of the unconsolidated entities in which we have investments was as follows:

	November 30,	
	2008	2007
	(In thousands)	
Our net recourse exposure	\$ 392,450	794,934
Reimbursement agreements from partners	127,428	238,692
Partner several recourse	285,519	465,641
Non-recourse land seller debt or other debt	90,519	202,048
Non-recourse debt with completion guarantees	820,435	1,432,880
Non-recourse debt without completion guarantees	2,345,707	1,982,475
<b>Total debt</b>	<b>\$ 4,062,058</b>	<b>5,116,670</b>

Some of the unconsolidated entities' debt arrangements contain financial covenants. As market conditions remained challenged during the year ended November 30, 2008, we continued to closely monitor these covenants and the unconsolidated entities' abilities to comply with them. In these challenged market conditions, some of the unconsolidated entities may have to request of their lenders waivers or amendments to debt agreements so that the unconsolidated entities would remain in compliance with such covenants. Additionally, unconsolidated entities may have to extend or refinance the debt if their operations are not on track to meet their projected cash flows. In instances in which we have guaranteed obligations of unconsolidated entities, the entities' inability to comply with loan covenants could result in calls on our guarantees.

Summarized financial information on a combined 100% basis related to unconsolidated entities in which we had investments that are accounted for by the equity method was as follows:

Balance Sheets	November 30,	
	2008	2007
	(Dollars in thousands)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 135,081	301,468
Inventories	7,115,360	7,941,835
Other assets	541,984	827,208
	<b>\$ 7,792,425</b>	<b>9,070,511</b>
<b>Liabilities and equity:</b>		
Accounts payable and other liabilities	\$ 1,042,002	1,214,374

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Debt	<b>4,062,058</b>	5,116,670
Equity of:		
Lennar	<b>766,752</b>	934,271
Others	<b>1,921,613</b>	1,805,196
Total equity of unconsolidated entities	<b>2,688,365</b>	2,739,467
	<b>\$ 7,792,425</b>	9,070,511
Our equity in its unconsolidated entities	<b>29%</b>	34%

**Table of Contents**

Debt to total capital of our unconsolidated entities is calculated as follows:

	November 30,	
	2008	2007
	(Dollars in thousands)	
Debt	\$ 4,062,058	5,116,670
Equity	2,688,365	2,739,467
<b>Total capital</b>	<b>\$ 6,750,423</b>	<b>7,856,137</b>
Debt to total capital of our unconsolidated entities	<b>60.2%</b>	65.1%
Debt to total capital of our unconsolidated entities (excluding LandSource)	<b>49.8%</b>	61.1%

In November 2007, we 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 we have a 20% ownership interest and 50% voting rights. We also manage the land investment venture's operations and receive fees for our services. As part of the transaction, we entered into option agreements and obtained rights of first offer providing us the opportunity to purchase certain finished homesites. We have no obligation to exercise the options and cannot acquire a majority of the entity's assets. Due to our continuing involvement, the transaction did not qualify as a sale under GAAP; thus, the inventory has remained on our consolidated balance sheet in consolidated inventory not owned. As a result of the transaction, the land investment venture recorded the purchase of the portfolio of land as inventory. As of November 30, 2008, the portfolio of land (including land development costs) of \$538.4 million is reflected as inventory in the summarized condensed financial information related to unconsolidated entities in which we have investments.

Statements of Operations and Selected Information	Years Ended November 30,		
	2008	2007	2006
	(Dollars in thousands)		
Revenues	\$ 862,728	2,060,279	2,651,932
Costs and expenses	1,394,601	3,075,696	2,588,196
Net earnings (loss) of unconsolidated entities	\$ (531,873)	(1,015,417)	63,736
Our share of net earnings (loss) (1)	\$ (55,598)	(353,946)	24,918
Our share of net loss recognized (1)	\$ (59,156)	(362,899)	(12,536)
Our cumulative share of net earnings deferred at November 30	\$ 21,491	34,731	99,360
Our investments in unconsolidated entities	\$ 766,752	934,271	1,447,178
Equity of the unconsolidated entities	\$ 2,688,365	2,739,467	3,710,771
Our investment % in the unconsolidated entities	<b>29%</b>	34%	39%

- (1) For the years ended November 30, 2008, 2007 and 2006, our share of net loss recognized from unconsolidated entities includes \$32.2 million, \$364.2 million and \$126.4 million, respectively, of our share of SFAS 144 valuation adjustments related to assets of the unconsolidated entities in which we have investments.

In June 2008, the LandSource Communities Development LLC ( LandSource ) unconsolidated joint venture and a number of its subsidiaries commenced proceedings under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. We own 16% of LandSource, and until 2007, we had owned 50%. In November 2008, our land purchase options with LandSource were terminated, thus

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we recognized a deferred profit of \$101.3 million (net of \$31.8 million of write-offs of option deposits and pre-acquisition costs and other write-offs) related to the 2007 recapitalization of LandSource. The bankruptcy filing could result in LandSource losing some or all of the properties it owns, termination of our management agreement with LandSource, claims against us and a substantial reduction (or total elimination) of our 16% ownership interest in LandSource, which had a carrying value of zero at November 30, 2008.

In February 2007, the LandSource joint venture admitted MW Housing Partners as a new strategic partner. As part of the transaction, the joint venture obtained \$1.6 billion of non-recourse financing, which consisted of a \$200 million five-year Revolving Credit Facility, a \$1.1 billion six-year Term Loan B Facility and a \$244 million seven-year Second Lien Term Facility. The transaction resulted in a cash distribution to us of \$707.6 million. As a result, our ownership in LandSource was reduced to 16%. As a result of the recapitalization, we recognized a pretax financial statement gain of \$175.9 million during the year ended November 30, 2007. During the year ended November 30, 2007, we also recognized \$24.7 million of profit deferred at the time of the recapitalization of the LandSource joint venture in management fees and other income (expense), net.

**Table of Contents**

## Option Contracts

In our homebuilding operations, we often obtain access to land through option contracts, which generally enables us to control portions of properties owned by third parties (including land funds) and unconsolidated entities until we have determined whether to exercise the option.

A majority of our option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land. These option deposits generally approximate 10% of the exercise price. Our 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 fair value at the time of takedown. The exercise periods of our option contracts generally range from one-to-ten years.

Our investments in option contracts are recorded at cost unless those investments are determined to be impaired, in which case our investments are written down to fair value. We review option contracts for impairment during each reporting period in accordance with SFAS 144 and SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*. 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 our targeted return on investment. 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 us to re-evaluate the likelihood of exercising our land options.

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

When we intend not to exercise an option, we write-off any deposit and pre-acquisition costs associated with the option contract. For the years ended November 30, 2008, 2007 and 2006, we wrote-off \$97.2 million, \$530.0 million and \$152.2 million, respectively, of option deposits and pre-acquisition costs related to 8,200 homesites, 36,900 homesites and 24,200 homesites, respectively, under option that we do not intend to purchase.

The table below indicates the number of homesites owned and homesites to which we had access through option contracts with third parties ( optioned ) or unconsolidated joint ventures in which we have investments ( JVs ) (i.e., controlled homesites) for each of our homebuilding segments and Homebuilding Other at November 30, 2008 and 2007:

	Controlled Homesites			Owned Homesites	Total Homesites
	Optioned	JVs	Total		
<b>November 30, 2008</b>					
East	8,705	4,444	13,149	25,688	38,837
Central	1,820	5,991	7,811	14,501	22,312
West	203	12,078	12,281	18,776	31,057
Houston	1,461	2,654	4,115	7,389	11,504
Other	529	704	1,233	8,327	9,560
Total homesites	12,718	25,871	38,589	74,681	113,270

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November 30, 2007	Controlled Homesites			Owned	Total
	Optioned	JVs	Total	Homesites	Homesites
East	14,888	14,091	28,979	24,014	52,993
Central	3,470	12,679	16,149	7,848	23,997
West	1,243	30,800	32,043	15,300	47,343
Houston	2,313	3,694	6,007	7,071	13,078
Other	963	1,729	2,692	8,568	11,260
Total homesites	22,877	62,993	85,870	62,801	148,671

We evaluated all option contracts for land when entered into or upon a reconsideration event to determine whether we are the primary beneficiary of certain of these option contracts. Although we do not have legal title to the optioned land, under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, ( FIN 46R ), if we are deemed to be the primary beneficiary, we are required to consolidate the land under

**Table of Contents**

option at the purchase price of the optioned land. During the year ended November 30, 2008, the effect of consolidation of these option contracts was an increase of \$32.4 million to consolidated inventory not owned with a corresponding increase to liabilities related to consolidated inventory not owned in our consolidated balance sheet as of November 30, 2008. This increase was offset primarily by our exercise of options to acquire land under certain contracts previously consolidated, resulting in a net decrease in consolidated inventory not owned of \$141.3 million. To reflect the purchase price of the inventory consolidated under FIN 46R, we reclassified \$2.5 million of related option deposits from land under development to consolidated inventory not owned in the accompanying consolidated balance sheet as of November 30, 2008. The liabilities related to consolidated inventory not owned primarily represent the difference between the option exercise prices for the optioned land and our cash deposits.

Our exposure to loss related to our option contracts with third parties and unconsolidated entities consisted of our non-refundable option deposits and pre-acquisition costs totaling \$191.2 million and \$317.1 million, respectively, at November 30, 2008 and 2007. Additionally, we had posted \$89.5 million and \$193.3 million, respectively, of letters of credit in lieu of cash deposits under certain option contracts as of November 30, 2008 and 2007.

**Contractual Obligations and Commercial Commitments**

The following table summarizes our contractual obligations at November 30, 2008:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
		(In thousands)			
Homebuilding Senior notes and other debts payable	\$ 2,544,935	427,542	730,516	387,438	999,439
Financial services Notes and other debts payable	225,783	225,682	46	42	13
Interest commitments under interest bearing debt (1)	570,929	126,520	208,084	145,401	90,924
Operating leases	169,116	48,411	68,716	28,229	23,760
<b>Total contractual obligations (2)</b>	<b>\$ 3,510,763</b>	<b>828,155</b>	<b>1,007,362</b>	<b>561,110</b>	<b>1,114,136</b>

- (1) Interest commitments on variable interest-bearing debt are determined based on the interest rate as of November 30, 2008.
- (2) Total contractual obligations exclude our FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* on *Interpretation of FASB Statement No. 109*, ( FIN 48 ) liability of \$100.2 million as of November 30, 2008 because we were unable to make reasonable estimates as to the period of cash settlement with the respective taxing authorities.

We are subject to the usual obligations associated with entering into contracts (including option contracts) for the purchase, development and sale of real estate in the routine conduct of our business. Option contracts for the purchase of land generally enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our option. This reduces our financial risk associated with land holdings. At November 30, 2008, we had access to 38,589 homesites through option contracts with third parties and unconsolidated entities in which we have investments. At November 30, 2008, we had \$191.2 million of non-refundable option deposits and pre-acquisition costs related to certain of these homesites and \$89.5 million of letters of credit posted in lieu of cash deposits under certain option contracts.

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At November 30, 2008, we had letters of credit outstanding in the amount of \$446.0 million (which included the \$89.5 million of letters of credit discussed above). These letters of credit are generally posted either with regulatory bodies to guarantee our performance of certain development and construction activities or in lieu of cash deposits on option contracts. Additionally, at November 30, 2008, we had outstanding performance and surety bonds related to site improvements at various projects (including certain projects in our joint ventures) of \$1.1 billion. Although significant development and construction activities have been completed related to these site improvements, these bonds are generally not released until all of the development and construction activities are completed. As of November 30, 2008, there were approximately \$444.2 million, or 42%, of costs to complete related to these site improvements. We do not presently anticipate any draws upon these bonds, but if any such draws occur, we do not believe they would have a material effect on our financial position, results of operations or cash flows.

Our Financial Services segment had a pipeline of loan applications in process of \$710.8 million at November 30, 2008. Loans in process for which interest rates were committed to the borrowers and builder commitments for loan programs totaled \$248.8 million as of November 30, 2008. Substantially all of these commitments were for periods of 60 days or less. Since a portion of these commitments is expected to expire



## **Table of Contents**

without being exercised by the borrowers or borrowers may not meet certain criteria at the time of closing, the total commitments do not necessarily represent future cash requirements.

Our Financial Services segment uses mandatory mortgage-backed securities ( MBS ) forward commitments, option contracts and investor commitments to hedge our mortgage-related interest rate exposure. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments, option contracts and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments and option contracts. At November 30, 2008, we had open commitments amounting to \$332.0 million to sell MBS with varying settlement dates through February 2009.

The following sections discuss economic conditions, market and financing risk, seasonality and interest rates and changing prices that may have an impact on our business:

### **Economic Conditions**

Throughout 2007 and 2008, market conditions in the homebuilding industry were negatively impacted by broad-based pressures such as rising unemployment, falling home prices, increased foreclosures, tighter credit and volatile equity markets, which further eroded consumer confidence and depressed home sales. These market conditions resulted in high cancellation rates of 26% and 30%, respectively, in 2008 and 2007. Despite our continued use of sales incentives, our net new orders were down 48% and 39%, respectively, in 2008 and 2007. Our sales incentives were \$48,700 per home delivered and \$48,000 per home delivered, respectively in 2008 and 2007. A continued decline in the prices for new homes could adversely affect our revenues and margins, as well as the carrying amount of our inventory and other investments.

### **Market and Financing Risk**

We finance our contributions to JVs, land acquisition and development activities, construction activities, financial services activities and general operating needs primarily with cash generated from operations and public debt issuances, as well as cash borrowed under our revolving credit facility and borrowings under our warehouse lines of credit. We also purchase land under option agreements, which enables us to control homesites until we have determined whether to exercise the option. We tried to manage the financial risks of adverse market conditions associated with land holdings by what we believed to be prudent underwriting of land purchases in areas we viewed as desirable growth markets, careful management of the land development process and, until 2007 and 2008, limitation of risks by using partners to share the costs of purchasing and developing land, as well as obtaining access to land through option contracts. Although we believed our land underwriting standards were conservative, we did not anticipate the severe decline in land values and the sharply reduced demand for new homes encountered throughout 2007 and 2008.

### **Seasonality**

We have historically experienced variability in our results of operations from quarter-to-quarter due to the seasonal nature of the homebuilding business. Due to challenged market conditions, we are currently focusing our efforts, in all quarters, on inventory management in order to deliver inventory and generate cash.

### **Interest Rates and Changing Prices**

Inflation can have a long-term impact on us because increasing costs of land, materials and labor result in a need to increase the sales prices of homes. In addition, inflation is often accompanied by higher interest rates, which can have a negative impact on housing demand and the costs of financing land development activities and housing construction. Rising interest rates, as well as increased materials and labor costs, may reduce gross margins. An increase in material and labor costs is particularly a problem during a period of declining home prices. During 2008, increased costs of materials and labor along with a decrease in home sales prices contributed to lower gross margins and significant inventory valuation adjustments. Conversely, deflation can impact the value of real estate and make it difficult for us to recover our land costs. Therefore, either inflation or deflation could adversely impact our future results of operations.

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## **Table of Contents**

### **New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for our financial assets and liabilities on December 1, 2007. The FASB deferred the provisions of SFAS 157 relating to nonfinancial assets and liabilities; implementation by us is now required on December 1, 2008. SFAS 157 has not and is not expected to materially affect how we determine fair value, but has resulted and will result in certain additional disclosures.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, ( SFAS 141R ). SFAS 141R broadens the guidance of SFAS 141, 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 of assets acquired, liabilities assumed and interests transferred as a result of business combinations. SFAS 141R expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for business combinations that close on or after December 1, 2009. We do not expect the adoption of SFAS 141R to have a material effect on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, ( SFAS 160 ). SFAS 160 requires that a noncontrolling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest in a subsidiary and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. SFAS 160 is effective for our fiscal year beginning December 1, 2009. We are evaluating the impact the adoption of SFAS 160 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, ( SFAS 161 ). SFAS 161 expands the disclosure requirements in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, regarding an entity's derivative instruments and hedging activities. SFAS 161 is effective for our fiscal year beginning December 1, 2008. We do not expect the adoption of SFAS 161 to have a material effect on our consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position ( FSP ) FAS 140-4 and FIN 46(R)-8, *Disclosure by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities*. The purpose of the FSP is to promptly improve disclosures by public companies until the pending amendments to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, ( SFAS 140 ), and FIN 46R are finalized and approved by the FASB. The FSP amends SFAS 140 to require public companies to provide additional disclosures about transferor's continuing involvement with transferred financial assets. It also amends FIN 46R by requiring public companies to provide additional disclosures regarding their involvement with variable interest entities. This FSP is effective for our fiscal year beginning December 1, 2008. The FSP will not have a material effect on our consolidated financial statements.

### **Critical Accounting Policies and Estimates**

Our accounting policies are more fully described in Note 1 of the notes to our consolidated financial statements included in Item 8 of this document. As discussed in Note 1, the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and such

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differences may be material to our consolidated financial statements. Listed below are those policies and estimates that we believe are critical and require the use of significant judgment in their application.

## Table of Contents

### Homebuilding Operations

#### Revenue Recognition

Revenues from sales of homes are recognized when sales are closed and title passes to the new homeowner, the new homeowner's initial and continuing investment is adequate to demonstrate a commitment to pay for the home, the new homeowner's receivable is not subject to future subordination and we do not have a substantial continuing involvement with the new home in accordance with SFAS No. 66, *Accounting for Sales of Real Estate*, ( SFAS 66 ). Revenues from sales of land are recognized when a significant down payment is received, the earnings process is complete, title passes and collectability of the receivable is reasonably assured. We believe that the accounting policy related to revenue recognition is a critical accounting policy because of the significance of revenue.

#### Inventories

Inventories are stated at cost unless the inventory within a community is determined to be impaired, in which case the impaired inventory is written down to fair value. Inventory costs include land, land development and home construction costs, real estate taxes, deposits on land purchase contracts and interest related to development and construction. We review inventories for impairment during each reporting period on a community by community basis. SFAS 144 requires that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

In conducting our review for indicators of impairment on a community level, we evaluate, among other things, the margins on homes that have been delivered, margins under sales contracts in backlog, projected margins with regard to future home sales over the life of the community, projected margins with regard to future land sales, and the fair value of the land itself. We pay particular attention to communities in which inventory is moving at a slower than anticipated absorption pace and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. From this review we identify communities whose carrying values exceed their undiscounted cash flows.

We estimate the fair value of our communities using a discounted cash flow model. These projected cash flows for each community are significantly impacted by estimates related to market supply and demand, product type by community, homesite sizes, sales pace, sales prices, sales incentives, construction costs, sales and marketing expenses, the local economy, competitive conditions, labor costs, costs of materials and other factors for that particular community. The determination of fair value also requires discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. The discount rate used in determining each asset's fair value depends on the community's projected life and development stage. We generally use a 20% discount rate, subject to the perceived risks associated with the community's cash flow streams relative to its inventory. For example, construction in progress inventory which is closer to completion will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development.

We estimate fair values of inventory evaluated for impairment under SFAS 144 based on market conditions and assumptions made by management at the time the inventory is evaluated, which may differ materially from actual results if market conditions or our assumptions change. For example, further market deterioration or changes in our assumptions may lead to us incurring additional impairment charges on previously impaired inventory, as well as on inventory not currently impaired, but for which indicators of impairment may arise if further market deterioration occurs.

We also have access to land inventory through option contracts, which generally enables us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our option. A majority of our option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land. Our option contracts are recorded at cost. In determining whether to walk-away from an option contract, we evaluate the option primarily based upon the expected cash flows from the property that is the subject of the option. If we intend to walk-away from an option contract, we record a charge to earnings in the period such decision is made for the deposit amount and related pre-acquisition costs associated with the option contract.

We believe that the accounting related to inventory valuation and impairment is a critical accounting policy because: (1) assumptions inherent in the valuation of our inventory are highly subjective and susceptible to

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**Table of Contents**

change and (2) the impact of recognizing impairments on our inventory has been and could continue to be material to our consolidated financial statements. Our evaluation of inventory impairment, as discussed above, includes many assumptions. The critical assumptions include the timing of the home sales within a community, management's projections of selling prices and costs and the discount rate applied to estimate the fair value of the homesites within a community on the balance sheet date. Our assumptions on the timing of home sales are critical because the homebuilding industry has historically been cyclical and sensitive to changes in economic conditions such as interest rates, credit availability, unemployment levels and consumer sentiment. Changes in these economic conditions could materially affect the projected sales price, costs to develop the homesites and/or absorption rate in a community. Our assumptions on discount rates are critical because the selection of a discount rate affects the estimated fair value of the homesites within a community. A higher discount rate reduces the estimated fair value of the homesites within the community, while a lower discount rate increases the estimated fair value of the homesites within a community. Because of changes in economic and market conditions and assumptions and estimates required of management in valuing inventory during changing market conditions, actual results could differ materially from management's assumptions and may require material inventory impairment charges to be recorded in the future.

