

LENNAR CORP /NEW/  
Form 10-Q  
July 10, 2007

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

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended May 31, 2007

Commission File Number: 1-11749

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**Lennar Corporation**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

(Address of principal executive offices) (Zip Code)

**(305) 559-4000**

(Registrant's telephone number, including area code)

**95-4337490**  
(I.R.S. Employer

Identification No.)

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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

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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.

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 Exchange Act). YES  NO

Common stock outstanding as of June 30, 2007:

|         |             |
|---------|-------------|
| Class A | 129,001,062 |
| Class B | 31,268,086  |

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**Part I. Financial Information****Item 1. Financial Statements****Lennar Corporation and Subsidiaries**

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

(unaudited)

|   | May 31,<br>2007 | November 30,<br>2006 |
|---|-----------------|----------------------|
| <b>ASSETS</b>   |                 |                      |
| <b>Homebuilding:</b>  |                 |                      |
| Cash  | \$ 234,256      | 661,662              |
| Restricted cash   | 37,220          | 24,796               |
| Receivables, net  | 179,808         | 159,043              |
| Inventories:  |                 |                      |
| Finished homes and construction in progress                           | 3,644,801       | 4,447,748            |
| Land under development  | 3,653,729       | 3,011,408            |
| Consolidated inventory not owned                                      | 406,704         | 372,327              |
| Total inventories   | 7,705,234       | 7,831,483            |
| Investments in unconsolidated entities                                | 1,235,603       | 1,447,178            |
| Goodwill  | 190,198         | 196,638              |
| Other assets  | 635,011         | 474,090              |
|   | 10,217,330      | 10,794,890           |
| <b>Financial services</b>   | 1,324,740       | 1,613,376            |
| <b>Total assets</b>   | \$ 11,542,070   | 12,408,266           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                            |                 |                      |
| <b>Homebuilding:</b>  |                 |                      |
| Accounts payable  | \$ 499,832      | 751,496              |
| Liabilities related to consolidated inventory not owned               | 416,180         | 333,723              |
| Senior notes and other debts payable                                  | 2,585,286       | 2,613,503            |
| Other liabilities   | 1,340,516       | 1,590,564            |
|   | 4,841,814       | 5,289,286            |
| <b>Financial services</b>   | 1,060,446       | 1,362,215            |
| <b>Total liabilities</b>  | 5,902,260       | 6,651,501            |
| <b>Minority interest</b>  | 56,255          | 55,393               |
| <b>Stockholders equity:</b>   |                 |                      |
| Preferred stock   |                 |                      |
| Class A common stock of \$0.10 par value per share                    |                 |                      |
| Authorized: May 31, 2007 and November 30, 2006 300,000 shares;        |                 |                      |
| Issued: May 31, 2007 139,129 shares; November 30, 2006 136,886 shares | 13,913          | 13,689               |
|   | 3,295           | 3,287                |

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Class B common stock of \$0.10 par value per share

Authorized: May 31, 2007 and November 30, 2006 90,000 shares;

Issued: May 31, 2007 32,946 shares; November 30, 2006 32,874 shares

|  |                      |                   |
|--|----------------------|-------------------|
| Additional paid-in capital   | 1,863,816            | 1,753,695         |
| Retained earnings  | 4,313,001            | 4,539,137         |
| Deferred compensation plan; May 31, 2007 102 Class A common shares and 10 Class B common shares;<br>November 30, 2006 172 Class A common shares and 17 Class B common shares         | (941)                | (1,586)           |
| Deferred compensation liability  | 941                  | 1,586             |
| Treasury stock, at cost; May 31, 2007 10,111 Class A common shares and 1,678 Class B common shares;<br>November 30, 2006 9,951 Class A common shares and 1,653 Class B common shares | (609,404)            | (606,395)         |
| Accumulated other comprehensive loss   | (1,066)              | (2,041)           |
| <b>Total stockholders equity</b>   | <b>5,583,555</b>     | <b>5,701,372</b>  |
| <b>Total liabilities and stockholders equity</b>   | <b>\$ 11,542,070</b> | <b>12,408,266</b> |

See accompanying notes to condensed consolidated financial statements.