During the years ended November 30, 2008, 2007 and 2006, we recorded \$340.5 million, \$2,445.1 million and \$501.8 million, respectively, of inventory adjustments, which included \$195.5 million, \$747.8 million and \$280.5 million, respectively, in 2008, 2007 and 2006, of SFAS 144 valuation adjustments to finished homes, construction in progress and land on which we intend to build homes, \$47.8 million, \$1,167.3 million and \$69.1 million, respectively, in 2008, 2007 and 2006, of SFAS 144 valuation adjustments to land we intend to sell or have sold to third parties and \$97.2 million, \$530.0 million and \$152.2 million, respectively, in 2008, 2007 and 2006 of write-offs of deposits and pre-acquisition costs. The \$1,167.3 million of SFAS 144 valuation adjustments recorded in 2007 to land we intend to sell or have sold to third parties includes \$740.4 million of SFAS 144 valuation adjustments related to the portfolio of land we sold to our strategic land investment venture with Morgan Stanley Real Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., which was formed in November 2007. The SFAS 144 valuation adjustments were estimated based on market conditions and assumptions made by management at the time the valuation adjustments were recorded, which may differ materially from actual results if market conditions or our assumptions change. See Note 2 of the notes to our consolidated financial statements included in Item 8 of this document for details related to valuation adjustments and write-offs by reportable segment and homebuilding other.

**Warranty Costs**

Although we subcontract virtually all aspects of construction to others and our contracts call for the subcontractors to repair or replace any deficient items related to their trades, we are primarily responsible to correct any deficiencies. Additionally, in some instances, we may be held responsible for the actions of or losses incurred by subcontractors. Warranty reserves 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 upon historical data and trends with respect to similar product types and geographical areas. We believe the accounting estimate related to the reserve for warranty costs is a critical accounting estimate because the estimate requires a large degree of judgment.

At November 30, 2008, the reserve for warranty costs was \$129.4 million. While we believe that the reserve for warranty costs is adequate, there can be no assurances that historical data and trends will accurately predict our actual warranty costs. Additionally, there can be no assurances that future economic or financial developments might not lead to a significant change in the reserve.

**Investments in Unconsolidated Entities**

We strategically invest in unconsolidated entities that acquire and develop land (1) for our homebuilding operations or for sale to third parties or (2) for construction of homes for sale third-party homebuyers. Our partners generally are unrelated homebuilders, land owners/developers and

financial or other strategic partners.

Most of the unconsolidated entities through which we acquire and develop land are accounted for by the equity method of accounting because we are not the primary beneficiary, as defined under FIN 46R, and we have a significant, but less than controlling, interest in the entities. We record our investments in these entities in our consolidated balance sheets as Investments in Unconsolidated Entities and our pro-rata share of the entities' earnings or losses in our consolidated statements of operations as Equity in Earnings (Loss) from Unconsolidated Entities, as described in Note 4 of the notes to our consolidated financial statements. Advances to these entities are included in the investment balance.



## **Table of Contents**

Management uses its judgment when determining if we are the primary beneficiary of, or have a controlling interest in, an unconsolidated entity. Factors considered in determining whether we have significant influence or we have control include risk and reward sharing, experience and financial condition of the other partners, voting rights, involvement in day-to-day capital and operating decisions and continuing involvement. The accounting policy relating to the use of the equity method of accounting is a critical accounting policy due to the judgment required in determining whether we are the primary beneficiary or have control or significant influence.

As of November 30, 2008, we believe that the equity method of accounting is appropriate for our investments in unconsolidated entities where we are not the primary beneficiary and we do not have a controlling interest, but rather share control with our partners. At November 30, 2008, the unconsolidated entities in which we had investments had total assets of \$7.8 billion and total liabilities of \$5.1 billion.

We evaluate our investments in unconsolidated entities for impairment during each reporting period in accordance with APB 18. A series of operating losses of an investee or other factors may indicate that a decrease in the value of our investment in the unconsolidated entity has occurred which is other-than-temporary. The amount of impairment recognized is the excess of the investment's carrying amount over its estimated fair value.

Additionally, we consider various qualitative factors to determine if a decrease in the value of our investment is other-than-temporary. These factors include age of the venture, intent and ability for us to retain our investment in the entity, financial condition and long-term prospects of the entity and relationships with the other partners and banks. If we believe that the decline in the fair value of the investment is temporary, then no impairment is recorded.

The evaluation of our investment in unconsolidated entities includes two critical assumptions: (1) projected future distributions from the unconsolidated entities and (2) discount rates applied to the future distributions.

Our assumptions on the projected future distributions from the unconsolidated entities are dependent on market conditions. Specifically, distributions are dependent on cash to be generated from the sale of inventory by the unconsolidated entities. Such inventory is also reviewed for potential impairment by the unconsolidated entities in accordance with SFAS 144. The unconsolidated entities generally use a 20% discount rate in their SFAS 144 reviews for impairment, subject to the perceived risks associated with the community's cash flow streams relative to its inventory. If a valuation adjustment is recorded by an unconsolidated entity in accordance with SFAS 144, our proportionate share of it is reflected in our equity in earnings (loss) from unconsolidated entities with a corresponding decrease to our investment in unconsolidated entities. In certain instances, we may be required to record additional losses relating to our investment in unconsolidated entities under APB 18; such losses are included in management fees and other income (expense), net. We believe our assumptions on the projected future distributions from the unconsolidated entities are critical because the operating results of the unconsolidated entities from which the projected distributions are derived are dependent on the status of the homebuilding industry, which has historically been cyclical and sensitive to changes in economic conditions such as interest rates, credit availability, unemployment levels and consumer sentiment. Changes in these economic conditions could materially affect the projected operational results of the unconsolidated entities from which the distributions are derived.

We believe our assumptions on discount rates are also critical accounting policies because the selection of the discount rates also affects the estimated fair value of our investment in unconsolidated entities. A higher discount rate reduces the estimated fair value of our investment in unconsolidated entities, while a lower discount rate increases the estimated fair value of our investment in unconsolidated entities. Because of changes in economic conditions, actual results could differ materially from management's assumptions and may require material valuation adjustments to our investments in unconsolidated entities to be recorded in the future.

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During the years ended November 30, 2008, 2007 and 2006, we recorded \$205.0 million, \$496.4 million and \$140.9 million, respectively, of valuation adjustments to our investments in unconsolidated entities, which included \$32.2 million, \$364.2 million and \$126.4 million, respectively, in 2008, 2007 and 2006, of our share of SFAS 144 valuation adjustments related to assets of our unconsolidated entities and \$172.8 million, \$132.2 million and \$14.5 million, respectively, in 2008, 2007 and 2006, of valuation adjustments to our investments in unconsolidated entities in accordance with APB 18. These valuation adjustments were calculated based on market conditions and assumptions made by management at the time the valuation adjustments were recorded, which may differ materially from actual results if market conditions or our assumptions change. See Note 2 of the notes to our consolidated financial statements included in Item 8 of this document for details related to valuation adjustments and write-offs by reportable segment and homebuilding other.

## **Table of Contents**

### **Financial Services Operations**

#### Revenue Recognition

Premiums from title insurance policies are recognized as revenue on the effective date of the policies. Escrow fees and loan origination revenues are recognized at the time the related real estate transactions are completed, usually upon the close of escrow. Gains and losses from the sale of loans and the expected net future cash flows related to the associated servicing of a loan are included in the measurement of all written loan commitments that are accounted for at fair value through earnings at the time of commitment. Interest income on loans held-for-sale and loans held-for-investment is recognized as earned over the terms of the mortgage loans based on the contractual interest rates. We believe that the accounting policy related to revenue recognition is a critical accounting policy because of the significance of revenue.

#### Allowance for Loan and Other Losses

We provide an allowance for loan losses by taking into consideration various factors such as past loan loss experience, present economic conditions and other factors considered relevant by management. Anticipated changes in economic conditions, which may influence the level of the allowance, are considered in the evaluation by management when the likelihood of the changes can be reasonably determined. This analysis is based on judgments and estimates and may change in response to economic developments or other conditions that may influence borrowers financial conditions or prospects. At November 30, 2008, the allowance for loan losses was \$20.4 million, compared to \$11.1 million at November 30, 2007. We believe that the 2008 year-end allowance is adequate, particularly in view of the fact that we usually sell the loans in the secondary mortgage market on a non-recourse basis within 30 days after we originate them. Since we remain liable for certain representations and warranties, there can be no assurances that further deterioration in the housing market and future economic or financial developments, including general interest rate increases or a slowdown in the economy, might not lead to increased provisions to the allowance or a higher occurrence of loan write-offs. This allowance requires management's judgment and estimate. For these reasons, we believe that the accounting estimate related to the allowance for loan losses is a critical accounting estimate.

We provide a reserve for estimated title and escrow losses based upon management's evaluation of claims presented and estimates for any incurred but not reported claims. The reserve is established at a level that management estimates to be sufficient to satisfy those claims where a loss is determined to be probable and the amount of such loss can be reasonably estimated. The reserve for title and escrow losses for both known and incurred but not reported claims is considered by management to be adequate for such purposes.

### **Homebuilding and Financial Services Operations**

#### Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in business combinations. Evaluating goodwill for impairment involves the determination of the fair value of our reporting units in which we have recorded goodwill. A reporting unit is a component of an operating segment for which discrete financial information is available and reviewed by management on a regular basis. Inherent in the determination of fair value of our reporting units are certain estimates and judgments, including the interpretation of current economic indicators and market valuations as well as our strategic plans with regard to our operations. To the extent additional information arises or our strategies change, it is possible that our conclusion regarding goodwill impairment could change, which could have a material effect

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on our financial position and results of operations. For these reasons, we believe that the accounting estimate related to goodwill impairment is a critical accounting estimate.

We review goodwill annually (or whenever indicators of impairment exist) for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, ( SFAS 142 ). Due to the continued deterioration in market conditions as a result of tightening mortgage credit standards and other factors, we evaluated the carrying value of our Financial Services segment's goodwill for impairment in both our third and fourth quarters of 2008. During the third quarter of 2008, we impaired \$27.2 million of our Financial Services segment's goodwill. We also performed our annual impairment test of goodwill in the fourth quarter of 2008 and no additional impairments were recorded.

During the year ended November 30, 2007, we impaired \$190.2 million of goodwill related to our homebuilding operations. We did not record impairment charges during the year ended November 30, 2006. As of November 30, 2008 and 2007, there were no material identifiable intangible assets, other than goodwill.

## **Table of Contents**

During the year ended November 30, 2007, we used an equally weighted combination of the market and income approaches to determine the fair value of our reporting units when performing our impairment test of goodwill in accordance with SFAS 142.

The market approach establishes fair value by comparing our company to other publicly traded guideline companies or by analysis of actual transactions of similar businesses or assets sold. We wrote off all of our homebuilding operation's goodwill during the year ended November 30, 2007. As a result, our recorded goodwill of \$61.2 million as of November 30, 2007 was attributed entirely to our Financial Services segment. For our review of the Financial Services segment's goodwill during the third and fourth quarters of 2008, we determined the fair value of our Financial Services segment based entirely on the income approach due to a lack of guideline companies with adequate comparisons to our Financial Services segment on a stand alone basis.

The income approach establishes fair value by methods which discount or capitalize earnings and/or cash flow by a discount or capitalization rate that reflects market rate of return expectations, market conditions and the risk of the relative investment. We used a discounted cash flow method when applying the income approach. This analysis includes operating income, interest expense, taxes, incremental working capital and long-term debt, as well as other factors. The projections used in the analysis are for a five-year period and represent what we consider to be normalized earnings.

In determining the fair value of our Financial Services segment under the income approach, our expected cash flows are affected by various assumptions. The most significant assumptions affecting our expected cash flows are the discount rate, projected revenue growth rate and operating profit margin. The impact of a change in any of our significant underlying assumptions +/- 1% would not result in a materially different fair value.

At November 30, 2008 and November 30, 2007, goodwill was \$34.0 million and \$61.2 million, respectively. Our goodwill of \$34.0 million at November 30, 2008 is recorded in our Financial Services segment.

## **Valuation of Deferred Tax Assets**

We record income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted.

SFAS 109 requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance 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 are assessed periodically by us based on the SFAS 109 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, our experience with operating loss and tax credit carryforwards not expiring unused and tax planning alternatives. Based on our assessment, the uncertain and volatile market conditions and the fact that we are now in a cumulative loss position over the evaluation period, we recorded a non-cash deferred tax asset valuation allowance of \$730.8 million in the year ended November 30, 2008. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized. At November 30, 2008, we had no net deferred tax assets, compared to net deferred tax

assets of \$746.9 million at November 30, 2007.

We believe that the accounting estimate for the valuation of deferred tax assets is a critical accounting estimate because judgment is required in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. Changes in existing tax laws or rates could affect actual tax results and future business results, which may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. Our accounting for deferred tax consequences represents our best estimate of future events.

**Table of Contents**

Share-Based Payments

We have share-based awards outstanding under four different plans which provide for the granting of stock options and stock appreciation rights and awards of restricted common stock ( nonvested shares ) to key officers, employees and directors. The exercise prices of stock options and stock appreciation rights may not be less than the market value of the common stock on the date of the grant. No options granted under the plans may be exercisable until at least six months after the date of the grant. Thereafter, exercises are permitted in installments determined when options are granted. Each stock option and stock appreciation right will expire on a date determined at the time of the grant, but not more than ten years after the date of the grant.

We account for stock option awards granted under the plans in accordance with the recognition and measurement provisions of SFAS No. 123 (revised 2004), *Share-Based Payment*, ( SFAS 123R ). Effective December 1, 2005, we adopted SFAS 123R using the modified-prospective-transition method. Under this transition method, compensation expense recognized during the year ended November 30, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of, December 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted subsequent to December 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

We believe that the accounting estimate for share based payments is a critical accounting estimate because the calculation of share-based employee compensation expense involves estimates that require management s judgments. These estimates include the fair value of each of our stock option awards, which are estimated on the date of grant using a Black-Scholes option-pricing model as discussed in Note 13 of the notes to our consolidated financial statements included under Item 8 of this document. The fair value of our stock option awards, which are subject to graded vesting, is expensed on a straight-line basis over the vesting life of the options. Expected volatility is based on an average of (1) historical volatility of our stock and (2) implied volatility from traded options on our stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award granted. We use historical data to estimate stock option exercises and forfeitures within our valuation model. The expected life of stock option awards granted is derived from historical exercise experience under our share-based payment plans and represents the period of time that stock option awards granted are expected to be outstanding.

SFAS 123R requires that cash flows resulting from tax benefits related to tax deductions in excess of the compensation expense recognized for those options (excess tax benefits) be classified as financing cash flows.

**Table of Contents****Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to market risks related to fluctuations in interest rates on our investments, debt obligations, loans held-for-sale and loans held-for-investment. We utilize forward commitments and option contracts to mitigate the risks associated with our mortgage loan portfolio.

The table below provides information at November 30, 2008 about our significant financial instruments that are sensitive to changes in interest rates. For loans held-for-sale, loans held-for-investment and investments held-to-maturity, senior notes and other debts payable and notes and other debts payable, the table presents principal cash flows and related weighted average effective interest rates by expected maturity dates and estimated fair values at November 30, 2008. Weighted average variable interest rates are based on the variable interest rates at November 30, 2008.

See Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and Notes 1 and 16 of the notes to consolidated financial statements in Item 8 for a further discussion of these items and our strategy of mitigating our interest rate risk.

**Information Regarding Interest Rate Sensitivity****Principal (Notional) Amount by****Expected Maturity and Average Interest Rate****November 30, 2008**

	Years Ending November 30,						Total	Fair Value at November 30, 2008
	2009	2010	2011	2012	2013	Thereafter		
(Dollars in millions)								
<b>ASSETS</b>								
Financial services:								
Loans held-for-sale, net:								
Fixed rate	\$					189.8	189.8	189.8
Average interest rate						5.6%	5.6%	
Variable rate	\$					0.3	0.3	0.3
Average interest rate						8.8%	8.8%	
Loans held-for-investment and investments held-to-maturity:								
Fixed rate	\$	48.1	4.5	0.7	0.8	0.9	15.6	70.6
Average interest rate		1.3%	6.8%	8.6%	8.7%	8.7%	8.6%	3.5%
Variable rate	\$	0.1	0.1	0.1	0.1		6.5	6.9
Average interest rate		7.2%	7.2%	7.2%	7.2%		7.2%	7.2%
<b>LIABILITIES</b>								
Homebuilding:								
Senior notes and other debts payable:								
Fixed rate	\$	301.3	302.5	249.6		346.9	999.4	2,199.7
Average interest rate		7.1%	5.1%	6.0%		6.0%	5.8%	5.9%
Variable rate	\$	126.2	155.8	22.6		40.6		345.2
Average interest rate		5.0%	3.8%	2.7%		5.2%		4.3%



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Financial services:

Notes and other debts payable:

Fixed rate	\$ 0.1	0.1	0.2	0.2
Average interest rate	7.2%	7.8%	7.7%	
Variable rate	\$ 225.6		225.6	225.6
Average interest rate	3.4%		3.4%	

**Table of Contents**

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of November 30, 2008. The effectiveness of our internal control over financial reporting as of November 30, 2008 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Lennar Corporation

We have audited the internal control over financial reporting of Lennar Corporation and subsidiaries (the Company) as of November 30, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended November 30, 2008 of the Company and our report dated January 26, 2009 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Miami, Florida

January 26, 2009

**Table of Contents**

**Item 8. Financial Statements and Supplementary Data.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Lennar Corporation

We have audited the accompanying consolidated balance sheets of Lennar Corporation and subsidiaries (the Company) as of November 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Lennar Corporation and subsidiaries as of November 30, 2008 and 2007 and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of November 30, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 26, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Miami, Florida

January 26, 2009

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

November 30, 2008 and 2007

	2008	2007
	(In thousands, except per share amounts)	
<b>ASSETS</b>		
<b>Homebuilding:</b>		
Cash and cash equivalents	\$ 1,091,468	642,467
Restricted cash	8,828	35,429
Receivables, net	94,520	207,691
Income tax receivables	255,460	881,525
Inventories:		
Finished homes and construction in progress	2,080,345	2,180,670
Land under development	1,741,407	1,500,075
Consolidated inventory not owned	678,338	819,658
Total inventories	4,500,090	4,500,403
Investments in unconsolidated entities	766,752	934,271
Other assets	99,802	863,152
	6,816,920	8,064,938
<b>Financial services</b>	<b>607,978</b>	<b>1,037,809</b>
<b>Total assets</b>	<b>\$ 7,424,898</b>	<b>9,102,747</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Homebuilding:</b>		
Accounts payable	\$ 246,727	376,134
Liabilities related to consolidated inventory not owned	592,777	719,081
Senior notes and other debts payable	2,544,935	2,295,436
Other liabilities	834,873	1,129,791
	4,219,312	4,520,442
<b>Financial services</b>	<b>416,833</b>	<b>731,658</b>
<b>Total liabilities</b>	<b>4,636,145</b>	<b>5,252,100</b>
<b>Minority interest</b>	<b>165,746</b>	<b>28,528</b>
<b>Stockholders equity:</b>		
Preferred stock		
Class A common stock of \$0.10 par value per share		
Authorized: 2008 and 2007 300,000 shares Issued: 2008 140,503 shares; 2007 139,309 shares	14,050	13,931
Class B common stock of \$0.10 par value per share		
Authorized: 2008 and 2007 90,000 shares Issued: 2008 32,964 shares; 2007 32,962 shares	3,296	3,296
Additional paid-in capital	1,944,626	1,920,386
Retained earnings	1,273,159	2,496,933
Deferred compensation plan; 2007 36 Class A common shares and 4 Class B common shares		(332)
Deferred compensation liability		332
	(612,124)	(610,366)

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Treasury stock, at cost; 2008 11,229 Class A common shares and 1,680 Class B common shares; 2007 10,705 Class A common shares and 1,679 Class B common shares		
Accumulated other comprehensive loss		(2,061)
<b>Total stockholders equity</b>	<b>2,623,007</b>	<b>3,822,119</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 7,424,898</b>	<b>9,102,747</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****Years Ended November 30, 2008, 2007 and 2006**

	2008	2007	2006
	(Dollars in thousands, except per share amounts)		
<b>Revenues:</b>			
Homebuilding	\$ 4,263,038	9,730,252	15,623,040
Financial services	312,379	456,529	643,622
Total revenues	4,575,417	10,186,781	16,266,662
<b>Costs and expenses:</b>			
Homebuilding (1)	4,541,881	12,189,077	14,677,565
Financial services (2)	343,369	450,409	493,819
Corporate general and administrative	129,752	173,202	193,307
Total costs and expenses	5,015,002	12,812,688	15,364,691
Gain on recapitalization of unconsolidated entity	133,097	175,879	
Goodwill impairments		(190,198)	
Equity in loss from unconsolidated entities (3)	(59,156)	(362,899)	(12,536)
Management fees and other income (expense), net (4)	(199,981)	(76,029)	66,629
Minority interest income (expense), net	4,097	(1,927)	(13,415)
<b>Earnings (loss) before (provision) benefit for income taxes</b>	<b>(561,528)</b>	<b>(3,081,081)</b>	<b>942,649</b>
(Provision) benefit for income taxes (5)	(547,557)	1,140,000	(348,780)
<b>Net earnings (loss)</b>	<b>\$ (1,109,085)</b>	<b>(1,941,081)</b>	<b>593,869</b>
<b>Basic earnings (loss) per share</b>	<b>\$ (7.00)</b>	<b>(12.31)</b>	<b>3.76</b>
<b>Diluted earnings (loss) per share</b>	<b>\$ (7.00)</b>	<b>(12.31)</b>	<b>3.69</b>

- (1) Homebuilding costs and expenses include \$340.5 million, \$2,445.1 million and \$501.8 million, respectively, of valuation adjustments and write-offs of option deposits and pre-acquisition costs for the years ended November 30, 2008, 2007 and 2006.
- (2) Financial Services costs and expenses for the year ended November 30, 2008 include a \$27.2 million impairment of goodwill.
- (3) Equity in loss from unconsolidated entities includes \$32.2 million, \$364.2 million and \$126.4 million, respectively, of the Company's share of SFAS 144 valuation adjustments related to assets of unconsolidated entities in which the Company has investments for the years ended November 30, 2008, 2007 and 2006.
- (4) Management fees and other income (expense), net includes \$172.8 million, \$132.2 million and \$14.5 million, respectively, of APB 18 valuation adjustments to the Company's investments in unconsolidated entities for the years ended November 30, 2008, 2007 and 2006.
- (5) (Provision) benefit for income taxes for the year ended November 30, 2008 includes a valuation allowance of \$730.8 million that the Company recorded against its deferred tax assets.