**Lennar Corporation and Subsidiaries**

## Condensed Consolidated Statements of Earnings

(In thousands, except per share amounts)

(unaudited)

|  | <b>Three Months Ended</b> |                  | <b>Six Months Ended</b> |                  |
|--|---------------------------|------------------|-------------------------|------------------|
|  | <b>May 31,</b>            |                  | <b>May 31,</b>          |                  |
|  | <b>2007</b>               | <b>2006</b>      | <b>2007</b>             | <b>2006</b>      |
| <b>Revenues:</b>   |                           |                  |                         |                  |
| Homebuilding   | \$ 2,741,810              | 4,415,302        | 5,404,980               | 7,524,020        |
| Financial services   | 134,133                   | 162,201          | 263,043                 | 294,142          |
| <b>Total revenues</b>  | <b>2,875,943</b>          | <b>4,577,503</b> | <b>5,668,023</b>        | <b>7,818,162</b> |
| <b>Costs and expenses:</b>   |                           |                  |                         |                  |
| Homebuilding   | 3,053,297                 | 3,902,515        | 5,751,463               | 6,613,571        |
| Financial services   | 119,923                   | 127,610          | 232,964                 | 248,926          |
| Corporate general and administrative                               | 45,817                    | 56,532           | 92,736                  | 108,423          |
| <b>Total costs and expenses</b>                                    | <b>3,219,037</b>          | <b>4,086,657</b> | <b>6,077,163</b>        | <b>6,970,920</b> |
| Gain on recapitalization of unconsolidated entity                  |                           |                  | 175,879                 |                  |
| Equity in earnings (loss) from unconsolidated entities             | (26,523)                  | 14,792           | (40,728)                | 52,982           |
| Management fees and other income (expense), net                    | (12,831)                  | 16,375           | 1,010                   | 35,808           |
| Minority interest expense, net                                     | 824                       | 6,541            | 1,368                   | 10,954           |
| <b>Earnings (loss) before provision (benefit) for income taxes</b> | <b>(383,272)</b>          | <b>515,472</b>   | <b>(274,347)</b>        | <b>925,078</b>   |
| Provision (benefit) for income taxes                               | (139,067)                 | 190,725          | (98,765)                | 342,279          |
| <b>Net earnings (loss)</b>   | <b>\$ (244,205)</b>       | <b>324,747</b>   | <b>(175,582)</b>        | <b>582,799</b>   |
| <b>Basic earnings (loss) per share</b>                             | <b>\$ (1.55)</b>          | <b>2.04</b>      | <b>(1.12)</b>           | <b>3.67</b>      |
| <b>Diluted earnings (loss) per share</b>                           | <b>\$ (1.55)</b>          | <b>2.00</b>      | <b>(1.12)</b>           | <b>3.57</b>      |
| <b>Cash dividends per each Class A and Class B common share</b>    | <b>\$ 0.16</b>            | <b>0.16</b>      | <b>0.32</b>             | <b>0.32</b>      |

See accompanying notes to condensed consolidated financial statements.

## Lennar Corporation and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(Dollars in thousands)

(unaudited)

|   | <b>Six Months Ended May 31,</b> |                  |
|---|---------------------------------|------------------|
|   | <b>2007</b>                     | <b>2006</b>      |
| <b>Cash flows from operating activities:</b>  |                                 |                  |
| Net earnings (loss)   | \$ (175,582)                    | 582,799          |
| Adjustments to reconcile net earnings (loss) to net cash used in operating activities:  |                                 |                  |
| Depreciation and amortization   | 24,612                          | 22,324           |
| Amortization of discount/premium on debt, net   | 1,003                           | 3,167            |
| Gain on recapitalization of unconsolidated entity   | (175,879)                       |                  |
| Equity in (earnings) loss from unconsolidated entities, including \$34.0 million of valuation adjustments to the Company's investments in unconsolidated entities in 2007 | 40,728                          | (52,982)         |
| Distributions of earnings from unconsolidated entities  | 92,969                          | 73,142           |
| Minority interest expense, net  | 1,368                           | 10,954           |
| Share-based compensation expense  | 20,579                          | 17,605           |
| Tax benefits from share-based awards  | 5,880                           | 10,410           |
| Excess tax benefits from share-based awards   | (4,276)                         | (5,681)          |
| Deferred income tax provision   | 111,390                         | 54,244           |
| Valuation adjustments and write-offs of option deposits and pre-acquisition costs   | 386,701                         | 57,967           |
| Changes in assets and liabilities, net of effect from acquisitions:   |                                 |                  |
| Decrease in receivables   | 203,052                         | 64,688           |
| Increase in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs  | (274,348)                       | (1,076,049)      |
| (Increase) decrease in other assets   | (293,295)                       | 36,446           |
| Decrease in financial services loans held-for-sale  | 100,410                         | 32,288           |
| Decrease in accounts payable and other liabilities  | (473,592)                       | (441,538)        |
| <b>Net cash used in operating activities</b>  | <b>(408,280)</b>                | <b>(610,216)</b> |
| <b>Cash flows from investing activities:</b>  |                                 |                  |
| Increase in restricted cash   | (12,424)                        | (12,139)         |
| Additions to operating properties and equipment   | (6,951)                         | (11,977)         |
| Contributions to unconsolidated entities  | (301,781)                       | (404,917)        |
| Distributions of capital from unconsolidated entities   | 347,815                         | 156,920          |
| Distributions in excess of investment in unconsolidated entity  | 354,644                         |                  |
| Decrease in financial services loans held-for-investment  | 8,841                           | 15,328           |
| Purchases of investment securities  | (39,851)                        | (54,591)         |
| Proceeds from sales/maturities of investment securities   | 60,199                          | 34,637           |
| Acquisitions, net of cash acquired  |                                 | (33,329)         |
| <b>Net cash provided by (used in) investing activities</b>  | <b>410,492</b>                  | <b>(310,068)</b> |
| <b>Cash flows from financing activities:</b>  |                                 |                  |
| Net repayments under financial services debt  | (288,860)                       | (37,629)         |
| Net borrowings under revolving credit facility  |                                 | 185,000          |
| Proceeds from issuance of 5.95% senior notes  |                                 | 248,665          |
| Proceeds from issuance of 6.50% senior notes  |                                 | 248,933          |
| Proceeds from other borrowings  | 32,316                          |                  |
| Principal payments on other borrowings  | (91,053)                        | (141,181)        |
| Net payments related to minority interests  | (1,543)                         | (39,515)         |
| Excess tax benefits from share-based awards   | 4,276                           | 5,681            |



**Lennar Corporation and Subsidiaries**

Condensed Consolidated Statements of Cash Flows (Continued)

(Dollars in thousands)

(unaudited)

|  | <b>Six Months Ended</b> |                |
|--|-------------------------|----------------|
|  | <b>May 31,</b>          |                |
|  | <b>2007</b>             | <b>2006</b>    |
| <b>Common stock:</b>   |                         |                |
| Issuances  | 19,909                  | 27,967         |
| Repurchases  | (3,009)                 | (270,006)      |
| Dividends  | (50,554)                | (50,964)       |
| <b>Net cash provided by (used in) financing activities</b>                       | <b>(378,518)</b>        | <b>176,951</b> |
| Net decrease in cash   | (376,306)               | (743,333)      |
| Cash at beginning of period  | 778,319                 | 1,059,343      |
| Cash at end of period  | \$ 402,013              | 316,010        |
| <b>Summary of cash:</b>  |                         |                |
| Homebuilding   | \$ 234,256              | 164,157        |
| Financial services   | 167,757                 | 151,853        |
|  | \$ 402,013              | 316,010        |
| <b>Supplemental disclosures of non-cash investing and financing activities:</b>  |                         |                |
| Conversion of 5.125% zero-coupon convertible senior subordinated notes to equity | \$                      | 157,894        |
| Non-cash contributions to unconsolidated entities                                | \$ 3,297                | 20,504         |
| Non-cash distributions from unconsolidated entities                              | \$ 3,993                | 30,437         |
| Purchases of inventories financed by sellers                                     | \$ 2,753                | 33,308         |

See accompanying notes to condensed consolidated financial statements.



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**Lennar Corporation and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

(unaudited)

**(1) Basis of Presentation**

*Basis of Consolidation*

The accompanying condensed consolidated financial statements include the accounts of Lennar Corporation and all subsidiaries, partnerships and other entities in which Lennar Corporation has a controlling interest and variable interest entities (see Note 13) in which Lennar Corporation is deemed to be the primary beneficiary (the Company). The Company's investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in 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. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended November 30, 2006. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the accompanying condensed consolidated financial statements have been made.

The Company has historically experienced, and expects to continue to experience, variability in quarterly results. The condensed consolidated statements of earnings for the three and six months ended May 31, 2007 are not necessarily indicative of the results to be expected for the full year.

*Reclassifications*

Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform with the 2007 presentation. These reclassifications had no impact on reported net earnings.

*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 condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**(2) Operating and Reporting Segments**

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

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

Operations of the Company's homebuilding segments primarily include the sale and construction of single-family attached and detached homes, and to a lesser extent, multi-level buildings, as well as the purchase, development and sale of residential land directly and through the Company's unconsolidated entities. The Company's reportable homebuilding segments, and all other homebuilding operations not required to be reported separately, have divisions located in the following states:

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

**Central:** Arizona, Colorado and Texas

**West:** California and Nevada

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

Operations of the Financial Services segment include mortgage financing, title insurance, closing services and other ancillary services (including personal lines insurance, 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; however, the Company remains liable for certain limited representations and warranties related to loan sales. The Financial Services segment operates generally in the same markets as the Company's homebuilding segments, as well as in 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, equity in earnings (loss) from unconsolidated entities and management fees and other income (expense), net, less the cost of homes and land sold, selling, general and administrative expenses and minority interest income (expense), net. Homebuilding operating earnings (loss) for the six months ended May 31, 2007 include a \$175.9 million pretax financial statement gain on the recapitalization of an unconsolidated entity, which is included in the Company's Homebuilding West segment. Operating earnings for the Financial Services segment consist of revenues generated from mortgage financing, title insurance, closing services, and other ancillary services (including personal lines insurance, high-speed Internet and cable television) less the cost of such services and certain selling, general and administrative expenses incurred by the Financial Services segment.