See accompanying notes to consolidated financial statements.





**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

Years Ended November 30, 2008, 2007 and 2006

	2008	2007	2006
	(Dollars in thousands)		
<b>Class A common stock:</b>			
Beginning balance	\$ 13,931	13,689	13,025
Conversion of convertible senior subordinated notes to Class A common shares			488
Employee stock and director plans	119	242	176
Balance at November 30,	14,050	13,931	13,689
<b>Class B common stock:</b>			
Beginning balance	3,296	3,287	3,278
Employee stock plans		9	9
Balance at November 30,	3,296	3,296	3,287
<b>Additional paid-in capital:</b>			
Beginning balance	1,920,386	1,753,695	1,486,988
Conversion of convertible senior subordinated notes to Class A common shares, including tax benefit		95,978	157,406
Employee stock and director plans	12,940	47,235	82,342
Tax (provision) benefit from employee stock plans and vesting of restricted stock	(6,139)	5,171	15,705
Amortization of restricted stock and performance-based stock options	17,439	18,307	11,254
Balance at November 30,	1,944,626	1,920,386	1,753,695
<b>Retained earnings:</b>			
Beginning balance	2,496,933	4,539,137	4,046,563
Net earnings (loss)	(1,109,085)	(1,941,081)	593,869
Cash dividends Class A common stock	(67,220)	(80,984)	(80,860)
Cash dividends Class B common stock	(16,267)	(20,139)	(20,435)
FIN 48 cumulative effect adjustment	(24,681)		
EITF 06-8 cumulative effect adjustment	(6,521)		
Balance at November 30,	1,273,159	2,496,933	4,539,137
<b>Deferred compensation plan:</b>			
Beginning balance	(332)	(1,586)	(4,047)
Deferred compensation activity	332	1,254	2,461
Balance at November 30,	\$	(332)	(1,586)

See accompanying notes to consolidated financial statements.



Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)

Years Ended November 30, 2008, 2007 and 2006

	2008	2007	2006
	(Dollars in thousands)		
<b>Deferred compensation liability:</b>			
Beginning balance	\$ 332	1,586	4,047
Deferred compensation activity	(332)	(1,254)	(2,461)
Balance at November 30,		332	1,586
<b>Treasury stock, at cost:</b>			
Beginning balance	(610,366)	(606,395)	(293,222)
Employee stock plans	(1,758)	(3,971)	(3,125)
Purchases of treasury stock			(320,104)
Reissuance of treasury stock			10,056
Balance at November 30,	(612,124)	(610,366)	(606,395)
<b>Accumulated other comprehensive loss:</b>			
Beginning balance	(2,061)	(2,041)	(5,221)
Unrealized gains arising during period on interest rate swaps, net of tax		1,002	2,853
Unrealized gain (loss) on Company's portion of unconsolidated entity's interest rate swap liability, net of tax	2,061	(2,061)	
Unrealized gains arising during period on available-for-sale investment securities, net of tax			7
Reclassification adjustment for loss included in net loss for interest rate swaps, net of tax		338	
Reclassification adjustment for gains included in net earnings for available-for-sale investment securities, net of tax			(245)
Change to the Company's portion of unconsolidated entity's minimum pension liability, net of tax		701	565
Balance at November 30,		(2,061)	(2,041)
<b>Total stockholders' equity</b>	<b>\$ 2,623,007</b>	3,822,119	5,701,372
<b>Comprehensive income (loss)</b>	<b>\$ (1,107,024)</b>	(1,941,101)	597,049

See accompanying notes to consolidated financial statements.

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****Years Ended November 30, 2008, 2007 and 2006**

	2008	2007	2006
	(Dollars in thousands)		
<b>Cash flows from operating activities:</b>			
Net earnings (loss)	\$ (1,109,085)	(1,941,081)	593,869
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	32,399	54,303	45,431
Amortization of discount/premium on debt, net	2,662	2,461	4,580
Gain on recapitalization of unconsolidated entity	(133,097)	(175,879)	
Gain on sale of personal lines insurance policies			(17,714)
Equity in loss from unconsolidated entities, including \$32.2 million, \$364.2 million and \$126.4 million, respectively, of the Company's share of SFAS 144 valuation adjustments related to assets of unconsolidated entities in 2008, 2007 and 2006	59,156	362,899	12,536
Distribution of earnings from unconsolidated entities	21,069	106,883	174,979
Minority interest (income) expense, net	(4,097)	1,927	13,415
Share-based compensation expense	29,871	35,478	36,632
Tax (provision) benefits from share-based awards	(6,139)	5,171	15,705
Excess tax benefits from share-based awards		(4,590)	(7,103)
Deferred income tax provision (benefit)	772,508	(438,817)	(198,005)
Valuation adjustments and write-offs of option deposits and pre-acquisition costs, notes receivables and goodwill impairments	565,465	2,767,522	501,786
Changes in assets and liabilities, net of effect from acquisitions:			
(Increase) decrease in restricted cash	4,624	(10,633)	(2,115)
(Increase) decrease in receivables	828,646	(542,400)	47,843
(Increase) decrease in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs	292,264	666,228	(371,268)
Decrease in other assets	7,166	48,509	9,253
Decrease in financial services loans held-for-sale	83,622	190,254	78,922
Decrease in accounts payable and other liabilities	(346,200)	(683,722)	(386,211)
Net cash provided by operating activities	1,100,834	444,513	552,535
<b>Cash flows from investing activities:</b>			
Net (additions) disposals of operating properties and equipment	1,390	81	(26,783)
Contributions to unconsolidated entities	(403,709)	(607,957)	(729,304)
Distributions of capital from unconsolidated entities	87,802	542,346	321,610
Distributions in excess of investment in unconsolidated entity		354,644	
Decrease in financial services loans held-for-investment	5,006	18,130	70,970
Purchases of investment securities	(176,514)	(107,791)	(108,626)
Proceeds from sales and maturities of investment securities	220,322	107,530	82,492
Proceeds from sale of personal lines insurance policies			18,500
Acquisitions, net of cash acquired			(33,213)
Net cash provided by (used in) investing activities	(265,703)	306,983	(404,354)
<b>Cash flows from financing activities:</b>			
Net repayments under financial services debt	(315,654)	(607,794)	(120,858)
Net proceeds from 5.95% senior notes			248,665

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Net proceeds from 6.50% senior notes			248,933
Redemption of senior floating-rate notes due 2007			(200,000)
Redemption of senior floating-rate notes due 2009		(300,000)	
Proceeds from other borrowings	<b>3,548</b>	32,178	2,489
Partial redemption of 7 <sup>5</sup> / <sub>8</sub> % senior notes due 2009	<b>(322)</b>		
Principal payments on other borrowings	<b>(132,055)</b>	(188,544)	(150,793)
Net proceeds from sale of land to an unconsolidated land investment venture		445,000	
Exercise of land options contracts from an unconsolidated land investment venture	<b>(48,434)</b>		

See accompanying notes to consolidated financial statements.

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended November 30, 2008, 2007 and 2006

	2008	2007	2006
	(Dollars in thousands)		
Receipts related to minority interests	154,275	9,008	1,449
Payments related to minority interests	(3,240)	(45,553)	(72,800)
Excess tax benefits from share-based awards		4,590	7,103
Common stock:			
Issuances	224	21,588	31,131
Repurchases	(1,758)	(3,971)	(323,229)
Dividends	(83,487)	(101,123)	(101,295)
Net cash used in financing activities	(426,903)	(734,621)	(429,205)
Net increase (decrease) in cash and cash equivalents	\$ 408,228	16,875	(281,024)
Cash and cash equivalents at beginning of year	795,194	778,319	1,059,343
Cash and cash equivalents at end of year	\$ 1,203,422	795,194	778,319
Summary of cash and cash equivalents:			
Homebuilding	\$ 1,091,468	642,467	661,662
Financial services	111,954	152,727	116,657
	\$ 1,203,422	795,194	778,319
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amounts capitalized	\$ 37,949	32,731	28,731
Cash (received) paid for income taxes, net	\$ (877,039)	214,848	915,743
Supplemental disclosures of non-cash investing and financing activities:			
Conversion of debt to equity, including tax benefit	\$	95,978	157,894
Purchases of inventories financed by sellers	\$ 2,384	10,253	36,810
Non-cash contributions to unconsolidated entities	\$ 27,434	73,822	39,491
Non-cash distributions from unconsolidated entities	\$ 56,913	14,036	25,329
Issuance of common stock for employee compensation	\$	7,391	38,150
Consolidation/deconsolidation of previously unconsolidated/consolidated entities, net:			
Receivables	\$ 34,346	4,093	(232)
Inventories	\$ 647,466	238,060	188,191
Investments in unconsolidated entities	\$ (183,647)	(69,767)	(38,354)
Other assets	\$ 620	1,625	6,563
Other debts payable	\$ (371,811)	(173,239)	(81,455)
Other liabilities	\$ (88,774)	6,981	(40,588)
Minority interest	\$ (38,200)	(7,753)	(34,125)
Acquisitions:			
Fair value of assets acquired	\$		23,843
Goodwill recorded			10,518
Fair value of liabilities assumed			(1,148)
Cash paid	\$		33,213

See accompanying notes to consolidated financial statements.



**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

**Basis of Consolidation**

The accompanying 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 variable interest entities (see Note 16) in which Lennar Corporation is deemed the primary beneficiary (the Company). The Company's investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in variable interest entities 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.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Changes in Accounting Principles**

On December 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) *Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, (FIN 48) which provides interpretative guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result, the Company recognized the effect of the change in accounting principle through a cumulative effect charge of \$24.7 million to retained earnings as of December 1, 2007 (see Income Taxes and Note 9).

On December 1, 2007, in accordance with Emerging Issues Task Force 06-8, *Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums*, (EITF 06-8) the Company changed its method of recognizing revenues and expenses on its multi-level residential buildings under construction from percentage-of-completion accounting to recognizing revenues when sales are closed and title passes to the new homeowner, the new homeowner's initial and continuing investment is adequate to demonstrate a commitment to pay for the home, the receivable from the new homeowner is not subject to future subordination and the Company does not have a substantial continuing involvement with the new home in accordance with Statement of Financial Accounting Standards (SFAS) No. 66, *Accounting for Sales of Real Estate*, (SFAS 66). As a result, the Company recognized the effect of the change in accounting principle through a cumulative-effect charge of \$6.5 million to retained earnings as of December 1, 2007.

On March 1, 2008, the Company adopted Staff Accounting Bulletin ( SAB ) No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings*, ( SAB 109 ). SAB 109 revises and rescinds portions of SAB No. 105, *Application of Accounting Principles to Loan Commitments*, and expresses the current view of the SEC that, consistent with the guidance in SFAS No. 156, *Accounting for Servicing of Financial Assets*, and SFAS No.159, *The Fair Value Option for Financial Assets and Financial Liabilities*, ( SFAS 159 ) the expected net future cash flows related to the associated servicing of loans should be included in the measurement of the fair value of all written loan commitments that are accounted for at fair value through earnings. SFAS 159 permits entities to choose to measure various financial instruments and certain other items at fair value on a contract-by-contract basis. Under SFAS 159, the Company elected the fair value option for residential mortgage loans held-for-sale originated subsequent to February 29, 2008. As a result of the adoption of these accounting pronouncements, the Company's loss before benefit for income taxes was reduced by \$5.3 million in 2008.

#### Share-Based Payments

The Company has share-based awards outstanding under four different plans which provide for the granting of stock options and stock appreciation rights and awards of restricted common stock ( nonvested shares ) to key officers, employees and directors. The exercise prices of stock options and stock appreciation rights may not be less than the market value of the common stock on the date of the grant. No options granted under the plans may

**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

be exercisable until at least six months after the date of the grant. Thereafter, exercises are permitted in installments determined when options are granted. Each stock option and stock appreciation right will expire on a date determined at the time of the grant, but not more than ten years after the date of the grant.

The Company accounts for stock option awards granted under the plans in accordance with the recognition and measurement provisions of SFAS No. 123 (revised 2004), *Share-Based Payment*, ( SFAS 123R ). Effective December 1, 2005, the Company adopted SFAS 123R using the modified-prospective-transition method. Under this transition method, compensation expense recognized during the year ended November 30, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of, December 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted subsequent to December 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

**Revenue Recognition**

Revenues from sales of homes are recognized when the sales are closed and title passes to the new homeowner, the new homeowner's initial and continuing investment is adequate to demonstrate a commitment to pay for the home, the new homeowner's receivable is not subject to future subordination and the Company does not have a substantial continuing involvement with the new home in accordance with SFAS 66. Revenues from sales of land are recognized when a significant down payment is received, the earnings process is complete, title passes and collectability of the receivable is reasonably assured.

**Advertising Costs**

The Company expenses advertising costs as incurred. Advertising costs were \$65.7 million, \$120.4 million and \$155.5 million, respectively, for the years ended November 30, 2008, 2007 and 2006.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Due to the short maturity period of the cash equivalents, the carrying amounts of these instruments approximate their fair values. Cash and cash equivalents as of November 30, 2008 and 2007 included \$9.8 million and \$23.3 million, respectively, of cash held in escrow for approximately three days.

## Restricted Cash

Restricted cash consists of customer deposits on home sales held in restricted accounts until title transfers to the homebuyer, as required by the state and local governments in which the homes were sold.

## Income Tax Receivables

Income tax receivables consist of tax refunds that the Company expects to receive within one year. As of November 30, 2008 and 2007, there were \$255.5 million and \$881.5 million, respectively, of income tax receivables. Subsequent to November 30, 2008, the Company has received \$251.0 million of tax refunds.

## Inventories

Inventories are stated at cost unless the inventory within a community is determined to be impaired, in which case the impaired inventory is written down to fair value. Inventory costs include land, land development and home construction costs, real estate taxes, deposits on land purchase contracts and interest related to development and construction. Construction overhead and selling expenses are expensed as incurred. Homes held-for-sale are classified as inventories until delivered. Land, land development, amenities and other costs are accumulated by specific area and allocated to homes within the respective areas. The Company reviews inventories for impairment during each reporting period on a community by community basis. SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, ( SFAS 144 ) requires that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In conducting its review for indicators of impairment on a community level, the Company evaluates, among other things, the margins on homes that have been delivered, margins under sales contracts in backlog, projected margins with regard to future home sales over the life of the community, projected margins with regard to future land sales and the fair value of the land itself. The Company pays particular attention to communities in which inventory is moving at a slower than anticipated absorption pace and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. From this review the Company identifies communities whose carrying values exceed their undiscounted cash flows.

The Company estimates the fair value of its communities using a discounted cash flow model. The projected cash flows for each community are significantly impacted by estimates related to market supply and demand, product type by community, homesite sizes, sales pace, sales prices, sales incentives, construction costs, sales and marketing expenses, the local economy, competitive conditions, labor costs, costs of materials and other factors for that particular community. The determination of fair value also requires discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. The discount rate used in determining each asset's fair value depends on the community's projected life and development stage. The Company generally uses a 20% discount rate, subject to the perceived risks associated with the community's cash flow streams relative to its inventory. For example, construction in progress inventory, which is closer to completion, will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development.

The Company estimates fair values of inventory evaluated for impairment under SFAS 144 based on market conditions and assumptions made by management at the time the inventory is evaluated, which may differ materially from actual results if market conditions or assumptions change. For example, further market deterioration or changes in assumptions may lead to the Company incurring additional impairment charges on previously impaired inventory, as well as on inventory not currently impaired but for which indicators of impairment may arise if further market deterioration occurs.

The Company also has access to land inventory through option contracts, which generally enables the Company to control portions of properties owned by third parties and unconsolidated entities (including land funds) until it has determined whether to exercise its 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 are recorded at cost. In determining whether to walk-away from an option contract, the Company evaluates the option primarily based upon its expected cash flows from the property under option. If the Company intends to walk away from an option contract, it records a charge to earnings (loss) in the period such decision is made for the deposit amount and related pre-acquisition costs associated with the option contract.

During the years ended November 30, 2008, 2007 and 2006, the Company recorded \$340.5 million, \$2,445.1 million and \$501.8 million, respectively, of inventory adjustments, which included \$195.5 million, \$747.8 million and \$280.5 million, respectively, in 2008, 2007 and 2006 of SFAS 144 valuation adjustments to finished homes, construction in progress and land on which the Company intends to build homes, \$47.8 million, \$1,167.3 million and \$69.1 million, respectively, in 2008, 2007 and 2006 of SFAS 144 valuation adjustments to land the Company intends to sell or has sold to third parties and \$97.2 million, \$530.0 million and \$152.2 million, respectively, in 2008, 2007 and 2006 of write-offs of deposits and pre-acquisition costs. The \$1,167.3 million of valuation adjustments recorded in 2007 to land the Company intends to sell or has sold to third parties included \$740.4 million of SFAS 144 valuation adjustments related to the portfolio of land the Company sold to its strategic land investment venture with Morgan Stanley Real Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., which was formed in November 2007. The SFAS 144 valuation adjustments were calculated based on market conditions and assumptions made by

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management at the time the valuation adjustments were recorded, which may differ materially from actual results if market conditions or assumptions change. See Note 2 for details of valuation adjustments and write-offs by reportable segment and Homebuilding Other.

### Investments in Unconsolidated Entities

The Company evaluates its investments in unconsolidated entities for impairment during each reporting period in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common*

**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Stock* ( APB 18 ). A series of operating losses of an investee or other factors may indicate that a decrease in value of the Company's investment in the unconsolidated entity has occurred which is other-than-temporary. The amount of impairment recognized is the excess of the investment's carrying amount over its estimated fair value.

Additionally, the Company considers various qualitative factors to determine if a decrease in the value of the investment is other-than-temporary. These factors include age of the venture, intent and ability for the Company to retain its investment in the entity, financial condition and long-term prospects of the entity and relationships with the other partners and banks. If the Company believes that the decline in the fair value of the investment is temporary, then no impairment is recorded.

The evaluation of the Company's investment in unconsolidated entities includes two critical assumptions made by management: (1) projected future distributions from the unconsolidated entities and (2) discount rates applied to the future distributions.

The Company's assumptions on the projected future distributions from the unconsolidated entities are dependent on market conditions. Specifically, distributions are dependent on cash to be generated from the sale of inventory by the unconsolidated entities. Such inventory is also reviewed for potential impairment by the unconsolidated entities in accordance with SFAS 144. The unconsolidated entities generally use a 20% discount rate in their SFAS 144 reviews for impairment, subject to the perceived risks associated with the community's cash flow streams relative to its inventory. If a valuation adjustment is recorded by an unconsolidated entity in accordance with SFAS 144, the Company's proportionate share is reflected in the Company's equity in earnings (loss) from unconsolidated entities with a corresponding decrease to its investment in unconsolidated entities. In certain instances, the Company may be required to record additional losses relating to its investment in unconsolidated entities under APB 18, if the Company's investment in the unconsolidated entity, or a portion thereof, is deemed to be unrecoverable through its disposition. These losses are included in management fees and other income (expense), net.

During the years ended November 30, 2008, 2007 and 2006, the Company recorded \$205.0 million, \$496.4 million and \$140.9 million, respectively, of valuation adjustments to its investments in unconsolidated entities, which included \$32.2 million, \$364.2 million and \$126.4 million, respectively, in 2008, 2007 and 2006 of the Company's share of SFAS 144 valuation adjustments related to the assets of the Company's unconsolidated entities and \$172.8 million, \$132.2 million and \$14.5 million, respectively, in 2008, 2007, and 2006 of valuation adjustments to investments in unconsolidated entities in accordance with APB 18. These valuation adjustments were calculated based on market conditions and assumptions made by management at the time the valuation adjustments were recorded, which may differ materially from actual results if market conditions change. See Note 2 for details of valuation adjustments and write-offs by reportable segment and Homebuilding Other.