Each reportable segment follows the same accounting policies described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements in the Company's 2006 Annual Report on Form 10-K. Operational results of each segment are not necessarily indicative of the results that would have occurred had the segment been an independent, stand-alone entity during the periods presented.

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

| <i>(In thousands)</i>     | May 31,              |                      |
|---------------------------|----------------------|----------------------|
|                           | 2007                 | November 30,<br>2006 |
| <b>Assets:</b>            |                      |                      |
| Homebuilding East         | \$ 2,944,707         | 3,326,371            |
| Homebuilding Central      | 1,660,784            | 1,651,848            |
| Homebuilding West         | 4,014,348            | 3,972,562            |
| Homebuilding Other        | 1,046,752            | 1,164,304            |
| Financial Services        | 1,324,740            | 1,613,376            |
| Corporate and unallocated | 550,739              | 679,805              |
| <b>Total assets</b>       | <b>\$ 11,542,070</b> | <b>12,408,266</b>    |

| <i>(In thousands)</i>  | Three Months Ended<br>May 31, |                  | Six Months Ended<br>May 31, |                  |
|--|-------------------------------|------------------|-----------------------------|------------------|
|  | 2007                          | 2006             | 2007                        | 2006             |
| <b>Revenues:</b>   |                               |                  |                             |                  |
| Homebuilding East  | \$ 783,833                    | 1,197,767        | 1,590,122                   | 2,099,550        |
| Homebuilding Central   | 695,665                       | 971,319          | 1,357,388                   | 1,740,457        |
| Homebuilding West  | 1,012,435                     | 1,956,320        | 1,945,972                   | 3,165,714        |
| Homebuilding Other   | 249,877                       | 289,896          | 511,498                     | 518,299          |
| Financial Services   | 134,133                       | 162,201          | 263,043                     | 294,142          |
| <b>Total revenues</b>  | <b>\$ 2,875,943</b>           | <b>4,577,503</b> | <b>5,668,023</b>            | <b>7,818,162</b> |
| <b>Operating earnings (loss):</b>                                  |                               |                  |                             |                  |
| Homebuilding East  | \$ (192,983)                  | 165,599          | (214,522)                   | 304,242          |
| Homebuilding Central   | (2,135)                       | 80,311           | 18,858                      | 150,654          |
| Homebuilding West (1)  | (141,762)                     | 310,665          | 10,953                      | 553,013          |
| Homebuilding Other   | (14,785)                      | (19,162)         | (26,979)                    | (19,624)         |
| Financial Services   | 14,210                        | 34,591           | 30,079                      | 45,216           |
| Corporate and unallocated  | (45,817)                      | (56,532)         | (92,736)                    | (108,423)        |
| <b>Earnings (loss) before provision (benefit) for income taxes</b> | <b>\$ (383,272)</b>           | <b>515,472</b>   | <b>(274,347)</b>            | <b>925,078</b>   |

(1) Includes a \$175,879 pretax financial statement gain on the recapitalization of an unconsolidated entity for the six months ended May 31, 2007.

Valuation Adjustments and Write-offs

Homebuilding operating loss for the three and six months ended May 31, 2007 includes FAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, ( FAS 144 ) valuation adjustments to finished homes, construction in progress ( CIP ) and land the Company intends to build homes on, FAS 144 valuation adjustments to land the Company intends to sell to third parties, write-offs of deposits and pre-acquisition costs related to land under option that the Company does not intend to purchase, FAS 144 valuation adjustments related to assets of unconsolidated entities that are reflected in equity in earnings (loss) from unconsolidated entities and valuation adjustments to the Company's investments in unconsolidated entities that are recorded in management fees and other income (expense), net as follows:

|  | Three Months Ended |               | Six Months Ended |               |
|--|--------------------|---------------|------------------|---------------|
|  | May 31, 2007       | 2006          | May 31, 2007     | 2006          |
| <i>(In thousands)</i>  |                    |               |                  |               |
| <b>FAS 144 valuation adjustments to finished homes, CIP and land the Company intends to build homes on:</b>      |                    |               |                  |               |
| East   | \$ 100,293         | 5,898         | 119,408          | 5,898         |
| Central  | 16,214             | 1,578         | 27,467           | 1,578         |
| West   | 49,111             | 1,215         | 66,178           | 1,215         |
| Other  | 6,011              |               | 6,843            |               |
| <b>Total FAS 144 valuation adjustments to finished homes, CIP and land the Company intends to build homes on</b> | <b>171,629</b>     | <b>8,691</b>  | <b>219,896</b>   | <b>8,691</b>  |
| <b>FAS 144 valuation adjustments to land the Company intends to sell to third parties:</b>                       |                    |               |                  |               |
| East   | 30,558             | 3,021         | 40,078           | 3,021         |
| Central  | 2,653              | 5,709         | 2,710            | 12,705        |
| West   | 19,299             |               | 22,799           |               |
| Other  | 16,912             | 7,887         | 17,072           | 8,227         |
| <b>Total FAS 144 valuation adjustments to land the Company intends to sell to third parties</b>                  | <b>69,422</b>      | <b>16,617</b> | <b>82,659</b>    | <b>23,953</b> |
| <b>Write-offs of option deposits and pre-acquisition costs:</b>  |                    |               |                  |               |
| East   | 16,037             | 1,579         | 29,778           | 3,167         |
| Central  | 9,908              | 548           | 11,208           | 590           |
| West   | 21,669             | 7,271         | 24,740           | 8,264         |
| Other  | 1,307              | 12,451        | 4,145            | 13,302        |
| <b>Total write-offs of option deposits and pre-acquisition costs</b>   | <b>48,921</b>      | <b>21,849</b> | <b>69,871</b>    | <b>25,323</b> |
| <b>FAS 144 valuation adjustments to investments in unconsolidated entities:</b>                                  |                    |               |                  |               |
| East   |                    |               | 3,833            |               |
| Central  | 1,143              |               | 1,143            |               |
| West   | 26,347             |               | 29,051           |               |
| Other  |                    |               |                  |               |
| <b>Total FAS 144 valuation adjustments to investments in unconsolidated entities</b>                             | <b>27,490</b>      |               | <b>34,027</b>    |               |
| <b>Valuation adjustments to investments in unconsolidated entities:</b>  |                    |               |                  |               |
| East   | 4,228              |               | 6,869            |               |
| Central  |                    |               |                  |               |
| West   | 7,406              |               | 7,406            |               |
| Other  |                    |               |                  |               |
| <b>Total valuation adjustments to investments in unconsolidated entities</b>                                     | <b>11,634</b>      |               | <b>14,275</b>    |               |
| <b>Total valuation adjustments and write-offs of option deposits and pre-acquisition costs</b>                   | <b>\$ 329,096</b>  | <b>47,157</b> | <b>420,728</b>   | <b>57,967</b> |

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The housing market continued to deteriorate throughout the second quarter of 2007. This deterioration in market conditions resulted in an increase in the supply of new and existing homes, as well as intensified competitive pressures to sell those homes. These competitive market conditions have resulted in a deceleration in sales pace, as well as an increase in sales incentives, leading to increased valuation adjustments and write-offs of option deposits and pre-acquisition costs with respect to the Company's inventory and investments in unconsolidated entities in the second quarter of 2007, compared to the first quarter of 2007. Valuation adjustments and write-offs of option deposits and pre-acquisition costs increased to \$329.1 million in the second quarter of 2007 from \$91.6 million in the first quarter of 2007. Further deterioration in the homebuilding market may cause additional pricing pressures that may lead to additional valuation adjustments in the future. In addition, market conditions may cause the Company to re-evaluate its strategy regarding certain assets that could result in the write-off of option deposits and pre-acquisition costs due to the abandonment of those option contracts.

Inventories are stated at cost unless the inventory within a community is determined to be impaired, in which case the inventory is written down to its 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. The Company reviews inventories for impairment during each reporting period. FAS 144 requires that in the event the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge is required to be recorded in the amount by which the carrying amount of such asset exceeds its fair value.

The Company determines the fair value of its inventory using a discounted cash flow model. These estimated cash flows for each community are significantly impacted by estimates related to sales pace, selling price, sales incentives, construction costs, sales and marketing expenses and other factors. The Company's determination of fair value also requires discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. The discount rate used in determining each asset's fair value depends on various factors including the community's projected life and development stage. The Company uses discount rates primarily ranging from 15% to 20%. The discount rate used is dependent on the inherent risks associated with the inventory's cash flow streams. 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 calculated fair values of inventory evaluated for impairment under FAS 144 based on current market conditions and assumptions made by management, which may differ materially from actual results if market conditions continue to deteriorate. For example, further market deterioration may lead to the Company incurring additional impairment charges on inventory previously impaired as well as on inventory not currently impaired but for which indicators of impairment may exist if further market deterioration occurs.

For land the Company intends to sell to third parties, the Company accrues for losses in accordance with FAS No. 5, *Accounting for Contingencies*, for the excess of the carrying amount at the time of sale over its contracted sales price. If the land is not under contract for sale, the Company estimates the fair value of the land based on market comparisons, appraisals and other factors and compares it to the carrying amount of the land.

The Company has access to land inventory through option contracts, which generally enables it to defer acquiring portions of properties owned by third parties and unconsolidated entities until the Company is ready to build homes on them. 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. If the Company intends to terminate an option contract or allow it to expire unexercised, it records 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.

The Company evaluates its investments in unconsolidated entities for impairment in accordance with Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. 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 to recognize is the excess of the investment's carrying amount over its fair value.

The Company's evaluation of its 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.

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 from the unconsolidated entities. Such inventory is also reviewed by the unconsolidated entities in accordance with FAS 144. The unconsolidated entities use discount rates primarily ranging from 15% to 20% in their FAS 144 reviews for impairment. If a valuation adjustment is recorded, it is reflected in the Company's equity in earnings (loss) from unconsolidated entities with a corresponding decrease to its investment in unconsolidated entities.

The Company's assumption on discount rates also affects the estimated fair value of its investment in unconsolidated entities. A higher discount rate reduces the estimated fair value of the Company's investment in unconsolidated entities, while a lower discount rate increases the estimated fair value of the Company's 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 the Company's investments in unconsolidated entities to be recorded in the future.

In addition, during the three and six months ended May 31, 2007, the Company's Financial Services segment wrote-off \$14.4 million and \$18.6 million, respectively, of land seller notes receivable due to the renegotiation of terms. If market conditions continue to deteriorate, the Financial Services segment may need to continue to negotiate the terms of its land seller notes receivable, which may result in additional write-offs in the future.

Additionally, with respect to the loans the Financial Services segment originates on the homes the Company delivers, which are substantially sold in the secondary mortgage market, investor concerns about mortgage payment defaults could adversely affect the price for which the segment will be able to sell those loans.

**(3) 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:

| <b>Balance Sheets</b>                  | <b>May 31,</b>       | <b>November 30,</b> |
|--|----------------------|---------------------|
| <i>(In thousands)</i>                  | <b>2007</b>          | <b>2006</b>         |
| <b>Assets:</b>                         |                      |                     |
| Cash                                   | \$ 400,579           | 276,501             |
| Inventories                            | 8,930,712            | 8,955,567           |
| Other assets                           | 930,222              | 868,073             |
|  | <b>\$ 10,261,513</b> | <b>10,100,141</b>   |
| <b>Liabilities and equity:</b>         |                      |                     |
| Accounts payable and other liabilities | \$ 1,392,165         | 1,387,745           |
| Debt                                   | 5,517,990            | 5,001,625           |
| Equity of:                             |                      |                     |
| The Company                            | 1,235,603            | 1,447,178           |
| Others                                 | 2,115,755            | 2,263,593           |
|  | <b>\$ 10,261,513</b> | <b>10,100,141</b>   |

| <u>Statements of Earnings</u><br>(In thousands)           | Three Months Ended |         | Six Months Ended |           |
|---|--------------------|---------|------------------|-----------|
|   | May 31,            |         | May 31,          |           |
|   | 2007               | 2006    | 2007             | 2006      |
| Revenues  | \$ 580,835         | 517,774 | 1,237,980        | 1,003,287 |
| Costs and expenses  | 658,101            | 481,498 | 1,256,349        | 859,985   |
| Net earnings (loss) of unconsolidated entities            | \$ (77,266)        | 36,276  | (18,369)         | 143,302   |
| The Company's share of net earnings (loss) recognized (1) | \$ (26,523)        | 14,792  | (40,728)         | 52,982    |

(1) For the three and six months ended May 31, 2007, the Company's share of net loss recognized from unconsolidated entities includes \$27.5 million and \$34.0 million, respectively, of FAS 144 valuation adjustments related to assets of the unconsolidated entities.

The unconsolidated entities in which the Company has investments usually finance their activities with a combination of partner equity and debt financing. As of May 31, 2007, the Company's equity in these unconsolidated entities represented 37% of the entities' total equity. In some instances, the Company and its partners have guaranteed debt of certain unconsolidated entities.

The Company's summary of guarantees related to its unconsolidated entities was as follows:

| (In thousands)  | May 31,      |                      |
|---|--------------|----------------------|
|   | 2007         | November 30,<br>2006 |
| Sole recourse debt  | \$           | 18,920               |
| Several recourse debt - repayment   | 119,456      | 163,508              |
| Several recourse debt - maintenance   | 481,865      | 560,823              |
| Joint and several recourse debt - repayment                                 | 237,144      | 64,473               |
| Joint and several recourse debt - maintenance                               | 774,744      | 956,682              |
| The Company's maximum recourse exposure                                     | 1,613,209    | 1,764,406            |
| Less joint and several reimbursement agreements with the Company's partners | (666,149)    | (661,486)            |
| The Company's net recourse exposure   | 947,060      | 1,102,920            |
| Debt without recourse to the Company  | 4,570,930    | 3,898,705            |
| Total debt  | \$ 5,517,990 | 5,001,625            |

The maintenance amounts above are the Company's maximum exposure to loss from maintenance guarantees, which assumes that the fair value of the underlying collateral is zero.