The Company tracks its share of cumulative earnings and cumulative distributions of its joint ventures ( JVs ). For purposes of classifying distributions received from JVs in the Company's consolidated statements of cash flows, cumulative distributions are treated as returns *on* capital to the extent of cumulative earnings and included in the Company's consolidated statements of cash flows as operating activities. Cumulative distributions in excess of the Company's share of cumulative earnings are treated as returns *of* capital and included in the Company's consolidated statements of cash flows as investing activities.

Interest and Real Estate Taxes

Interest and real estate taxes attributable to land and homes are capitalized as inventories while they are being actively developed. Interest related to homebuilding and land, including interest costs relieved from inventories, is included in cost of homes sold and cost of land sold. Interest expense related to the financial services operations is included in its costs and expenses.

During the years ended November 30, 2008, 2007 and 2006, interest incurred by the Company's homebuilding operations related to homebuilding debt was \$148.3 million, \$199.1 million and \$232.1 million, respectively; interest capitalized into inventories was \$120.7 million, \$196.7 million and \$226.3 million, respectively; and interest expense primarily included in cost of homes sold and cost of land sold was \$130.4 million, \$203.7 million and \$241.1 million, respectively.



**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Operating Properties and Equipment**

Operating properties and equipment are recorded at cost and are included in other assets in the consolidated balance sheets. The assets are depreciated over their estimated useful lives using the straight-line method. At the time operating properties and equipment are disposed of, the asset and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to earnings. The estimated useful life for operating properties is thirty years, for furniture, fixtures and equipment is two to ten years and for leasehold improvements is five years or the life of the lease, whichever is shorter. Operating properties are reviewed for possible impairment if there are indicators that their carrying amounts are not recoverable. No impairments were recorded during the periods presented.

**Investment Securities**

Investment securities are classified as available-for-sale unless they are classified as trading or held-to-maturity. Securities classified as trading are carried at fair value and unrealized holding gains and losses are recorded in earnings. Securities classified as held-to-maturity are carried at amortized cost because they are purchased with the intent and ability to hold to maturity. Available-for-sale securities are recorded at fair value. Any unrealized holding gains or losses on available-for-sale securities are reported as accumulated other comprehensive gain or loss, which is a separate component of stockholders' equity, net of tax, until realized.

At November 30, 2008 and 2007, investment securities classified as held-to-maturity totaled \$19.1 million and \$61.5 million, respectively, and were included in the assets of the Financial Services segment. The held-to-maturity securities consist mainly of certificates of deposit and U.S. treasury securities. At November 30, 2008 and 2007, the Company had no investment securities classified as trading or available-for-sale.

**Derivative Financial Instruments**

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, ( SFAS 133 ), as amended and interpreted, establishes accounting and reporting standards for derivative instruments and for hedging activities by requiring that all derivatives be recognized in the balance sheet and measured at fair value. Gains or losses resulting from changes in the fair value of derivatives are recognized in earnings or recorded in other comprehensive income or loss and recognized in the statement of operations when the hedged item affects earnings, depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment.

The Company's policy is to designate at a derivative's inception the specific assets, liabilities, or future commitments being hedged and monitor the derivative to determine if it remains an effective hedge. The effectiveness of a derivative as a hedge is based on a high correlation between changes in its value and changes in the value of the underlying hedged item. The Company recognizes gains or losses for amounts received or paid when the underlying transaction settles. The Company does not enter into or hold derivatives for trading or speculative purposes.

The Financial Services segment, in the normal course of business, uses derivative financial instruments to reduce its exposure to fluctuations in mortgage-related interest rates. The segment uses mortgage-backed securities ( MBS ) forward commitments, option contracts and investor commitments to protect the value of fixed rate-locked loan commitments and loans held-for-sale from fluctuations in mortgage-related interest rates. These derivative financial instruments are carried at fair value with the changes in fair value included in Financial Services revenues.

#### Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations. Evaluating goodwill for impairment involves the determination of the fair value of the Company's reporting units in which the Company has recorded goodwill. A reporting unit is a component of an operating segment for which discrete financial information is available and reviewed by the Company's management on a regular basis. Inherent in the determination of fair value of the Company's reporting units are certain estimates and judgments, including the interpretation of current economic indicators and market valuations as well as the Company's strategic plans with regard to its operations. To the extent additional

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**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

information arises or the Company's strategies change, it is possible that the Company's conclusion regarding goodwill impairment could change, which could have a significant effect on the Company's financial position and results of operations.

At November 30, 2008 and 2007, goodwill was \$34.0 million and \$61.2 million, respectively. The goodwill balance at November 30, 2008 and 2007 relates to the Financial Services segment and is included in the assets of that segment. During fiscal 2008, the Company impaired \$27.2 million of the Financial Services segment's goodwill. During fiscal 2007, the Company impaired all of its homebuilding goodwill. During fiscal 2006, the Company's goodwill had a net increase of \$4.7 million primarily due to an acquisition by the Financial Services segment and payment of contingent consideration related to prior period acquisitions.

The Company reviews goodwill annually (or whenever indicators of impairment exist) for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Due to continued deterioration in market conditions as a result of tightening mortgage credit standards and other factors, the Company evaluated the carrying amount of the Financial Services segment's goodwill for impairment in both its third and fourth quarter of 2008. During the third quarter of 2008, the Company impaired \$27.2 million of the Financial Services segment's goodwill.

The Company performed its annual impairment test of goodwill in the fourth quarter of 2008, and no additional impairment charges for the Financial Services segment's goodwill were necessary. As of both November 30, 2008 and 2007, there were no material identifiable intangible assets, other than goodwill.

#### Income Taxes

Income taxes are accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes*, ( SFAS 109 ). The Company records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted.

SFAS 109 requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance 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 by the Company based on the SFAS 109 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 operating loss and tax credit carryforwards not expiring unused and tax planning alternatives. Based on the Company's assessment, the uncertain and volatile market conditions and the fact that the Company is now in a cumulative loss position over the evaluation period, the Company recorded a non-cash deferred tax asset valuation allowance of \$730.8 million in the year ended November 30, 2008. In future periods, the allowance could be reduced based on future sufficient

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evidence indicating that it is more likely than not that a portion of the deferred tax assets will be realized. At November 30, 2008, the Company had no net deferred tax assets. At November 30, 2007, the Company's net deferred tax assets were \$746.9 million and were included in Other Assets.

Effective December 1, 2007, the Company adopted the provisions of FIN 48, which provides interpretative guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Effective with the Company's adoption of FIN 48, interest related to unrecognized tax benefits is now recognized in the financial statements as a component of (provision) benefit for income taxes. Interest and penalties related to unrecognized tax benefits were previously recorded in management fees and other income (expense), net in the Company's statements of operations.

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 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 consolidated balance sheets. The activity in the Company's warranty reserve was as follows:

	November 30,	
	2008	2007
	(In thousands)	
Warranty reserve, beginning of year	\$ 164,841	172,571
Warranties issued during the period	45,338	102,384
Adjustments to pre-existing warranties from changes in estimates	15,042	51,816
Payments	(95,772)	(161,930)
Warranty reserve, end of year	\$ 129,449	164,841

## Self-Insurance

Certain insurable risks such as general liability, medical and workers' compensation are self-insured by the Company up to certain limits. Undiscounted accruals for claims under the Company's self-insurance program are based on claims filed and estimates for claims incurred but not yet reported.

## Minority Interest

The Company has consolidated certain joint ventures because the Company either was determined to be the primary beneficiary pursuant to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, (FIN 46R), or has a controlling interest in these joint ventures. Therefore, the entities' financial statements are consolidated in the Company's consolidated financial statements and the other partners' equity is recorded as minority interest. At November 30, 2008 and 2007, minority interest was \$165.7 million and \$28.5 million, respectively. Minority interest income (expense), net was \$4.1 million, (\$1.9) million and (\$13.4) million, respectively, for the years ended November 30, 2008, 2007 and 2006.

## Earnings (loss) per Share

## Table of Contents

Earnings (loss) per share is accounted for in accordance with SFAS No. 128, *Earnings per Share*, which requires a dual presentation of basic and diluted earnings per share on the face of the consolidated statements of operations. 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.

#### Financial Services

Premiums from title insurance policies are recognized as revenue on the effective date of the policies. Escrow fees and loan origination revenues are recognized at the time the related real estate transactions are completed, usually upon the close of escrow. Gains and losses from the sale of loans and the expected net future cash flows related to the associated servicing of a loan are included in the measurement of all written loan commitments that are accounted for at fair value through earnings at the time of commitment. Interest income on loans held-for-sale and loans held-for-investment is recognized as earned over the terms of the mortgage loans based on the contractual interest rates.

Loans held-for-sale by the Financial Services segment are carried at fair value and changes in fair value are reflected in earnings. Premiums and discounts recorded on these loans are presented as an adjustment to the carrying amount of the loans and are not amortized.

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**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company elected the fair value option for its loans held-for-sale for mortgage loans originated subsequent to February 29, 2008 in accordance with SFAS 159, which permits entities to measure various financial instruments and certain other items at fair value on a contract-by-contract basis. Management believes that the election of the fair value option for loans held-for-sale improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, the Company adopted SAB 109 on March 1, 2008, requiring the recognition of the fair value of its rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in the Company's loans held-for-sale as of November 30, 2008. Prior to March 1, 2008, the fair value of the servicing rights was not recognized until the related loan was sold. Fair value of the servicing rights is determined based on values in the Company's servicing sales contracts. At November 30, 2008, loans held-for-sale, all of which were accounted for at fair value, had an aggregate fair value of \$190.1 million and an aggregate outstanding principal balance of \$185.2 million.

Substantially all of the loans originated are sold within a short period 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.

Loans for which the segment has the positive intent and ability to hold to maturity consist of mortgage loans carried at cost, net of unamortized discounts. Discounts are amortized over the estimated lives of the loans using the interest method.

The segment also provides an allowance for loan losses. The provision recorded and the adequacy of the related allowance is determined by the Company's management's continuing evaluation of the loan portfolio in light of past loan loss experience, credit worthiness and nature of underlying collateral, present economic conditions and other factors considered relevant by the Company's management. Anticipated changes in economic factors, which may influence the level of the allowance, are considered in the evaluation by the Company's management when the likelihood of the changes can be reasonably determined. While the Company's management uses the best information available to make such evaluations, future adjustments to the allowance may be necessary as a result of future economic and other conditions that may be beyond management's control.

**New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for the Company's financial assets and liabilities on December 1, 2007. The FASB deferred the provisions of SFAS 157 relating to nonfinancial assets and liabilities; implementation by the Company is now required on December 1, 2008. SFAS 157 has not and is not expected to materially affect how the Company determines fair value, but has resulted and will result in certain additional disclosures (see Note 15).

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, ( SFAS 141R ). SFAS 141R broadens the guidance of SFAS 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other

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businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed and interests transferred as a result of business combinations. SFAS 141R expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for business combinations that close on or after December 1, 2009. The Company does not expect the adoption of SFAS 141R to have a material effect on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*, ( SFAS 160 ). SFAS 160 requires that a noncontrolling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest in a subsidiary and requires fair value



**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

measurement of any noncontrolling equity investment retained in a deconsolidation. SFAS 160 is effective for the Company's fiscal year beginning December 1, 2009. The Company is evaluating the impact the adoption of SFAS 160 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133, ( SFAS 161 ). SFAS 161 expands the disclosure requirements in SFAS 133 regarding an entity's derivative instruments and hedging activities. SFAS 161 is effective for the Company's fiscal year beginning December 1, 2008. The Company does not expect the adoption of SFAS 161 to have a material effect on its consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position ( FSP ) FAS 140-4 and FIN 46(R)-8, *Disclosure by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities*. The purpose of the FSP is to promptly improve disclosures by public companies until the pending amendments to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, ( SFAS 140 ), and FIN 46R, are finalized and approved by the FASB. The FSP amends SFAS 140 to require public companies to provide additional disclosures about transferor's continuing involvement with transferred financial assets. It also amends FIN 46R by requiring public companies to provide additional disclosures regarding their involvement with variable interest entities. This FSP is effective for the Company's fiscal year beginning December 1, 2008. The FSP will not have a material effect on the Company's consolidated financial statements.

**Reclassifications**

Certain prior year amounts in the consolidated financial statements have been reclassified to conform with the 2008 presentation. These reclassifications had no impact on the Company's results of operations.

**2. Operating and Reporting Segments**

The Company's operating segments are aggregated into reportable segments in accordance with SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information* ( SFAS 131 ), 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) Financial Services

Due to the consolidation of many of the Company's operating divisions as well as the performance of its Houston Homebuilding division, Houston currently meets the reportable segment criteria set forth in SFAS 131. Therefore, the Company has changed its segment presentation to include Homebuilding Houston as a reportable segment. Currently, the Company's homebuilding operating segments are aggregated into four reportable segments, which include Homebuilding East, Homebuilding Central, Homebuilding West and Homebuilding Houston. Previously, the Company presented only three homebuilding reportable segments, which included Homebuilding East, Homebuilding Central and Homebuilding West. All prior year segment information has been restated to conform to the fiscal 2008 presentation. The change in reportable segments has no effect on the Company's consolidated financial position, results of operations or cash flows for the periods presented.

Information about homebuilding activities in which our homebuilding activities are not economically similar to other states in the same geographic area is grouped under Homebuilding Other, which is not considered a reportable segment in accordance with SFAS 131.

**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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. The Company's revised reportable homebuilding segments, and all other homebuilding operations not required to be reported separately, have operations located in:

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

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

**West:** California and Nevada

**Houston:** Houston, Texas

**Other:** Illinois, Minnesota, New York, North Carolina and South Carolina

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

Operations of the Financial Services segment include mortgage financing, title insurance, closing services and other ancillary services (including high-speed Internet and cable television) for both buyers of the Company's homes and others. Substantially all of the loans the 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. The Financial Services segment operates generally in the same states as the Company's homebuilding operations, as well as other states.

Evaluation of segment performance is based primarily on operating earnings (loss) before (provision) benefit for income taxes. Operating earnings (loss) for the homebuilding segments consist of revenues generated from the sales of homes and land, gain on recapitalization of unconsolidated entity, equity in earnings (loss) from unconsolidated entities, management fees and other income (expense), net and minority interest income (expense), net, less the cost of homes and land sold and selling, general and administrative expenses. Homebuilding operating loss for the year ended November 30, 2008 includes the following:

SFAS 144 valuation adjustments to finished homes, construction in progress ( CIP ) and land on which the Company intends to build homes,

SFAS 144 valuation adjustments to land the Company intends to sell or has sold to third parties,

Write-offs of option deposits and pre-acquisition costs related to land under option that the Company does not intend to purchase,

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SFAS 144 valuation adjustments related to assets of unconsolidated entities in which the Company has investments, recorded in equity in earnings (loss) from unconsolidated entities, and

APB 18 valuation adjustments to the Company's investments in unconsolidated entities and write-offs of certain notes receivable, recorded in management fees and other income (expense), net.

Financial Services operating earnings (loss) consist of revenues generated from mortgage financing, title insurance, closing services and other ancillary services (including high-speed Internet and cable television) less the cost of such services, certain selling, general and administrative expenses incurred by the Financial Services segment and goodwill impairments. Financial Services operating earnings for the year ended November 30, 2008 includes a write-off of a portion of the Financial Services segment's goodwill.

Each reportable segment follows the same accounting policies described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements. 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.

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	2008	November 30, 2007 (In thousands)	2006
<b>Assets:</b>			
Homebuilding East	\$ 1,588,299	1,630,086	3,326,371
Homebuilding Central	774,412	809,128	1,320,320
Homebuilding West	2,022,787	2,477,661	3,972,562
Homebuilding Houston	267,628	267,893	331,528
Homebuilding Other	849,726	708,266	1,164,304
Financial Services	607,978	1,037,809	1,613,376
Corporate and unallocated	1,314,068	2,171,904	679,805
<b>Total assets</b>	<b>\$ 7,424,898</b>	<b>9,102,747</b>	<b>12,408,266</b>
<b>Investments in unconsolidated entities:</b>			
Homebuilding East	\$ 94,897	166,839	241,490
Homebuilding Central	178,618	181,816	155,643
Homebuilding West	451,719	515,548	974,404
Homebuilding Houston	21,820	29,797	25,125
Homebuilding Other	19,698	40,271	50,516
<b>Total investments in unconsolidated entities</b>	<b>\$ 766,752</b>	<b>934,271</b>	<b>1,447,178</b>
<b>Goodwill:</b>			
Homebuilding East	\$		49,135
Homebuilding Central			31,587
Homebuilding West			46,640
Homebuilding Other			69,276
Financial Services	34,046	61,222	61,205
<b>Total goodwill</b>	<b>\$ 34,046</b>	<b>61,222</b>	<b>257,843</b>
<b>Revenues:</b>			
		Years Ended November 30, 2007 (In thousands)	2006
Homebuilding East	\$ 1,275,758	2,754,650	4,771,879
Homebuilding Central	533,110	1,605,839	2,629,306
Homebuilding West	1,440,163	3,543,712	5,969,512
Homebuilding Houston	550,853	838,250	1,019,915
Homebuilding Other	463,154	987,801	1,232,428
Financial Services	312,379	456,529	643,622

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<b>Total revenues (1)</b>	<b>\$ 4,575,417</b>	10,186,781	16,266,662
<b>Operating earnings (loss):</b>			
Homebuilding East	\$ (170,207)	(893,159)	236,654
Homebuilding Central	(91,177)	(328,583)	127,999
Homebuilding West (2)	(134,917)	(1,478,804)	639,917
Homebuilding Houston	38,806	79,677	87,387
Homebuilding Other	(43,291)	(293,130)	(105,804)
Financial Services (3)	(30,990)	6,120	149,803
<b>Total operating earnings (loss)</b>	<b>(431,776)</b>	(2,907,879)	1,135,956
Corporate and unallocated	(129,752)	(173,202)	(193,307)
<b>Earnings (loss) before (provision) benefit for income taxes</b>	<b>\$ (561,528)</b>	(3,081,081)	942,649

- (1) Total revenues are net of sales incentives of \$746.5 million (\$48,700 per home delivered) for the year ended November 30, 2008, \$1,515.8 million (\$48,000 per home delivered) for the year ended November 30, 2007 and \$1,502.8 million (\$32,000 per home delivered) for the year ended November 30, 2006.
- (2) Includes \$133.1 million and \$175.9 million, respectively, of a pretax financial statement gain on the recapitalization of an unconsolidated entity for the years ended November 30, 2008 and 2007.
- (3) Includes a \$17.7 million pretax gain for the year ended November 30, 2006 from monetizing the Financial Services segment's personal lines insurance policies.

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Years Ended November 30,		
	2008	2007	2006
	(In thousands)		
<b>SFAS 144 valuation adjustments to finished homes, CIP and land on which the Company intends to build homes:</b>			
East	\$ 76,791	279,064	155,749
Central	28,142	91,354	27,138
West	75,614	331,827	80,207
Houston	2,262	2,836	
Other	12,709	42,762	17,375
<b>Total</b>	<b>195,518</b>	<b>747,843</b>	<b>280,469</b>
<b>SFAS 144 valuation adjustments to land the Company intends to sell or has sold to third parties:</b>			
East	23,251	307,534	24,702
Central	12,369	79,101	16,327
West	11,094	648,628	
Houston	137	1,762	991
Other	940	130,269	27,057
<b>Total</b>	<b>47,791</b>	<b>1,167,294</b>	<b>69,077</b>
<b>Write-offs of option deposits and pre-acquisition costs:</b>			
East	18,989	119,645	80,483
Central	6,024	56,304	2,470
West	62,447	310,795	44,000
Houston	745	813	481
Other	8,967	42,424	24,806
<b>Total</b>	<b>97,172</b>	<b>529,981</b>	<b>152,240</b>
<b>Company's share of SFAS 144 valuation adjustments related to assets of unconsolidated entities:</b>			
East	7,241	55,157	25,484
Central	1,732	29,585	
West	22,675	273,679	92,776
Houston			
Other	597	5,741	8,177
<b>Total</b>	<b>32,245</b>	<b>364,162</b>	<b>126,437</b>
<b>APB 18 valuation adjustments to investments in unconsolidated entities:</b>			
East	54,340	42,200	
Central	11,197	14,552	
West	90,193	68,883	12,165

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Houston			
Other	17,060	6,571	2,305
<b>Total</b>	<b>172,790</b>	<b>132,206</b>	<b>14,470</b>
<b>Write-offs of notes receivable:</b>			
East	10,200		
Central			
West	10,222		
Houston			
Other	4,596		
<b>Total</b>	<b>25,018</b>		
<b>Goodwill impairments:</b>			
East		46,274	
Central		31,293	
West		43,955	
Houston			
Other		68,676	
<b>Total</b>		<b>190,198</b>	
<b>Financial Services write-offs of notes receivable</b>		28,426	2,713
<b>Financial Services goodwill impairments</b>		<b>27,176</b>	
<b>Total valuation adjustments and write-offs of option deposits and pre-acquisition costs, goodwill and notes receivable</b>	<b>\$ 597,710</b>	<b>3,160,110</b>	<b>645,406</b>



**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During 2008, market conditions continued to deteriorate in the homebuilding industry. The existing market conditions combined with a high number of foreclosures, weakened consumer confidence and reduced credit availability in the financial markets have resulted in an increase in the supply of new and existing homes for sale, as well as intensified competitive pressures to sell those homes. These market conditions, together with a deceleration in sales pace, have resulted in lower home sales prices, higher than historical sales incentives, and led to valuation adjustments and write-offs.