In addition, the Company and/or its partners occasionally grant liens on their interests in 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 of the collateral (generally land and improvements) is less than a specified percentage of the loan balance. If the Company is required to make a payment under a maintenance guarantee to bring the value of the collateral above the specified percentage of the loan balance, the payment would constitute a capital contribution or loan to the unconsolidated entity and increase the Company's share of any funds the unconsolidated entity distributes. During the three and six months ended May 31, 2007, amounts paid under the Company's maintenance guarantees were not material. As of May 31, 2007, the fair values of the maintenance guarantees and repayment guarantees were not material. The Company believes that as of May 31, 2007, if there was an occurrence of a triggering event or condition under a guarantee, the collateral should be sufficient to repay the obligation.



In February 2007, the Company's LandSource joint venture admitted MW Housing Partners as a new strategic partner. 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%. If LandSource reaches certain financial targets, the Company will have a disproportionate share of the entity's future positive net cash flow. As a result of the recapitalization, the Company recognized a pretax financial statement gain of \$175.9 million during the six months ended May 31, 2007 and could potentially recognize an additional \$400 million primarily in future years, in addition to profits from its continuing ownership interest. Of the \$707.6 million received by the Company in the recapitalization of LandSource, \$76.6 million represented distributions of the Company's share of cumulative earnings from LandSource, \$276.4 million represented distributions of the Company's invested capital in LandSource and \$354.6 million represented distributions in excess of the Company's invested capital in LandSource. During the three and six months ended May 31, 2007, the Company exercised options to purchase approximately 850 homesites and 2,450 homesites, respectively, from LandSource at an aggregate purchase price of \$160.5 million and \$498.7 million, respectively.

#### (4) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) attributable to common stockholders by the weighted average number of shares of common stock 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. Basic and diluted earnings (loss) per share were calculated as follows:

| <i>(In thousands, except per share amounts)</i>   | Three Months Ended<br>May 31, |         | Six Months Ended<br>May 31, |         |
|---|-------------------------------|---------|-----------------------------|---------|
|   | 2007                          | 2006    | 2007                        | 2006    |
| <b>Numerator:</b>   |                               |         |                             |         |
| Numerator for basic earnings (loss) per share - net earnings (loss)                       | \$ (244,205)                  | 324,747 | (175,582)                   | 582,799 |
| Interest on 5.125% zero-coupon convertible senior subordinated notes due 2021, net of tax |                               | 378     |                             | 1,566   |
| Numerator for diluted earnings (loss) per share   | \$ (244,205)                  | 325,125 | (175,582)                   | 584,365 |
| <b>Denominator:</b>   |                               |         |                             |         |
| Denominator for basic earnings (loss) per share - weighted average shares                 | 157,697                       | 159,571 | 157,413                     | 158,698 |
| Effect of dilutive securities:  |                               |         |                             |         |
| Share-based payment   |                               | 1,840   |                             | 2,106   |
| 5.125% zero-coupon convertible senior subordinated notes due 2021                         |                               | 1,505   |                             | 2,931   |
| Denominator for diluted earnings (loss) per share   | 157,697                       | 162,916 | 157,413                     | 163,735 |
| Basic earnings (loss) per share   | \$ (1.55)                     | 2.04    | (1.12)                      | 3.67    |
| Diluted earnings (loss) per share   | \$ (1.55)                     | 2.00    | (1.12)                      | 3.57    |

Options to purchase 5.4 million and 3.1 million shares, respectively, of common stock were outstanding and anti-dilutive for the three months ended May 31, 2007 and 2006. Options to purchase 4.4 million and 2.3 million shares, respectively, of common stock were outstanding and anti-dilutive for the six months ended May 31, 2007 and 2006.