Further deterioration in the homebuilding market may cause additional pricing pressures and slower absorption, which may lead to additional valuation adjustments and write-offs 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 the abandonment of those option contracts.

	Years Ended November 30,		
	2008	2007	2006
	(In thousands)		
<b>Homebuilding interest expense:</b>			
Homebuilding East	\$ 39,215	62,150	62,326
Homebuilding Central	12,990	37,417	39,156
Homebuilding West	38,182	73,579	108,687
Homebuilding Houston	7,768	7,172	6,452
Homebuilding Other	10,944	23,382	24,445
Corporate and unallocated	21,258		
<b>Total homebuilding interest expense</b>	<b>\$ 130,357</b>	203,700	241,066
<b>Financial Services interest income, net</b>	<b>\$ 12,391</b>	37,553	64,524
<b>Depreciation and amortization:</b>			
Homebuilding East	\$ 4,395	10,505	7,051
Homebuilding Central	2,428	3,614	3,770
Homebuilding West	14,644	24,211	19,373
Homebuilding Houston	1,104	1,006	1,051
Homebuilding Other	1,678	4,994	3,950
Financial Services	6,095	10,143	8,594
Corporate and unallocated	19,492	18,137	12,698
<b>Total depreciation and amortization</b>	<b>\$ 49,836</b>	72,610	56,487
<b>Net additions (disposals) to operating properties and equipment:</b>			
Homebuilding East	\$ 40	(5,391)	5,073
Homebuilding Central	33	(127)	2,198
Homebuilding West	85	(2,182)	4,556
Homebuilding Houston	20	1,715	47
Homebuilding Other	(398)	348	2,704
Financial Services	1,657	4,206	6,244

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Corporate and unallocated	(2,827)	1,350	5,961
<b>Total net additions (disposals) to operating properties and equipment</b>	<b>\$ (1,390)</b>	<b>(81)</b>	<b>26,783</b>
<b>Equity in earnings (loss) from unconsolidated entities:</b>			
Homebuilding East	\$ (31,422)	(58,069)	(14,947)
Homebuilding Central	(1,310)	(25,378)	7,931
Homebuilding West	(25,113)	(274,267)	(6,449)
Homebuilding Houston	(920)	(752)	(168)
Homebuilding Other	(391)	(4,433)	1,097
<b>Total equity in earnings (loss) from unconsolidated entities</b>	<b>\$ (59,156)</b>	<b>(362,899)</b>	<b>(12,536)</b>

During the years ended November 30, 2008, 2007 and 2006, interest included in the homebuilding segments and Homebuilding Other's cost of homes sold was \$99.3 million, \$168.4 million and \$207.5 million, respectively. During the years ended November 30, 2008, 2007 and 2006, interest included in the homebuilding segments and Homebuilding Other's cost of land sold was \$3.4 million, \$9.4 million and \$12.4 million, respectively. All other interest related to the homebuilding segments and Homebuilding Other is included in management fees and other income (expense), net.

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Receivables**

	November 30, 2008                      2007 (In thousands)	
Accounts receivable	\$ 51,491	166,017
Mortgages and notes receivable	76,002	59,877
	<b>127,493</b>	225,894
Allowance for doubtful accounts	<b>(32,973)</b>	(18,203)
	<b>\$ 94,520</b>	207,691

Accounts receivable result primarily from the sale of land. The Company performs ongoing credit evaluations of its customers and generally does not require collateral for accounts receivable. Mortgages and notes receivable are generally collateralized by the property sold to the buyer. Allowances are maintained for potential credit losses based on historical experience, present economic conditions and other factors considered relevant by the Company.

**4. Investments in Unconsolidated Entities**

Summarized condensed financial information on a combined 100% basis related to unconsolidated entities in which the Company has investments that are accounted for by the equity method was as follows:

Balance Sheets	November 30, 2008                      2007 (Dollars in thousands)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 135,081	301,468
Inventories	7,115,360	7,941,835
Other assets	541,984	827,208
	<b>\$ 7,792,425</b>	9,070,511
<b>Liabilities and equity:</b>		
Accounts payable and other liabilities	\$ 1,042,002	1,214,374
Debt	4,062,058	5,116,670
Equity of:		
The Company	766,752	934,271

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Others	<b>1,921,613</b>	1,805,196
Total equity of unconsolidated entities	<b>2,688,365</b>	2,739,467
	<b>\$ 7,792,425</b>	9,070,511
The Company's equity in its unconsolidated entities	<b>29%</b>	34%

Statements of Operations	Years Ended November 30,		
	2008	2007	2006
	(In thousands)		
Revenues	<b>\$ 862,728</b>	2,060,279	2,651,932
Costs and expenses	<b>1,394,601</b>	3,075,696	2,588,196
Net earnings (loss) of unconsolidated entities	<b>\$ (531,873)</b>	(1,015,417)	63,736
The Company's share of net loss recognized (1)	<b>\$ (59,156)</b>	(362,899)	(12,536)

- (1) For the years ended November 30, 2008, 2007 and 2006, the Company's share of net loss recognized from unconsolidated entities includes \$32.2 million, \$364.2 million and \$126.4 million, respectively, of the Company's share of SFAS 144 valuation adjustments related to assets of the unconsolidated entities in which the Company has investments.

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's partners generally are unrelated homebuilders, land owners/developers and financial or other strategic partners. The unconsolidated entities follow accounting principles that are in all material respects the same as those used by the Company. The Company shares in the profits and losses of these unconsolidated entities generally in accordance with its ownership interests. In many instances, the Company is appointed as the day-to-day manager of the unconsolidated entities and receives management fees and/or reimbursement of expenses for performing this function. During the years ended November 30, 2008, 2007 and 2006, the Company received management fees and reimbursement of expenses from the unconsolidated entities totaling \$33.3 million, \$52.1 million and \$72.8 million, respectively.

The Company and/or its partners sometimes obtain options or enter into other arrangements under which the Company can purchase portions of the land held by the unconsolidated entities. Option prices are generally negotiated prices that approximate fair value when the Company receives the options. During the years ended November 30, 2008, 2007 and 2006, \$416.2 million, \$977.5 million and \$742.5 million, respectively, of the unconsolidated entities' revenues were from land sales to the Company. The Company does not include in its equity in earnings (loss) from unconsolidated entities its pro rata share of unconsolidated entities' earnings resulting from land sales to its homebuilding divisions. Instead, the Company accounts for those earnings as a reduction of the cost of purchasing the land from the unconsolidated entities. This in effect defers recognition of the Company's share of the unconsolidated entities' earnings related to these sales until the Company delivers a home and title passes to a third-party homebuyer.

The 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.

In November 2007, the Company sold a portfolio of land consisting of approximately 11,000 homesites in 32 communities located throughout the country 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. The Company also manages the land investment venture's operations and receives fees for its services. As part of the transaction, the Company entered into option agreements and obtained rights of first offer providing the Company the opportunity to purchase certain finished homesites. The Company has no obligation to exercise the options and cannot acquire a majority of the entity's assets. 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. In 2007, the Company recorded a SFAS 144 valuation adjustment of \$740.4 million on the inventory sold to the investment venture. As a result of the transaction, the land investment venture recorded the purchase of the portfolio of land as inventory. As of November 30, 2008, the portfolio of land (including land development costs) of \$538.4 million is reflected as inventory in the summarized condensed financial information related to unconsolidated entities in which the Company has investments.

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

	<b>November 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>	
Several recourse debt repayment	<b>\$ 78,547</b>	<b>123,022</b>

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Several recourse debt maintenance	<b>167,941</b>	355,513
Joint and several recourse debt repayment	<b>138,169</b>	263,364
Joint and several recourse debt maintenance	<b>123,051</b>	291,727
Land seller debt recourse exposure	<b>12,170</b>	
The Company's maximum recourse exposure	<b>519,878</b>	1,033,626
Less joint and several reimbursement agreements with the Company's partners	<b>(127,428)</b>	(238,692)
The Company's net recourse exposure	<b>\$ 392,450</b>	794,934

The recourse debt exposure in the table above represent the Company's maximum recourse exposure to loss from guarantees and do not take into account the underlying value of the collateral. During the year ended

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 30, 2008, the Company reduced its maximum recourse exposure related to unconsolidated joint ventures by \$513.7 million.

The Company's Credit Facility requires the Company to effect quarterly reductions of its maximum recourse exposure related to joint ventures in which it has investments by a total of \$200 million by November 30, 2009 of which the Company has already made significant progress. The Company must also effect quarterly reductions during its 2010 fiscal year totaling \$180 million and during the first six months of its 2011 fiscal year totaling \$80 million. By May 31, 2011, the Company's maximum recourse exposure related to joint ventures in which it has investments cannot exceed \$275 million (See Note 7).

Although the Company, in some instances, guarantees the indebtedness of unconsolidated entities in which it has an investment, the Company's unconsolidated entities that have recourse debt have significant amount of assets and equity. The summarized balance sheets of the Company's unconsolidated entities with recourse debt were as follows:

	November 30,	
	2008	2007
	(In thousands)	
Assets	\$ 2,846,819	3,220,695
Liabilities	1,565,148	2,311,216
Equity	1,281,671	909,479

In addition, the Company and/or its partners sometimes guarantee the obligations of an unconsolidated entity in order to help secure a loan to that entity. When the Company and/or its partners provide guarantees, the unconsolidated entity generally receives more favorable terms from its lenders than would otherwise be available to it. 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. The maintenance guarantees only apply if the value or the collateral (generally land and improvements) is less than a specified percentage of the loan balance. If the Company is required to make a payment under a maintenance guarantee to bring the value of the collateral above the specified percentage of the loan balance, the payment would constitute a capital contribution or loan to the unconsolidated entity and increase the Company's share of any funds the unconsolidated entity distributes. During the years ended November 30, 2008 and 2007, amounts paid under the Company's maintenance guarantees were \$74.0 million and \$84.1 million, respectively. In accordance with FASB Interpretation No. 45, *Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, as of November 30, 2008, the fair values of the maintenance guarantees and repayment guarantees were not material. The Company believes that as of November 30, 2008, in the event it becomes legally obligated to perform under a guarantee of the obligation of an 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 many of the loans to unconsolidated entities, the Company and another entity or entities generally related to the Company's subsidiary's joint venture partner(s), 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 was to be done in phases, very often the guarantee is to complete only the phases as to which construction has already commenced and for which loan proceeds were used. Under many of the completion guarantees, the guarantors are permitted, under certain circumstances, to use undisbursed loan proceeds to satisfy the completion obligations, and in many of those cases, the guarantors pay interest only on those funds, with no repayment of the principal of

such funds required.

Indebtedness of an unconsolidated entity is secured by its own assets. There is no cross collateralization of debt to different unconsolidated entities; however, some unconsolidated entities own multiple properties and other assets. In connection with a loan to an unconsolidated entity, the Company and its partners often guarantee to a lender either jointly and severally or on a several basis, any, or all of the following: (i) the completion of the development, in whole or in part, (ii) indemnification of the lender from environmental issues, (iii) indemnification of the lender from bad boy acts of the unconsolidated entity (or full recourse liability in the event of unauthorized transfer or bankruptcy) and (iv) that the loan to value and/or loan to cost will not exceed a certain percentage (maintenance or remargining guarantee) or that a percentage of the outstanding loan will be repaid (repayment guarantee).



Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with loans to an unconsolidated entity where there is a joint and several guarantee, the Company generally has a reimbursement agreement with its partner. The reimbursement agreement provides that neither party is responsible for more than its proportionate share of the guarantee. However, if the Company's joint venture partner does not have adequate financial resources to meet its obligations under the reimbursement agreement, the Company may be liable for more than its proportionate share, up to its maximum recourse exposure, which is the full amount covered by the joint and several guarantee.

In certain instances, the Company has placed performance letters of credit and surety bonds with municipalities for its joint ventures.

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

	November 30,	
	2008	2007
	(In thousands)	
The Company's net recourse exposure	\$ 392,450	794,934
Reimbursement agreements from partners	127,428	238,692
Partner several recourse	285,519	465,641
Non-recourse land seller debt or other debt	90,519	202,048
Non-recourse debt with completion guarantee	820,435	1,432,880
Non-recourse debt without completion guarantee	2,345,707	1,982,475
<b>Total debt</b>	<b>\$ 4,062,058</b>	<b>5,116,670</b>

## LandSource Transactions

In January 2004, an unconsolidated entity of which the Company and LNR each owned 50% acquired The Newhall Land and Farming Company (Newhall) for approximately \$1 billion, including \$200 million the Company contributed and \$200 million that LNR contributed (the remainder came from borrowings and sales of properties to LNR). Subsequently, the Company and LNR each transferred their interests in most of their joint ventures to the jointly-owned company that had acquired Newhall, and that company was renamed LandSource Communities Development LLC (LandSource).

In February 2007, the Company's LandSource joint venture admitted MW Housing Partners as a new strategic partner. As part of the transaction, the joint venture obtained \$1.6 billion of non-recourse financing, which consisted of a \$200 million five-year Revolving Credit Facility, a \$1.1 billion six-year Term Loan B Facility and a \$244 million seven-year Second Lien Term Facility. The transaction resulted in a cash distribution from LandSource to the Company of \$707.6 million. As a result, the Company's ownership in LandSource was reduced to 16%. As a result of the recapitalization, the Company recognized a pretax financial statement gain of \$175.9 million during the year ended November 30, 2007.

In June 2008, LandSource and a number of its subsidiaries commenced proceedings under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. In November 2008, the Company's land purchase options with LandSource were terminated, thus the Company recognized a deferred profit of \$101.3 million (net of \$31.8 million of write-offs of option deposits and pre-acquisition costs and other write-offs) related to the 2007 recapitalization of LandSource. The bankruptcy filing could result in LandSource losing some or all of the properties it owns, termination of the Company's management agreement with LandSource, claims against the Company and a substantial reduction (or total elimination) of the Company's 16% ownership interest in LandSource, which had a carrying value of zero at November 30, 2008.

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is summarized financial information related to the LandSource unconsolidated entity. The amounts presented below represent carrying amounts and have not been adjusted for the previously disclosed LandSource bankruptcy. These amounts are included in the summarized condensed financial information presented previously for the unconsolidated entities in which the Company has investments that are accounted for by the equity method.

Balance Sheets	November 30,	
	2008	2007
	(In thousands)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 35,589	106,535
Inventories	1,418,971	1,502,254
Other assets	326,951	354,295
	<b>\$ 1,781,511</b>	1,963,084
<b>Liabilities and equity:</b>		
Accounts payable and other liabilities	\$ 439,752	425,126
Debt	1,371,041	1,255,779
Equity of:		
The Company		15,172
Others	(29,282)	267,007
Total equity of unconsolidated entities	(29,282)	282,179
	<b>\$ 1,781,511</b>	1,963,084
The Company's interest in LandSource	16%	16%

Statements of Operations	Years Ended November 30,		
	2008	2007	2006
	(In thousands)		
Revenues	\$ 125,086	647,088	296,175
Costs and expenses	456,237	590,482	254,993
Net earnings (loss) of LandSource	\$ (331,151)	56,606	41,182

## 5. Operating Properties and Equipment

November 30,  
2008 2007

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	(In thousands)	
Operating properties	\$ 1,300	6,683
Leasehold improvements	30,825	33,544
Furniture, fixtures and equipment	31,911	36,682
	64,036	76,909
Accumulated depreciation and amortization	(51,473)	(52,991)
	\$ 12,563	23,918

Operating properties and equipment are included in other assets in the consolidated balance sheets.

**6. Other Assets**

	November 30,	
	2008	2007
	(In thousands)	
Deferred tax assets, net (See Note 9)		741,598
Other	99,802	121,554
	\$ 99,802	863,152

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. Senior Notes and Other Debts Payable

	November 30,	
	2008	2007
	(Dollars in thousands)	
7 <sup>5</sup> / <sub>8</sub> % senior notes due 2009	\$ 280,976	279,491
5.125% senior notes due 2010	299,877	299,825
5.95% senior notes due 2011	249,615	249,516
5.95% senior notes due 2013	346,851	346,268
5.50% senior notes due 2014	248,088	247,806
5.60% senior notes due 2015	501,618	501,804
6.50% senior notes due 2016	249,733	249,708
Mortgage notes on land and other debt	368,177	121,018
	<b>\$ 2,544,935</b>	<b>2,295,436</b>

The Company's senior unsecured revolving credit facility (the "Credit Facility") consists of a \$1.1 billion revolving credit facility that matures in July 2011. The Company's borrowings under the Credit Facility are limited by a borrowing base calculation, consisting of specified percentages of various types of its assets. Under the Credit Facility, the Company is required to maintain a leverage ratio of 55% for the fourth quarter of 2008 and the Company's 2009 fiscal year and a leverage ratio of 52.5% for its 2010 and 2011 fiscal years. If the Company's minimum tangible net worth, as defined by the Credit Facility, goes below \$1.6 billion, the Company's Credit Facility would be reduced from \$1.1 billion to \$0.9 billion. In no event can the Company's minimum tangible net worth, as defined by the Credit Facility, be less than \$1.3 billion. At November 30, 2008, the Company believes it was in compliance with its financial debt covenants.

In addition to other requirements, the Credit Facility limits the Company's investments in joint ventures and requires the Company to effect quarterly reductions of its maximum recourse exposure related to joint ventures in which the Company has investments by a total of \$200 million by November 30, 2009 of which the Company has already made significant progress. The Company must also effect quarterly reductions during its 2010 fiscal year totaling \$180 million and during the first six months of its 2011 fiscal year totaling \$80 million. By May 31, 2011, the Company's maximum recourse exposure related to joint ventures in which it has investments cannot exceed \$275 million.

The Credit Facility is guaranteed by substantially all of the Company's subsidiaries. Interest rates on outstanding borrowings are LIBOR-based, with margins determined based on changes in the Company's credit ratings, or an alternate base rate, as described in the credit agreement. At both November 30, 2008 and 2007, the Company had no outstanding balance under the Credit Facility. However, at November 30, 2008 and 2007, \$275.2 million and \$443.5 million, respectively, of the Company's total letters of credit outstanding discussed below, were collateralized against certain borrowings available under the Credit Facility.

The Company's performance letters of credit outstanding were \$167.5 million and \$390.2 million, respectively, at November 30, 2008 and 2007. The Company's financial letters of credit outstanding were \$278.5 million and \$424.2 million, respectively, at November 30, 2008 and 2007.

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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. Additionally, at November 30, 2008, the Company had outstanding performance and surety bonds related to site improvements at various projects (including certain projects in the Company's joint ventures) of \$1.1 billion. 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 November 30, 2008, there were approximately \$444.2 million, or 42%, of costs to complete related to these site improvements. The Company does not presently anticipate any draws upon these bonds, but if any 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 June 2007, the Company redeemed its \$300 million senior floating-rate notes due 2009. The redemption price was \$300.0 million, or 100% of the principal amount of the outstanding senior floating-rate notes due 2009, plus accrued and unpaid interest as of the redemption date.

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**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In November 2006, the Company redeemed its \$200 million senior floating-rate notes due 2007. The redemption price was \$200.0 million, or 100% of the principal amount of outstanding senior floating-rate notes due 2007, plus accrued and unpaid interest as of the redemption date.

In April 2006, the Company issued \$250 million of 5.95% senior notes due 2011 and \$250 million of 6.50% senior notes due 2016 (collectively, the New Senior Notes ) at prices of 99.766% and 99.873%, respectively, in a private placement under SEC Rule 144A. Proceeds from the offering of the New Senior Notes, after initial purchaser's discount and expenses, were \$248.7 million and \$248.9 million, respectively. The Company added the proceeds to its working capital to be used for general corporate purposes. Interest on the New Senior Notes is due semi-annually. The New Senior Notes are unsecured and unsubordinated, and substantially all of the Company's subsidiaries guarantee the New Senior Notes. In October 2006, the Company completed an exchange of the New Senior Notes for substantially identical notes registered under the Securities Act of 1933 (the Exchange Notes ), with substantially all of the New Senior Notes being exchanged for Exchange Notes. At November 30, 2008 and 2007, the carrying amount of the Exchange Notes was \$499.3 million and \$499.2 million, respectively.

In September 2005, the Company sold \$300 million of 5.125% senior notes due 2010 (the 5.125% Senior Notes ) at a price of 99.905% in a private placement. Proceeds from the offering, after initial purchaser's discount and expenses, were \$298.2 million. The Company added the proceeds to the Company's working capital to be used for general corporate purposes. Interest on the 5.125% Senior Notes is due semi-annually. The 5.125% Senior Notes are unsecured and unsubordinated. Substantially all of the Company's subsidiaries guaranteed the 5.125% Senior Notes. In 2006, the Company exchanged the 5.125% Senior Notes for registered notes. The registered notes have substantially identical terms as the 5.125% Senior Notes, except that the registered notes do not include transfer restrictions that are applicable to the 5.125% Senior Notes. At November 30, 2008 and 2007, the carrying amount of the 5.125% Senior Notes was \$299.9 million and \$299.8 million, respectively.

In April 2005, the Company sold \$300 million of 5.60% Senior Notes due 2015 (the Senior Notes ) at a price of 99.771%. Proceeds from the offering, after initial purchaser's discount and expenses, were \$297.5 million. In July 2005, the Company sold \$200 million of 5.60% Senior Notes due 2015 at a price of 101.407%. The Senior Notes were the same issue as the Senior Notes the Company sold in April 2005. Proceeds from the offering, after initial purchaser's discount and expenses, were \$203.9 million. The Company added the proceeds of both offerings to its working capital to be used for general corporate purposes. Interest on the Senior Notes is due semi-annually. The Senior Notes are unsecured and unsubordinated. Substantially all of the Company's subsidiaries guaranteed the Senior Notes. The Senior Notes were subsequently exchanged for identical Senior Notes that had been registered under the Securities Act of 1933. At November 30, 2008 and 2007, the carrying amount of the Senior Notes sold in April and July 2005 was \$501.6 million and \$501.8 million, respectively.

In August 2004, the Company sold \$250 million of 5.50% senior notes due 2014 (the 5.50% Senior Notes ) at a price of 98.842% in a private placement. Proceeds from the offering, after initial purchaser's discount and expenses, were \$245.5 million. The Company used the proceeds to repay borrowings under its Credit Facility. Interest on the 5.50% Senior Notes is due semi-annually. The 5.50% Senior Notes are unsecured and unsubordinated. Substantially all of the Company's subsidiaries guaranteed the 5.50% Senior Notes. At November 30, 2008 and 2007, the carrying value of the 5.50% Senior Notes was \$248.1 million and \$247.8 million, respectively.

In February 2003, the Company issued \$350 million of 5.95% senior notes due 2013 at a price of 98.287%. Substantially all of the Company's subsidiaries guaranteed the 5.95% senior notes. At November 30, 2008 and 2007, the carrying amount of the 5.95% senior notes was \$346.9 million and \$346.3 million, respectively.

In February 1999, the Company issued \$282 million of 7 5/8% senior notes due 2009. Substantially all of the Company's subsidiaries guaranteed the 7 5/8% senior notes. At November 30, 2008 and 2007, the carrying amount of the 7 5/8% senior notes was \$281.0 million and \$279.5 million, respectively. During the year ended November 30, 2008, the Company redeemed \$0.3 million of the 7 5/8% senior notes.

At November 30, 2008, the Company had mortgage notes on land and other debt bearing interest at rates up to 10.0% with an average interest rate of 2.6% and due at various dates through 2013. At November 30, 2008 and 2007, the carrying amount of the mortgage notes on land and other debt was \$368.2 million and \$121.0 million, respectively.



**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The minimum aggregate principal maturities of senior notes and other debts payable during the five years subsequent to November 30, 2008 and thereafter are as follows:

	<b>Debt Maturities (In thousands)</b>
2009	\$ 427,542
2010	458,267
2011	272,249
2012	
2013	387,438
Thereafter	999,439

**8. Financial Services Segment**

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

	<b>November 30, 2008      2007 (In thousands)</b>	
<b>Assets:</b>		
Cash and cash equivalents	\$ 111,954	152,727
Restricted cash	21,977	
Receivables, net (1)	133,641	280,526
Loans held-for-sale (2)	190,056	293,499
Loans held-for-investment, net	58,339	137,544
Investments held-to-maturity	19,139	61,518
Goodwill	34,046	61,222
Other (3)	38,826	50,773
	<b>\$ 607,978</b>	<b>1,037,809</b>
<b>Liabilities:</b>		
Notes and other debts payable	\$ 225,783	541,437
Other (4)	191,050	190,221
	<b>\$ 416,833</b>	<b>731,658</b>

(1) Receivables, net, primarily relate to loans shipped to investors that had not yet been funded as of November 30, 2008.

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- (2) Loans held-for-sale relate to unshipped loans as of November 30, 2008 carried at fair value.
- (3) Includes mortgage loan commitments of \$4.4 million carried at fair value as of November 30, 2008.
- (4) Includes forward contracts of \$6.5 million carried at fair value as of November 30, 2008.

At November 30, 2008, the Financial Services segment had a syndicated warehouse repurchase facility, which matures in April 2009 (\$125 million, plus a \$50 million temporary accordion feature that expired in December 2008) and a warehouse repurchase facility, which matures in June 2009 (\$150 million). The Financial Services segment uses these facilities to finance its lending activities until the mortgage loans are sold to investors and expects both facilities to be renewed or replaced with other facilities when they mature. Borrowings under the lines of credit were \$209.5 million and \$505.4 million, respectively, at November 30, 2008 and 2007 and were collateralized by mortgage loans and receivables on loans sold but not yet funded by investors with outstanding principal balances of \$286.7 million and \$540.9 million, respectively, at November 30, 2008 and 2007. The combined effective interest rate on the facilities at November 30, 2008 was 3.5%.

At November 30, 2008 and 2007, the Financial Services segment had advances under a different conduit funding agreement totaling \$10.8 million and \$11.8 million, respectively. Borrowings under this agreement are collateralized by mortgage loans and had an effective interest rate of 2.9% and 5.8%, respectively, at November 30, 2008 and 2007. During 2008, the Financial Services segment entered into a new on going 60-day committed repurchase facility for \$75 million. As of November 30, 2008, it had advances under this facility totaling \$5.2 million, which had an effective interest rate of 3.7%.

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 9. Income Taxes

The (provision) benefit for income taxes consisted of the following:

	Years Ended November 30,		
	2008	2007	2006
	(In thousands)		
<b>Current:</b>			
Federal	\$ 249,157	715,311	(484,731)
State	(24,206)	(14,128)	(62,054)
	<b>224,951</b>	701,183	(546,785)
<b>Deferred:</b>			
Federal	(646,261)	282,263	173,616
State	(126,247)	156,554	24,389
	<b>(772,508)</b>	438,817	198,005
	<b>\$ (547,557)</b>	1,140,000	(348,780)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant temporary differences that give rise to the net deferred tax asset are as follows:

	November 30,	
	2008	2007
	(In thousands)	
<b>Deferred tax assets:</b>		
Inventory valuation adjustments	\$ 239,854	380,491
Reserves and accruals	83,911	160,071
Net operating loss carryforward	217,040	126,649
Capitalized expenses	44,436	84,261
Investments in unconsolidated entities	36,614	33,699
Goodwill	26,383	30,011
Alternative minimum tax credits	65,307	
Other	68,681	19,594
Total deferred tax assets	<b>782,226</b>	834,776
Valuation allowance	<b>(730,836)</b>	

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Total deferred tax assets after valuation allowance	<b>51,390</b>	834,776
<b>Deferred tax liabilities:</b>		
Capitalized expenses	<b>12,556</b>	
Completed contract reporting differences		54,732
Other	<b>38,834</b>	33,186
<b>Total deferred tax liabilities</b>	<b>51,390</b>	<b>87,918</b>
Net deferred tax asset	\$	746,858

As a result of the valuation allowance against the Company's net deferred tax assets, at November 30, 2008, the Company's Homebuilding operations and the Financial Services segment did not have net deferred tax assets. At November 30, 2007, Homebuilding operations had net deferred tax assets totaling \$741.6 million, which were included in other assets in the consolidated balance sheets. At November 30, 2007, the Financial Services segment had net deferred tax assets of \$5.3 million, which were included in the other assets of the Financial Services segment.

Table of Contents**LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

SFAS 109 requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance, 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 SFAS 109 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, the Company established a valuation allowance against its deferred tax assets totaling \$730.8 million during the fourth quarter of 2008. The Company's cumulative loss position over the evaluation period and the current uncertain and volatile market conditions were significant negative evidence in assessing the need for a valuation allowance. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion of the Company's deferred tax assets will be realized.

The American Jobs Creation Act of 2004 provides a tax deduction on qualified domestic production activities under Internal Revenue Code Section 199. The tax benefit resulting from this deduction is reflected in the effective tax rate for the year ended November 30, 2006. However, the Company did not recognize any benefit for the years ended November 30, 2007 and 2008 as a result of its pretax loss. In addition, a substantial portion of the November 30, 2006 tax benefit was reduced due to the carry back of the Company's current and prior year pretax losses.

A reconciliation of the statutory rate and the effective tax rate follows:

	Percentage of Pretax Income (Loss)		
	2008	2007	2006
Statutory rate	35.00%	35.00%	35.00%
State income taxes, net of federal income tax benefit	3.09	3.00	2.75
Internal Revenue Code Section 199 impact	(0.29)	(0.30)	(0.75)
Goodwill impairments and other	(1.60)	(0.70)	
FIN 48 tax reserves and interest expense	(3.56)		
Deferred tax asset valuation allowance	(130.15)		
Effective rate	(97.51)%	37.00%	37.00%

Effective December 1, 2007, the Company adopted FIN 48, which provides interpretative guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the implementation of FIN 48, the Company recorded a \$24.7 million cumulative-effect charge to its retained earnings on December 1, 2007. At the date of the adoption, the Company had \$88.6 million of gross unrecognized tax benefits.

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The following table summarizes the changes in gross unrecognized tax benefits from December 1, 2007 through November 30, 2008:

	November 30, 2008 (In thousands)
Gross unrecognized tax benefits, beginning of year	\$ 88,560
Decreases of prior year items	(2,605)
Increases of prior year items due to changes in tax law	14,213
Gross unrecognized tax benefits, end of year	\$ 100,168

At November 30, 2008, the Company had \$100.2 million of gross unrecognized tax benefits. If the Company were to recognize these tax benefits, \$25.4 million would affect the Company's effective tax rate.

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company expects the total amount of unrecognized tax benefits to decrease by \$62.0 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.

Effective with the Company's adoption of FIN 48, interest and penalties related to unrecognized tax benefits are now recognized in the financial statements as a component of (provision) benefit for income taxes. Interest and penalties related to unrecognized tax benefits were previously recorded in management fees and other income (expense), net in the Company's statements of operations. At November 30, 2008, the Company had \$33.5 million accrued for interest and penalties, of which \$16.1 million was recorded during the year ended November 30, 2008 in accordance with FIN 48.

The IRS is currently examining the Company's federal income tax returns for fiscal years 2005, 2006, 2007 and 2008 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 2002 through 2007. For the 2008 tax year, the Company has been invited by the IRS to participate in a new examination program, Compliance Assurance Process - CAP. This program operates as a contemporaneous exam throughout the year in order to keep exam cycles current and achieve a higher level of compliance.

At November 30, 2007, the Company had \$6.8 million of reserves recorded in accordance with SFAS No. 5, *Accounting for Contingencies*, for income tax filing positions and related interest. This reserve was included in other liabilities in the consolidated balance sheets.

**10. Earnings (Loss) Per Share**

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

	2008	2007	2006
	(In thousands, except per share amounts)		
<b>Numerator for basic earnings (loss) per share net earnings (loss)</b>	<b>\$ (1,109,085)</b>	(1,941,081)	593,869
<b>Numerator Diluted earnings (loss) per share:</b>			
Net earnings (loss)	\$ (1,109,085)	(1,941,081)	593,869
Interest on 5.125% zero-coupon convertible senior subordinated notes due 2021, net of tax			1,565
<b>Numerator for diluted earnings (loss) per share net earnings (loss)</b>	<b>\$ (1,109,085)</b>	(1,941,081)	595,434

**Denominator:**

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Denominator for basic earnings (loss) per share	weighted average shares	<b>158,395</b>	157,718	158,040
Effect of dilutive securities:				
Employee stock options and nonvested shares				1,865
5.125% zero-coupon convertible senior subordinated notes due 2021				1,466
Denominator for diluted earnings (loss) per share	adjusted weighted average shares and assumed conversions	<b>158,395</b>	157,718	161,371
<b>Basic earnings (loss) per share</b>		\$ (7.00)	(12.31)	3.76
<b>Diluted earnings (loss) per share</b>		\$ (7.00)	(12.31)	3.69

Options to purchase 7.4 million shares, 4.9 million shares and 3.1 million shares, respectively, in total of Class A and Class B common stock were outstanding and anti-dilutive for the years ended November 30, 2008, 2007 and 2006.



Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2001, the Company issued 5.125% zero-coupon convertible senior subordinated notes due 2021, ( Convertible Notes ). The indenture relating to the Convertible Notes provided that the Convertible Notes were convertible into the Company's Class A common stock during limited periods after the market price of the Company's Class A common stock exceeds 110% of the accreted conversion price at the rate of 14.2 Class A common shares per \$1,000 face amount of notes at maturity, which would total 9.0 million shares. For this purpose, the market price is the average closing price of the Company's Class A common stock over the last twenty trading days of a fiscal quarter.

In April 2006, substantially all of the Company's outstanding Convertible Notes were converted by the noteholders into 4.9 million Class A common shares. Convertible Notes not converted by the noteholders were not material and were redeemed by the Company on April 4, 2006. The weighted average amount of shares issued upon conversion is included in the calculation of basic earnings per share from the date of conversion. The calculation of diluted earnings per share included 1.5 million shares for the year ended November 30, 2006 related to the dilutive effect of the Convertible Notes prior to conversion.

**11. Comprehensive Income (Loss)**

Comprehensive income (loss) represents changes in stockholders' equity from non-owner sources. The components of comprehensive income (loss) were as follows:

	Years Ended November 30,		
	2008	2007	2006
	(In thousands)		
Net earnings (loss)	\$ (1,109,085)	(1,941,081)	593,869
Unrealized gains arising during period on interest rate swaps, net of tax (37%)		1,002	2,853
Unrealized gain (loss) on Company's portion of unconsolidated entity's interest rate swap liability, net of tax (37%)	2,061	(2,061)	
Unrealized gains arising during period on available-for-sale investment securities, net of tax (37%)			7
Reclassification adjustment for loss included in net loss for interest rate swaps, net of tax (37%)		338	
Reclassification adjustment for gains included in net earnings for available-for-sale investment securities, net of tax (37%)			(245)
Change to the Company's portion of unconsolidated entity's minimum pension liability, net of tax (37%)		701	565
Comprehensive income (loss)	\$ (1,107,024)	(1,941,101)	597,049

Accumulated other comprehensive loss consisted of the following at November 30, 2008 and 2007:

	November 30, 2008      2007 (In thousands)	
Unrealized gain (loss) on Company's portion of unconsolidated entity's interest rate swap liability, net of tax	\$	(2,061)
Accumulated other comprehensive loss	\$	(2,061)

**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. Capital Stock**

Preferred Stock

The Company is authorized to issue 500,000 shares of preferred stock with a par value of \$10 per share and 100 million shares of participating preferred stock with a par value of \$0.10 per share. No shares of preferred stock or participating preferred stock have been issued as of November 30, 2008.

Common Stock

In October 2008, the Company's Board of Directors voted to decrease the annual dividend rate with regard to the Company's Class A and Class B common stock to \$0.16 per share per year (payable quarterly) from \$0.64 per share per year (payable quarterly). During the years ended November 30, 2008, 2007 and 2006, Class A and Class B common stockholders received per share annual dividends of \$0.52, \$0.64 and \$0.64, respectively.

The only significant difference between the Class A common stock and Class B common stock is that Class A common stock entitles holders to one vote per share and the Class B common stock entitles holders to ten votes per share.

As of November 30, 2008, Stuart A. Miller, the Company's President, Chief Executive Officer and a Director, directly owned, or controlled through family-owned entities, shares of Class A and Class B common stock, which represented approximately 49% voting power of the Company's stock.

In June 2001, the Company's Board of Directors authorized a stock repurchase program to permit the purchase of up to 20 million shares of its outstanding common stock. During the years ended November 30, 2008 and 2007, there were no material share repurchases of common stock under the stock repurchase program. During the year ended November 30, 2006, the Company repurchased a total of 6.2 million shares of its outstanding common stock for an aggregate purchase price including commissions of \$320.1 million, or \$51.59 per share. As of November 30, 2008, 6.2 million shares of common stock can be repurchased in the future under the program.

Treasury stock increased by 0.5 million Class A common shares and 0.8 million Class A common shares during the years ended November 30, 2008 and November 30, 2007, primarily related to forfeitures of restricted stock. In addition to the common shares purchased under the Company's stock repurchase program, during the year ended November 30, 2006, the Company repurchased approximately 0.1 million Class A

common shares related to the vesting of restricted stock and distributions of common stock from the Company's deferred compensation plan.

#### Restrictions on Payment of Dividends

Other than to maintain compliance with certain covenants contained in the Credit Facility, there are no restrictions on the payment of dividends on common stock by the Company. There are no agreements which restrict the payment of dividends by subsidiaries of the Company other than to maintain the financial ratios and net worth requirements under the Financial Services segment's warehouse lines of credit.

#### 401(k) Plan

Under the Company's 401(k) Plan (the Plan), contributions made by employees can be invested in a variety of mutual funds or proprietary funds provided by the Plan trustee. The Company may also make contributions for the benefit of employees. The Company records as compensation expense its contribution to the Plan. This amount was \$7.6 million in 2008, \$15.2 million in 2007 and \$19.0 million in 2006.

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**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Share-Based Payments**

The Company has share-based awards outstanding under four different plans which provide for the granting of stock options and stock appreciation rights and awards of restricted common stock ( nonvested shares ) to key officers, employees and directors. These awards are primarily issued in the form of new shares. The exercise prices of stock options and stock appreciation rights may not be less than the market value of the common stock on the date of the grant. No options granted under the plans may be exercisable until at least six months after the date of the grant. Thereafter, exercises are permitted in installments determined when options are granted. Each stock option and stock appreciation right will expire on a date determined at the time of the grant, but not more than ten years after the date of the grant.

The Company accounts for stock option awards granted under the plans in accordance with the recognition and measurement provisions of SFAS No. 123 (revised 2004), *Share-Based Payment*, ( SFAS 123R ). Effective December 1, 2005, the Company adopted SFAS 123R using the modified-prospective-transition method. Under this transition method, compensation expense recognized during the year ended November 30, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of December 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted subsequent to December 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

SFAS 123R requires that cash flows resulting from tax benefits related to tax deductions in excess of the compensation expense recognized for those options (excess tax benefits) be classified as financing cash flows. For the year ended November 30, 2008, the Company did not have any excess tax benefits from share-based awards. For the years ended November 30, 2007 and 2006, the Company classified \$4.6 million and \$7.1 million, respectively, of excess tax benefits as financing cash inflows.

Compensation expense related to the Company's share-based awards for the years ended November 30, 2008, 2007 and 2006 was \$29.9 million, \$35.5 million and \$36.6 million, respectively, of which \$12.4 million, \$17.2 million and \$25.6 million, respectively, related to stock options and \$17.4 million, \$18.3 million and \$11.0 million, respectively, related to nonvested shares. The total income tax benefit recognized in the consolidated statements of operations for share-based awards during the years ended November 30, 2008, 2007 and 2006 was \$9.4 million, \$11.3 million and \$11.2 million, respectively, of which \$2.9 million, \$4.5 million and \$7.1 million, respectively, related to stock options and \$6.5 million, \$6.8 million and \$4.1 million, respectively, related to nonvested shares.

Cash received from stock options exercised during the years ended November 30, 2008, 2007 and 2006 was \$0.2 million, \$21.6 million, and \$31.1 million, respectively. There were no material tax deductions related to stock options exercised during the year ended November 30, 2008. The tax deductions related to stock options exercised during the years ended November 30, 2007 and 2006 were \$8.3 million and \$12.1 million, respectively.

The fair value of each of the Company's stock option awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company's stock option awards, which are subject to graded vesting, is expensed on a straight-line basis over the vesting life of the stock options. Expected volatility is based on an average of (1) historical volatility of

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the Company's stock and (2) implied volatility from traded options on the Company's stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award granted. The Company uses historical data to estimate stock option exercises and forfeitures within its valuation model. The expected life of stock option awards granted is derived from historical exercise experience under the Company's share-based payment plans and represents the period of time that stock option awards granted are expected to be outstanding.

The fair value of these options was determined at the date of the grant using the Black-Scholes option-pricing model. The significant weighted average assumptions for the years ended November 30, 2008, 2007 and 2006 were as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Dividend yield	<b>3.2% - 4.7%</b>	1.3% - 2.7%	1.1%
Volatility rate	<b>43% - 60%</b>	30% - 34%	31% - 34%
Risk-free interest rate	<b>1.9% - 3.5%</b>	4.1% - 5.0%	4.1% - 5.0%
Expected option life (years)	<b>2.0 - 5.0</b>	2.0 - 5.0	2.0 - 5.0

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the Company's stock option activity for the year ended November 30, 2008 was as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (In thousands)
Outstanding at November 30, 2007	6,338,165	\$ 46.35		
Grants	4,513,500	\$ 13.57		
Forfeited or expired	(2,070,661)	\$ 39.30		
Exercises	(19,800)	\$ 11.34		
Outstanding at November 30, 2008	8,761,204	\$ 31.50	3.1 years	\$ 180
Vested and expected to vest in the future at November 30, 2008	8,173,972	\$ 32.51	3.0 years	\$ 244
Exercisable at November 30, 2008	2,738,041	\$ 47.35	1.0 years	\$ 162
Available for grant at November 30, 2008	4,215,063			

The weighted average fair value of options granted during the years ended November 30, 2008, 2007 and 2006 was \$3.85, \$12.89 and \$17.27, respectively. For the year ended November 30, 2008, the total intrinsic value of options exercised during the year was not material. The total intrinsic value of options exercised during the years ended November 30, 2007 and 2006 was \$22.3 million and \$36.1 million, respectively.

The fair value of nonvested shares is determined based on the trading price of the Company's common stock on the grant date. The weighted average fair value of nonvested shares granted during the years ended November 30, 2008, 2007 and 2006 was \$15.11, \$49.52 and \$57.09, respectively. A summary of the Company's nonvested shares activity for the year ended November 30, 2008 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested restricted shares at November 30, 2007	1,700,591	\$ 52.83
Grants	1,172,978	\$ 15.11
Vested	(423,642)	\$ 54.02
Forfeited	(427,004)	\$ 45.16
Nonvested restricted shares at November 30, 2008	2,022,923	\$ 32.33

At November 30, 2008, there was \$61.8 million of unrecognized compensation expense related to unvested share-based awards granted under the Company's share-based payment plans, of which \$25.6 million relates to stock options and \$36.2 million relates to nonvested shares. The unrecognized expense related to nonvested shares is expected to be recognized over a weighted-average period of 2.3 years. During the years ended November 30, 2008, 2007 and 2006, 0.4 million nonvested shares, 0.3 million nonvested shares and 0.1 million nonvested shares, respectively, vested. The tax (provision) benefit related to nonvested share activity during the years ended November 30, 2008, 2007 and 2006 was (\$6.1) million, (\$3.1) million and \$3.7 million, respectively.

#### **14. Deferred Compensation Plan**

In June 2002, the Company adopted the Lennar Corporation Nonqualified Deferred Compensation Plan (the Deferred Compensation Plan) that allowed a selected group of members of management to defer a portion of their salaries and bonuses and up to 100% of their restricted stock. All participant contributions to the Deferred Compensation Plan are vested. Salaries and bonuses that are deferred under the Deferred Compensation Plan are credited with earnings or losses based on investment decisions made by the participants. The cash contributions to the Deferred Compensation Plan are invested by the Company in various investment securities that were classified as trading.

Restricted stock is deferred under the Deferred Compensation Plan by surrendering the restricted stock in exchange for the right to receive in the future a number of shares equal to the number of restricted shares that are



**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

surrendered. The surrender is reflected as a reduction in stockholders' equity equal to the fair value of the restricted stock when it was issued, with an offsetting increase in stockholders' equity to reflect a deferral of the compensation expense related to the surrendered restricted stock. Changes in the fair value of the shares that will be issued in the future are not reflected in the consolidated financial statements.

As of November 30, 2007, approximately 36,000 Class A common shares and 3,600 Class B common shares of restricted stock had been surrendered in exchange for rights under the Deferred Compensation Plan, resulting in a reduction in stockholders' equity of \$0.3 million fully offset by an increase in stockholders' equity to reflect the deferral of compensation in that amount. Shares that the Company is obligated to issue in the future under the Deferred Compensation Plan are treated as outstanding shares in both the Company's basic and diluted earnings (loss) per share calculations for the years ended November 30, 2007 and 2006. In 2008, the Compensation Committee of the Company's Board of Directors approved the termination of the Deferred Compensation Plan and \$1.8 million in total in cash and shares of common stock was distributed to its participants.

**15. Financial Instruments**

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at November 30, 2008 and 2007, 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. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange. 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, restricted cash, receivables and accounts payable, which had fair values approximating their carrying amounts due to the short maturities of these instruments.

	2008		November 30, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)				
<b>ASSETS</b>				
<b>Financial services:</b>				
Loans held-for-investment, net	\$ 58,339	58,339	137,544	137,564
Investments held-to-maturity	\$ 19,139	19,266	61,518	61,572
<b>LIABILITIES</b>				
<b>Homebuilding:</b>				
Senior notes and other debts payable	\$ 2,544,935	1,785,692	2,295,436	1,905,502
<b>Financial services:</b>				
Notes and other debts payable	\$ 225,783	225,783	541,437	541,437

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

**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.

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

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Fair Value Option

SFAS 157 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.

The Company's financial instruments measured at fair value on a recurring basis are summarized below:

Financial Instruments	Fair Value Hierarchy	Fair Value at November 30, 2008 (In thousands)
Loans held-for-sale (1)	Level 2	\$ 190,056
Mortgage loan commitments	Level 2	4,382
Forward contracts	Level 2	(6,461)
		\$ 187,977

- (1) The difference between the aggregate fair value of \$190.1 million and the aggregate unpaid principal balance of \$185.2 million is \$4.9 million.

The Company elected the fair value option for its loans held-for-sale for mortgage loans originated subsequent to February 29, 2008 in accordance with SFAS 159, which permits entities to measure various financial instruments and certain other items at fair value on a contract-by-contract basis. Management believes that the election of the fair value option for loans held-for-sale improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, the Company adopted SAB 109 on March 1, 2008, requiring the recognition of the fair value of its rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in the Company's loans held-for-sale as of November 30, 2008. Prior to March 1, 2008, the fair value of the servicing rights was not recognized until the related loan was sold. Fair value of the servicing rights is determined based on values in the Company's servicing sales contracts. Fair value of loans held for sale is based on independent quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics.

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The assets accounted for under SFAS 159 are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in the Financial Services segment's earnings (loss). The changes in fair values that are included in earnings (loss) are shown, by financial instrument and financial statement line item, below:

	<b>Years Ended November 30, 2008</b>		
	<b>Loans held-for-sale</b>	<b>Mortgage loan commitments</b>	<b>Forward contracts</b>
	<b>(In thousands)</b>		
<b>Changes in fair value included in net earnings (loss):</b>			
Financial Services revenues	\$ 4,923	4,382	(6,461)

Interest income on loans held-for-sale measured at fair value is calculated based on the interest rate of the loan and recorded in interest income in the Financial Services' statement of operations.

The Financial Services segment had a pipeline of loan applications in process of \$710.8 million at November 30, 2008. Loans in process for which interest rates were committed to the borrowers totaled approximately \$248.8 million as of November 30, 2008. Substantially all of these commitments were for periods of 60 days or less. Since a portion of these commitments is expected to expire without being exercised by the borrowers, the total commitments do not necessarily represent future cash requirements.

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**Table of Contents**

**LENNAR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Financial Services segment uses mandatory mortgage-backed securities ( MBS ) forward commitments, option contracts and investor commitments to hedge its mortgage-related interest rate exposure. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk is managed by entering into MBS forward commitments, option contracts with investment banks, federally regulated bank affiliates and loan sales transactions with permanent investors meeting the segment's credit standards. The segment's risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments and option contracts. At November 30, 2008, the segment had open commitments amounting to \$332.0 million to sell MBS with varying settlement dates through February 2009.

**16. Consolidation of Variable Interest Entities**

The Company follows FIN 46R, which requires the consolidation of certain entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity.

**Unconsolidated Entities**

At November 30, 2008, the Company had investments in and advances to unconsolidated entities established to acquire and develop land for sale to the Company in connection with its homebuilding operations, for sale to third parties or for the construction of homes for sale to third-party homebuyers. The Company evaluated all agreements under FIN 46R during 2008 that were entered into or had reconsideration events and it consolidated entities that at November 30, 2008 had total combined assets and liabilities of \$560.1 million and \$274.6 million, respectively. Additionally, during 2008, the Company consolidated certain joint ventures and then bought out the respective partners at a later date, resulting in the consolidated joint ventures becoming wholly-owned. At November 30, 2008, the assets and liabilities of these entities amounted to \$150.8 million and \$62.1 million, respectively.

At November 30, 2008 and 2007, the Company's recorded investment in unconsolidated entities was \$766.8 million and \$934.3 million, respectively. The Company's estimated maximum exposure to loss with regard to unconsolidated entities was primarily its recorded investments in these entities and the exposure under the guarantees discussed in Note 4.

**Option Contracts**

In the Company's homebuilding operations, the Company obtains 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 of the land 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 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. 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.

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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. For the years ended November 30, 2008, 2007 and 2006, the Company wrote-off \$97.2 million, \$530.0 million and \$152.2 million, respectively, of option deposits and pre-acquisition costs related to land under option that it does not intend to purchase.

The table below indicates the number of homesites owned and homesites to which the Company had access through option contracts with third parties ( optioned ) or unconsolidated joint ventures in which the Company has investments ( JVs ) (i.e., controlled homesites) for each of its homebuilding segments and Homebuilding Other at November 30, 2008 and 2007:

November 30, 2008	Controlled Homesites			Owned Homesites	Total Homesites
	Optioned	JVs	Total		
East	8,705	4,444	13,149	25,688	38,837
Central	1,820	5,991	7,811	14,501	22,312
West	203	12,078	12,281	18,776	31,057
Houston	1,461	2,654	4,115	7,389	11,504
Other	529	704	1,233	8,327	9,560
Total homesites	12,718	25,871	38,589	74,681	113,270

November 30, 2007	Controlled Homesites			Owned Homesites	Total Homesites
	Optioned	JVs	Total		
East	14,888	14,091	28,979	24,014	52,993
Central	3,470	12,679	16,149	7,848	23,997
West	1,243	30,800	32,043	15,300	47,343
Houston	2,313	3,694	6,007	7,071	13,078
Other	963	1,729	2,692	8,568	11,260
Total homesites	22,877	62,993	85,870	62,801	148,671

The Company evaluated all option contracts for land when entered into or upon a reconsideration event and determined it was the primary beneficiary of certain of these option contracts. Although the Company does not have legal title to the optioned land, under FIN 46R, the Company, if it is deemed to be the primary beneficiary, is required to consolidate the land under option at the purchase price of the optioned land. During the year ended November 30, 2008, the effect of consolidation of these option contracts was an increase of \$32.4 million to consolidated inventory not owned with a corresponding increase to liabilities related to consolidated inventory not owned in the accompanying consolidated balance sheets as of November 30, 2008 and 2007. This increase in 2008 was offset primarily by the Company exercising its options to acquire land under certain contracts previously consolidated, resulting in a net decrease in consolidated inventory not owned of \$141.3 million for the year ended November 30, 2008. To reflect the purchase price of the inventory consolidated under FIN 46R, the Company reclassified \$2.5 million of related option deposits from land under development to consolidated inventory not owned in the accompanying consolidated balance sheet as of November 30, 2008. 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.

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 \$191.2 million and \$317.1 million, respectively, at November 30, 2008 and 2007. Additionally, the Company had posted \$89.5 million and \$193.3 million, respectively, of letters of credit in lieu of cash deposits under certain option contracts as of November 30, 2008 and 2007.

#### **17. Commitments and Contingent Liabilities**

The Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, the disposition of these matters will not have a material adverse effect on the Company's consolidated financial statements.



Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company is subject to the usual obligations associated with entering into contracts (including option contracts) for the purchase, development and sale of real estate, which it does in the routine conduct of its business. Option contracts generally enable the Company to control portions of properties owned by third parties (including land funds) and unconsolidated entities until the Company determines whether to exercise the option. The use of option contracts allows the Company to reduce the financial risks associated with long-term land holdings. At November 30, 2008, the Company had access to acquire 38,589 homesites through option contracts with third parties and agreements with unconsolidated entities in which the Company had investments. At November 30, 2008, the Company had \$191.2 million of non-refundable option deposits and pre-acquisition costs related to certain of these homesites, which were included in inventories in the consolidated balance sheet.

The Company has entered into agreements to lease certain office facilities and equipment under operating leases. Future minimum payments under the non-cancelable leases in effect at November 30, 2008 are as follows:

	Lease Payments (In thousands)
2009	\$ 48,411
2010	39,827
2011	28,889
2012	17,809
2013	10,420
Thereafter	23,760

Rental expense for the years ended November 30, 2008, 2007 and 2006 was \$108.9 million, \$150.1 million and \$140.6 million, respectively. Rental expense for the years ended November 30, 2008 and 2007 includes \$27.7 million and \$17.1 million, respectively, of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, ( SFAS 146 ), contract termination costs related to the abandonment of leases as a result of the Company's efforts to consolidate its operations and reduce costs. In 2008, \$18.8 million, \$2.4 million and \$6.5 million, respectively, of the SFAS 146 contract termination costs were included in selling, general and administrative expenses, corporate, general and administrative expenses and Financial Services costs and expenses. In 2007, \$12.3 million and \$4.8 million, respectively, of the SFAS 146 contract termination costs were included in selling, general and administrative expenses and Financial Services costs and expenses. There were no material SFAS 146 contract termination costs in 2006.

The Company is committed, under various letters of credit, to perform certain development and construction activities and provide certain guarantees in the normal course of business. Outstanding letters of credit under these arrangements totaled \$446.0 million at November 30, 2008. The Company also had outstanding performance and surety bonds related to site improvements at various projects (including certain projects in the Company's joint ventures) of \$1.1 billion. 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 November 30, 2008, there were approximately \$444.2 million, or 42%, of costs to complete related to these site improvements. The Company does not presently anticipate any draws upon these bonds that would have a material effect on its consolidated financial statements.

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18. Supplemental Financial Information**

The Company's obligations to pay principal, premium, if any, and interest under its Credit Facility, 7/8% senior notes due 2009, 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 and 6.50% senior notes due 2016 are guaranteed by substantially all of the Company's subsidiaries. The guarantees are full and unconditional and the guarantor subsidiaries are 100% directly or indirectly owned by Lennar Corporation. The guarantees are joint and several, subject to limitations as to each guarantor designed to eliminate fraudulent conveyance concerns. The Company has determined that separate, full financial statements of the guarantors would not be material to investors and, accordingly, supplemental financial information for the guarantors is presented as follows:

**Consolidating Balance Sheet****November 30, 2008**

	<b>Lennar Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries (In thousands)</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>					
<b>Homebuilding:</b>					
Cash and cash equivalents, restricted cash, receivables, net and income tax receivables	\$ 1,263,623	165,060	21,593		1,450,276
Inventories		3,975,084	525,006		4,500,090
Investments in unconsolidated entities		751,613	15,139		766,752
Other assets	30,420	64,515	4,867		99,802
Investments in subsidiaries	4,314,255	635,413		(4,949,668)	
	5,608,298	5,591,685	566,605	(4,949,668)	6,816,920
<b>Financial services</b>		8,332	599,646		607,978
<b>Total assets</b>	<b>\$ 5,608,298</b>	<b>5,600,017</b>	<b>1,166,251</b>	<b>(4,949,668)</b>	<b>7,424,898</b>
<b>LIABILITIES AND</b>					
<b>STOCKHOLDERS EQUITY</b>					
<b>Homebuilding:</b>					
Accounts payable and other liabilities	\$ 269,457	700,411	111,732		1,081,600
Liabilities related to consolidated inventory not owned		592,777			592,777
Senior notes and other debts payable	2,176,758	130,126	238,051		2,544,935
Intercompany	539,076	(140,463)	(398,613)		
	2,985,291	1,282,851	(48,830)		4,219,312
<b>Financial services</b>		2,911	413,922		416,833

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<b>Total liabilities</b>	2,985,291	1,285,762	365,092		4,636,145
<b>Minority interest</b>			165,746		165,746
<b>Stockholders equity</b>	2,623,007	4,314,255	635,413	(4,949,668)	2,623,007
<b>Total liabilities and stockholders equity</b>	\$ 5,608,298	5,600,017	1,166,251	(4,949,668)	7,424,898

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Balance Sheet

November 30, 2007

	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Total
<b>ASSETS</b>					
<b>Homebuilding:</b>					
Cash and cash equivalents, restricted cash, receivables, net and income tax receivables	\$ 1,380,797	380,226	6,089		1,767,112
Inventories		4,359,217	141,186		4,500,403
Investments in unconsolidated entities		920,105	14,166		934,271
Other assets	778,901	83,252	999		863,152
Investments in subsidiaries	4,835,490	448,755		(5,284,245)	
	6,995,188	6,191,555	162,440	(5,284,245)	8,064,938
<b>Financial services</b>		14,899	1,022,910		1,037,809
<b>Total assets</b>	\$ 6,995,188	6,206,454	1,185,350	(5,284,245)	9,102,747
<b>LIABILITIES AND</b>					
<b>STOCKHOLDERS EQUITY</b>					
<b>Homebuilding:</b>					
Accounts payable and other liabilities	\$ 206,725	1,255,810	43,390		1,505,925
Liabilities related to consolidated inventory not owned		719,081			719,081
Senior notes and other debts payable	2,174,418	24,903	96,115		2,295,436
Intercompany	791,926	(629,134)	(162,792)		
	3,173,069	1,370,660	(23,287)		4,520,442
<b>Financial services</b>		304	731,354		731,658
<b>Total liabilities</b>	3,173,069	1,370,964	708,067		5,252,100
<b>Minority interest</b>			28,528		28,528
<b>Stockholders equity</b>	3,822,119	4,835,490	448,755	(5,284,245)	3,822,119
<b>Total liabilities and stockholders equity</b>	\$ 6,995,188	6,206,454	1,185,350	(5,284,245)	9,102,747

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Statement of Operations

Year Ended November 30, 2008

	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Total
<b>Revenues:</b>					
Homebuilding	\$	4,262,154	288	596	4,263,038
Financial services		6,426	379,624	(73,671)	312,379
Total revenues		4,268,580	379,912	(73,075)	4,575,417
<b>Costs and expenses:</b>					
Homebuilding		4,549,804	2,458	(10,381)	4,541,881
Financial services		3,359	391,854	(51,844)	343,369
Corporate general and administrative	129,752				129,752
Total costs and expenses	129,752	4,553,163	394,312	(62,225)	5,015,002
Gain on recapitalization of unconsolidated entity		133,097			133,097
Equity in loss from unconsolidated entities		(59,156)			(59,156)
Management fees and other expense, net	(10,850)	(199,981)		10,850	(199,981)
Minority interest income, net			4,097		4,097
Loss before (provision) benefit for income taxes	(140,602)	(410,623)	(10,303)		(561,528)
(Provision) benefit for income taxes	(150,494)	(400,398)	3,335		(547,557)
Equity in loss from subsidiaries	(817,989)	(6,968)		824,957	
<b>Net loss</b>	<b>\$ (1,109,085)</b>	<b>(817,989)</b>	<b>(6,968)</b>	<b>824,957</b>	<b>(1,109,085)</b>

## Consolidating Statement of Operations

Year Ended November 30, 2007

	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Total
<b>Revenues:</b>					
Homebuilding	\$	9,710,626	19,626		9,730,252
Financial services		9,125	503,266	(55,862)	456,529

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Total revenues		9,719,751	522,892	(55,862)	10,186,781
<b>Costs and expenses:</b>					
Homebuilding		12,165,338	64,943	(41,204)	12,189,077
Financial services		22,063	451,804	(23,458)	450,409
Corporate general and administrative	173,202				173,202
Total costs and expenses	173,202	12,187,401	516,747	(64,662)	12,812,688
Gain on recapitalization of unconsolidated entity		175,879			175,879
Goodwill impairments		(190,198)			(190,198)
Equity in loss from unconsolidated entities		(362,899)			(362,899)
Management fees and other income (expense), net	8,800	(76,029)		(8,800)	(76,029)
Minority interest expense, net			(1,927)		(1,927)
Earnings (loss) before (provision) benefit for income taxes	(164,402)	(2,920,897)	4,218		(3,081,081)
(Provision) benefit for income taxes	60,829	1,080,732	(1,561)		1,140,000
Equity in earnings (loss) from subsidiaries	(1,837,508)	2,657		1,834,851	
<b>Net earnings (loss)</b>	\$ (1,941,081)	(1,837,508)	2,657	1,834,851	(1,941,081)

Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Statement of Operations

Year Ended November 30, 2006

	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Total
<b>Revenues:</b>					
Homebuilding	\$	15,314,843	308,197		15,623,040
Financial services		9,497	687,091	(52,966)	643,622
Total revenues		15,324,340	995,288	(52,966)	16,266,662
<b>Costs and expenses:</b>					
Homebuilding		14,431,385	255,720	(9,540)	14,677,565
Financial services		28,310	523,959	(58,450)	493,819
Corporate general and administrative	193,307				193,307
Total costs and expenses	193,307	14,459,695	779,679	(67,990)	15,364,691
Equity in loss from unconsolidated entities		(12,536)			(12,536)
Management fees and other income, net	15,024	62,387	4,242	(15,024)	66,629
Minority interest expense, net			(13,415)		(13,415)
Earnings (loss) before (provision) benefit for income taxes	(178,283)	914,496	206,436		942,649
(Provision) benefit for income taxes	65,965	(338,364)	(76,381)		(348,780)
Equity in earnings from subsidiaries	706,187	130,055		(836,242)	
<b>Net earnings</b>	\$ 593,869	706,187	130,055	(836,242)	593,869

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidating Statement of Cash Flows****Year Ended November 30, 2008**

	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (Dollars in thousands)	Eliminations	Total
<b>Cash flows from operating activities:</b>					
Net loss	\$ (1,109,085)	(817,989)	(6,968)	824,957	(1,109,085)
Adjustments to reconcile net loss to net cash provided by operating activities	1,291,030	1,459,469	284,377	(824,957)	2,209,919
Net cash provided by operating activities	181,945	641,480	277,409		1,100,834
<b>Cash flows from investing activities:</b>					
Increase in investments in unconsolidated entities, net		(315,907)			(315,907)
Other	(423)	1,857	48,770		50,204
Net cash provided by (used in) investing activities	(423)	(314,050)	48,770		(265,703)
<b>Cash flows from financing activities:</b>					
Net repayments under financial services debt			(315,654)		(315,654)
Net repayments under other borrowings		(61,981)	(66,526)		(128,507)
Partial redemption of 7 <sup>5</sup> / <sub>8</sub> % senior notes due 2009	(322)				(322)
Exercise of land option contracts from an unconsolidated land investment venture		(48,434)			(48,434)
Net payments related to minority interests			151,035		151,035
Common stock:					
Issuances	224				224
Repurchases	(1,758)				(1,758)
Dividends	(83,487)				(83,487)
Intercompany	414,031	(292,787)	(121,244)		
Net cash provided by (used in) financing activities	328,688	(403,202)	(352,389)		(426,903)
Net increase (decrease) in cash and cash equivalents	510,210	(75,772)	(26,210)		408,228
Cash and cash equivalents at beginning of year	497,384	139,733	158,077		795,194
Cash and cash equivalents at end of year	\$ 1,007,594	63,961	131,867		1,203,422



Table of Contents

## LENNAR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Statement of Cash Flows

Year Ended November 30, 2007

	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
	(Dollars in thousands)				
<b>Cash flows from operating activities:</b>					
Net earnings (loss)	\$ (1,941,081)	(1,837,508)	2,657	1,834,851	(1,941,081)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities	(1,915,832)	5,305,931	830,346	(1,834,851)	2,385,594
Net cash provided by (used in) operating activities	(3,856,913)	3,468,423	833,003		444,513
<b>Cash flows from investing activities:</b>					
Increase in investments in unconsolidated entities, net		(65,611)			(65,611)
Distributions in excess on investment in unconsolidated entity		354,644			354,644
Other	(1,355)	(16,353)	35,658		17,950
Net cash provided by (used in) investing activities	(1,355)	272,680	35,658		306,983
<b>Cash flows from financing activities:</b>					
Net repayments under financial services debt			(607,794)		(607,794)
Net proceeds from sale of land to an unconsolidated land investment venture		445,000			445,000
Redemption of senior floating-rate notes due 2009	(300,000)				(300,000)
Net repayments under other borrowings		(66,209)	(90,157)		(156,366)
Net payments related to minority interests			(36,545)		(36,545)
Excess tax benefits from share-based awards	4,590				4,590
Common stock:					
Issuances	21,588				21,588
Repurchases	(3,971)				(3,971)
Dividends	(101,123)				(101,123)
Intercompany	4,313,723	(4,198,614)	(115,109)		
Net cash provided by (used in) financing activities	3,934,807	(3,819,823)	(849,605)		(734,621)
Net increase (decrease) in cash and cash equivalents	76,539	(78,720)	19,056		16,875
Cash and cash equivalents at beginning of year	420,845	218,453	139,021		778,319
Cash and cash equivalents at end of year	\$ 497,384	139,733	158,077		795,194

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidating Statement of Cash Flows****Year Ended November 30, 2006**

	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (Dollars in thousands)	Eliminations	Total
<b>Cash flows from operating activities:</b>					
Net earnings	\$ 593,869	706,187	130,055	(836,242)	593,869
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities	(623,428)	(766,872)	512,724	836,242	(41,334)
Net cash provided by (used in) operating activities	(29,559)	(60,685)	642,779		552,535
<b>Cash flows from investing activities:</b>					
Increase in investments in unconsolidated entities, net		(407,694)			(407,694)
Acquisitions, net of cash acquired		(30,329)	(2,884)		(33,213)
Other	(5,927)	(4,651)	47,131		36,553
Net cash provided by (used in) investing activities	(5,927)	(442,674)	44,247		(404,354)
<b>Cash flows from financing activities:</b>					
Net repayments under financial services debt			(120,858)		(120,858)
Net proceeds from 5.95% senior notes	248,665				248,665
Net proceeds from 6.50% senior notes	248,933				248,933
Redemption of senior floating-rate notes due 2007	(200,000)				(200,000)
Net repayments under other borrowings	(2,336)	(138,161)	(7,807)		(148,304)
Net payments related to minority interests			(71,351)		(71,351)
Excess tax benefits from share-based awards	7,103				7,103
Common stock:					
Issuances	31,131				31,131
Repurchases	(323,229)				(323,229)
Dividends	(101,295)				(101,295)
Intercompany	145,892	364,892	(510,784)		
Net cash provided by (used in) financing activities	54,864	226,731	(710,800)		(429,205)
Net increase (decrease) in cash and cash equivalents	19,378	(276,628)	(23,774)		(281,024)
Cash and cash equivalents at beginning of year	401,467	495,081	162,795		1,059,343
Cash and cash equivalents at end of year	\$ 420,845	218,453	139,021		778,319

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****19. Quarterly Data (unaudited)**

	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
	<b>(In thousands, except per share amounts)</b>			
<b>2008</b>				
Revenues	\$ 1,062,913	1,127,916	1,106,540	1,278,048
Gross profit from sales of homes	\$ 136,695	88,366	147,122	137,444
Loss before benefit for income taxes	\$ (154,294)	(173,182)	(139,102)	(94,950)
Net loss (1)	\$ (88,216)	(120,916)	(88,964)	(810,989)
Loss per share:				
Basic and diluted	\$ (0.56)	(0.76)	(0.56)	(5.12)
<b>2007</b>				
Revenues	\$ 2,792,080	2,875,943	2,341,853	2,176,905
Gross profit from sales of homes	\$ 360,896	193,205	997	15,574
Earnings (loss) before provision (benefit) for income taxes	\$ 108,925	(383,272)	(837,643)	(1,969,091)
Net earnings (loss)	\$ 68,623	(244,205)	(513,852)	(1,251,647)
Earnings (loss) per share:				
Basic	\$ 0.44	(1.55)	(3.25)	(7.92)
Diluted	\$ 0.43	(1.55)	(3.25)	(7.92)

- (1) Net loss during the three months ended November 30, 2008 includes a \$730.8 million valuation allowance recorded against the Company's deferred tax assets.

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

**Table of Contents**

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer participated in an evaluation by our management of the effectiveness of our disclosure controls and procedures as of the end of our fiscal quarter that ended on November 30, 2008. Based on their participation in that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of November 30, 2008 to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

Our CEO and CFO also participated in an evaluation by our management of any changes in our internal control over financial reporting that occurred during the quarter ended November 30, 2008. That evaluation did not identify any changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm obtained from Deloitte & Touche LLP are included elsewhere in this document.

**Item 9B. Other Information.**

Not applicable.

**Table of Contents****PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by this item for executive officers is set forth under the heading "Executive Officers of Lennar Corporation" in Part I. The other information called for by this item is incorporated by reference to our definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than March 30, 2009 (120 days after the end of our fiscal year).

**Item 11. Executive Compensation.**

The information required by this item is incorporated by reference to our definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than March 30, 2009 (120 days after the end of our fiscal year).

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this item is incorporated by reference to our definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than March 30, 2009 (120 days after the end of our fiscal year), except for the information required by Item 201(d) of Regulation S-K, which is provided below.

The following table summarizes our equity compensation plans as of November 30, 2008:

Plan category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)(1)	Weighted- average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)(2)
Equity compensation plans approved by stockholders	8,761,204	\$ 31.50	4,215,063
Equity compensation plans not approved by stockholders			
<b>Total</b>	<b>8,761,204</b>	<b>\$ 31.50</b>	<b>4,215,063</b>

(1) This amount includes approximately 34,300 shares of Class B common stock that may be issued under our equity compensation plans.

(2) Both Class A and Class B common stock may be issued.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this item is incorporated by reference to our definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than March 30, 2009 (120 days after the end of our fiscal year).

**Item 14. Principal Accounting Fees and Services.**

The information required by this item is incorporated by reference to our definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than March 30, 2009 (120 days after the end of our fiscal year).

**Table of Contents****PART IV****Item 15. Exhibits and Financial Statement Schedules.**

(a) Documents filed as part of this Report.

1. The following financial statements are contained in Item 8:

	<b>Page in this Report</b>
<b>Financial Statements</b>	
<u>Report of Independent Registered Public Accounting Firm</u>	57
<u>Consolidated Balance Sheets as of November 30, 2008 and 2007</u>	58
<u>Consolidated Statements of Operations for the Years Ended November 30, 2008, 2007 and 2006</u>	59
<u>Consolidated Statements of Stockholders' Equity for the Years Ended November 30, 2008, 2007 and 2006</u>	60
<u>Consolidated Statements of Cash Flows for the Years Ended November 30, 2008, 2007 and 2006</u>	62
<u>Notes to Consolidated Financial Statements</u>	64

2. The following financial statement schedule is included in this Report:

	<b>Page in this Report</b>
<b>Financial Statement Schedule</b>	
<u>Report of Independent Registered Public Accounting Firm</u>	112
<u>Schedule II Valuation and Qualifying Accounts</u>	113

Information required by other schedules has either been incorporated in the consolidated financial statements and accompanying notes or is not applicable to us.

3. The following exhibits are filed with this Report or incorporated by reference:

- 2.1 Separation and Distribution Agreement, dated June 10, 1997, between Lennar and LNR Property Corporation Incorporated by reference to Exhibit 10.1 of the Registration Statement on Form 10 of LNR Property Corporation filed with the Commission on July 31, 1997.
- 3.1 Amended and Restated Certificate of Incorporation, dated April 28, 1998 Incorporated by reference to Exhibit 3(a) of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2004.
- 3.2 Certificate of Amendment to Certificate of Incorporation, dated April 9, 1999 Incorporated by reference to Exhibit 3(a) of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999.
- 3.3 Certificate of Amendment to Certificate of Incorporation, dated April 8, 2003 Incorporated by reference to Annex IV of the Company's Proxy Statement on Schedule 14A dated March 10, 2003.

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- 3.4 Certificate of Amendment to Certificate of Incorporation, dated April 8, 2008 Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, dated April 8, 2008.
- 3.5 Bylaws of the Company, as amended through June 28, 2005 Incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2005.
- 3.6 Amendment to Section 3.3 of the Bylaws of the Company, dated April 8, 2008 Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K, dated April 8, 2008.
- 4.1 Indenture, dated as of December 31, 1997, between Lennar and Bank One Trust Company, N.A., as trustee Incorporated by reference to Exhibit 4 of the Company's Registration Statement on Form S-3, Registration No. 333-45527, filed with the Commission on February 3, 1998.
- 4.2 Second Supplemental Indenture, dated as of February 19, 1999, between Lennar and Bank One Trust Company, N.A., as trustee (relating to Lennar's 7/8% Senior Notes due 2009) Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, dated February 19, 1999.



**Table of Contents**

- 4.3 Third Supplemental Indenture, dated May 3, 2000, between Lennar and Bank One Trust Company, N.A., as successor trustee (relating to Lennar's 7/8% Senior Notes due 2009) Incorporated by reference to Exhibit 4(d) of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2000.
- 4.4 Sixth Supplemental Indenture, dated February 5, 2003, between Lennar and Bank One Trust Company, N.A., as trustee (relating to 5.950% Senior Notes due 2013) Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, dated January 31, 2003.
- 4.5 Indenture, dated August 12, 2004, between Lennar and J.P. Morgan Trust Company, N.A., as trustee (relating to Lennar's 5.50% Senior Notes due 2014) Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-4, Registration No. 333-121130, filed with the Commission on December 10, 2004.
- 4.6 Indenture, dated April 28, 2005, between Lennar and J.P. Morgan Trust Company, N.A., as trustee (relating to Lennar's 5.60% Senior Notes due 2015) Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-4, Registration No. 333-127839, filed with the Commission on August 25, 2005.
- 4.7 Indenture, dated September 15, 2005, between Lennar and J.P. Morgan Trust Company, N.A., as trustee (relating to Lennar's 5.125% Senior Notes due 2010) Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-4, Registration No. 333-130923, filed with the Commission on January 9, 2006.
- 4.8 Indenture, dated April 26, 2006, between Lennar and J.P. Morgan Trust Company, N.A., as trustee (relating to Lennar's 5.95% Senior Notes due 2011) Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, dated April 26, 2006.
- 4.9 Indenture, dated April 26, 2006, between Lennar and J.P. Morgan Trust Company, N.A., as trustee (relating to Lennar's 6.50% Senior Notes due 2016) Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, dated April 26, 2006.
- 10.1\* Amended and Restated Lennar Corporation 1997 Stock Option Plan Incorporated by reference to Exhibit 10(a) of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997.
- 10.2\* Lennar Corporation 2000 Stock Option and Restricted Stock Plan Incorporated by reference to Exhibit 10 of the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2001.
- 10.3\* Lennar Corporation 2003 Stock Option and Restricted Stock Plan Incorporated by reference to Annex VI of the Company's Proxy Statement on Schedule 14A dated March 10, 2003.
- 10.4\* Lennar Corporation 2007 Equity Incentive Plan Incorporated by reference to Exhibit A of the Company's Proxy Statement on Schedule 14A dated February 28, 2007.
- 10.5\* Lennar Corporation 2007 Incentive Compensation Plan Incorporated by reference to Exhibit B of the Company's Proxy Statement on Schedule 14A dated February 28, 2007.
- 10.6\* Lennar Corporation Employee Stock Ownership Plan and Trust Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 2-89104.
- 10.7\* Amendment dated December 13, 1989 to Lennar Corporation Employee Stock Ownership Plan Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1990.
- 10.8\* Lennar Corporation Employee Stock Ownership/401(k) Trust Agreement dated December 13, 1989 Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1990.
- 10.9\* Amendment dated April 18, 1990 to Lennar Corporation Employee Stock Ownership/401(k) Plan Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1990.

**Table of Contents**

- 10.10\* Lennar Corporation Nonqualified Deferred Compensation Plan Incorporated by reference to Exhibit 10 of the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2002.
- 10.11 Credit Agreement dated July 21, 2006 among Lennar, the lenders named therein and JPMorgan Chase Bank, N.A., as Administrative Agent Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, dated July 21, 2006.
- 10.12 First Amendment to Credit Agreement dated August 21, 2007 among Lennar, the lenders named therein and JPMorgan Chase Bank, N.A., as Administrative Agent Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, dated August 21, 2007.
- 10.13 Second Amendment to Credit Agreement dated January 23, 2008 among Lennar, the lenders named therein and JPMorgan Chase Bank, N.A., as Administrative Agent Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K, dated January 23, 2008.
- 10.14 Amended and Restated Loan Agreement dated September 25, 2006 between UAMC Capital, LLC, the lenders named therein and Calyon New York Branch, as Administrative Agent Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2006.
- 10.15 First Omnibus Amendment dated as of June 29, 2007 to Amended and Restated Loan Agreement dated September 25, 2006 between UAMC Capital, LLC, the lenders named therein and Calyon New York Branch, as Administrative Agent Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2007.
- 10.16 Second Omnibus Amendment dated as of August 20, 2007 to Amended and Restated Loan Agreement dated September 25, 2006 between UAMC Capital, LLC, the lenders named therein and Calyon New York Branch, as Administrative Agent Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2007.
- 10.17 Third Omnibus Amendment and Waiver dated as of January 23, 2008 to Amended and Restated Loan Agreement dated September 25, 2006 between UAMC Capital, LLC, the lenders named therein and Calyon New York Branch, as Administrative Agent Incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2007.
- 10.18\* Aircraft Time-Sharing Agreement, dated August 17, 2005, between U.S. Home Corporation and Stuart Miller Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, dated August 17, 2005.
- 10.19\* Amendment No. 1 to Aircraft Time-Sharing Agreement, dated September 1, 2005, between U.S. Home Corporation and Stuart Miller Incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2005.
- 10.20 Third Amended and Restated Warehousing Credit and Security Agreement dated April 30, 2006, by and among, Universal American Mortgage Company, LLC, the other Borrowers named in the agreement, the Lender Parties named in the agreement and Residential Funding Corporation Incorporated by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2006.
- 10.21 Master Issuing and Paying Agency Agreement, dated March 29, 2006, between Lennar Corporation and JPMorgan Chase Bank, N.A. Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, dated March 29, 2006.
- 10.22 Contribution and Formation Agreement, dated as of December 28, 2006, by and among LandSource Communities Development, LLC, the Existing Members named in the agreement and MW Housing Partners III, L.P. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2007.

**Table of Contents**

10.23	Membership Interest Purchase Agreement, dated as of November 30, 2007, by and among Lennar, Lennar Homes of California, Inc., the Sellers named in the agreement and MS Rialto Residential Holdings, LLC. Incorporated by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2007.
10.24	Fourth Omnibus Amendment, dated as of February 28, 2008 to Amended and Restated Loan Agreement dated September 25, 2006 between UAMC Capital, LLC, the lenders names therein and Calyon New York Branch, as Administrative Agent Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008.
10.25	Third Amendment to Credit Agreement, dated as of November 7, 2008 among Lennar, the lenders named therein and JPMorgan Chase Bank, N.A., as Administrative Agent Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, dated November 13, 2008.
21	List of subsidiaries.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14a/15d-14(a) Certification of Stuart A. Miller.
31.2	Rule 13a-14a/15d-14(a) Certification of Bruce E. Gross.
32	Section 1350 Certifications of Stuart A. Miller and Bruce E. Gross.

\* Management contract or compensatory plan or arrangement.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LENNAR CORPORATION

/s/ STUART A. MILLER  
Stuart A. Miller  
President, Chief Executive Officer and Director  
Date: January 26, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

**Principal Executive Officer:**

Stuart A. Miller /s/ STUART A. MILLER  
President, Chief Executive Officer and Director Date: January 26, 2009

**Principal Financial Officer:**

Bruce E. Gross /s/ BRUCE E. GROSS  
Vice President and Chief Financial Officer Date: January 26, 2009

**Principal Accounting Officer:**

David M. Collins /s/ DAVID M. COLLINS  
Controller Date: January 26, 2009

**Directors:**

Irving Bolotin /s/ IRVING BOLOTIN  
Date: January 26, 2009

Steven L. Gerard /s/ STEVEN L. GERARD  
Date: January 26, 2009

Sherrill W. Hudson /s/ SHERRILL W. HUDSON  
Date: January 26, 2009

R. Kirk Landon /s/ R. KIRK LANDON  
Date: January 26, 2009

Sidney Lapidus /s/ SIDNEY LAPIDUS  
Date: January 26, 2009

Donna Shalala /s/ DONNA SHALALA

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Date: January 26, 2009

Jeffrey Sonnenfeld

/s/ JEFFREY SONNENFELD  
Date: January 26, 2009

111

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Lennar Corporation

We have audited the consolidated financial statements of Lennar Corporation and subsidiaries (the "Company") as of November 30, 2008 and 2007, and for each of the three years in the period ended November 30, 2008, and the Company's internal control over financial reporting as of November 30, 2008, and have issued our reports thereon dated January 26, 2009; such consolidated financial statements and reports are included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Miami, Florida

January 26, 2009

**Table of Contents****LENNAR CORPORATION AND SUBSIDIARIES****Schedule II Valuation and Qualifying Accounts****Years Ended November 30, 2008, 2007 and 2006**

Description	Beginning balance	Additions		Deductions	Ending balance
		Charged to costs and expenses	Charged to other accounts (In thousands)		
Year ended November 30, 2008					
Allowances deducted from assets to which they apply:					
Allowances for doubtful accounts and notes receivable	\$ 18,750	17,584		(2,382)	33,952
Allowance for loan losses	\$ 11,145	14,696		(5,457)	20,384
Allowance against net deferred tax assets	\$	730,836			730,836
Year ended November 30, 2007					
Allowances deducted from assets to which they apply:					
Allowances for doubtful accounts and notes receivable	\$ 3,782	18,260		(3,292)	18,750
Allowance for loan losses	\$ 1,810	31,596	4,310	(26,571)	11,145
Year ended November 30, 2006					
Allowances deducted from assets to which they apply:					
Allowances for doubtful accounts and notes receivable	\$ 2,782	2,190	154	(1,344)	3,782
Allowance for loan losses	\$ 1,180	2,390	158	(1,918)	1,810

**Table of Contents**

**Exhibit Index**

<b>Exhibit Number</b>	<b>Description</b>
21	List of subsidiaries.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14a/15d-14(a) Certification of Stuart A. Miller.
31.2	Rule 13a-14a/15d-14(a) Certification of Bruce E. Gross.
32	Section 1350 Certifications of Stuart A. Miller and Bruce E. Gross.