**(5) Financial Services**

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

| <i>(In thousands)</i>          | May 31,<br>2007     | November 30,<br>2006 |
|--------------------------------|---------------------|----------------------|
| <b>Assets:</b>                 |                     |                      |
| Cash                           | \$ 167,757          | 116,657              |
| Receivables, net               | 432,898             | 633,004              |
| Loans held-for-sale, net       | 383,337             | 483,704              |
| Loans held-for-investment, net | 156,645             | 189,638              |
| Investments held-to-maturity   | 52,618              | 59,571               |
| Goodwill                       | 61,222              | 61,205               |
| Other                          | 70,263              | 69,597               |
|                                | <b>\$ 1,324,740</b> | <b>1,613,376</b>     |
| <b>Liabilities:</b>            |                     |                      |
| Notes and other debts payable  | \$ 860,371          | 1,149,231            |
| Other                          | 200,075             | 212,984              |
|                                | <b>\$ 1,060,446</b> | <b>1,362,215</b>     |

At May 31, 2007, the Financial Services segment had warehouse lines of credit totaling \$1.1 billion to fund its mortgage loan activities. Borrowings under the lines of credit were \$829.2 million and \$1.1 billion, respectively, at May 31, 2007 and November 30, 2006. The warehouse lines of credit mature in June 2008 (\$700 million) and in April 2008 (\$425 million), at which time the Company expects the facilities to be renewed. At May 31, 2007 and November 30, 2006, the Financial Services segment had advances under a conduit funding agreement amounting to \$7.1 million and \$1.7 million, respectively. The segment also had a \$25 million revolving line of credit that matures in July 2007, at which time the Company expects the line of credit to be renewed. Borrowings under the line of credit were \$23.8 million and \$23.7 million, respectively, at May 31, 2007 and November 30, 2006.

**(6) Cash**

Cash as of May 31, 2007 and November 30, 2006 included \$40.1 million and \$135.9 million, respectively, of cash held in escrow for approximately three days.

**(7) 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.

**(8) Senior Notes and Other Debts Payable**

| <i>(Dollars in thousands)</i> | May 31,<br>2007 | November 30,<br>2006 |
|-------------------------------|-----------------|----------------------|
| 7 5/8% senior notes due 2009  | \$ 278,643      | 277,830              |
| 5.125% senior notes due 2010  | 299,798         | 299,766              |
| 5.95% senior notes due 2011   | 249,461         | 249,415              |
| 5.95% senior notes due 2013   | 345,989         | 345,719              |
| 5.50% senior notes due 2014   | 247,680         | 247,559              |
| 5.60% senior notes due 2015   | 501,851         | 501,957              |

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|                                       |              |           |
|---------------------------------------|--------------|-----------|
| 6.50% senior notes due 2016           | 249,694      | 249,683   |
| Senior floating-rate notes due 2009   | 300,000      | 300,000   |
| Mortgage notes on land and other debt | 112,170      | 141,574   |
|                                       | \$ 2,585,286 | 2,613,503 |

As of May 31, 2007, the Company had a \$2.7 billion senior unsecured revolving credit facility (the Credit Facility ) that matures in 2011. The Credit Facility also included access to an additional \$0.5 billion of financing through an accordion feature, subject to additional commitments, for a maximum potential aggregate commitment under the Credit Facility of \$3.2 billion. Subsequent to May 31, 2007, the Company received additional commitments of \$0.4 billion under the accordion feature increasing the Credit Facility to \$3.1 billion, thus reducing access to additional commitments under the accordion feature to \$0.1 billion. The Credit Facility is guaranteed by substantially all of the Company's wholly-owned subsidiaries other than finance company subsidiaries (which include mortgage and title insurance agency 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 May 31, 2007 and November 30, 2006, the Company had no outstanding balance under the Credit Facility; however, at May 31, 2007 and November 30, 2006, \$391.9 million and \$496.9 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 has a structured letter of credit facility (the LC Facility ) with a financial institution. The purpose of the LC Facility is to facilitate the issuance of up to \$200 million of letters of credit on a senior unsecured basis. In connection with the LC Facility, the financial institution issued \$200 million of its senior notes, which were linked to the Company's performance on the LC Facility. If there is an event of default under the LC Facility, including the Company's failure to reimburse a draw against an issued letter of credit, the financial institution would assign its claim against the Company, to the extent of the amount due and payable by the Company under the LC Facility, to its noteholders in lieu of repaying principal on its performance-linked senior notes. No material amounts have been drawn to date on any letters of credit issued under the LC Facility.

At May 31, 2007 and November 30, 2006, the Company had letters of credit outstanding in the amount of \$1.1 billion and \$1.4 billion, respectively, which included \$152.3 million and \$190.8 million, respectively, of letters of credit outstanding under the LC Facility. These letters of credit are generally posted with either regulatory bodies to guarantee the Company's performance of certain development and construction activities or in lieu of cash deposits on option contracts.

The Company has a commercial paper program (the Program ) under which the Company may, from time-to-time, issue short-term, unsecured notes in an aggregate amount not to exceed \$2.0 billion. Issuances under the Program are guaranteed by all of the Company's wholly-owned subsidiaries that are also guarantors of its Credit Facility. At both May 31, 2007 and November 30, 2006, no amounts were outstanding under the Program.

The Company also has an arrangement with a financial institution whereby it can issue short-term, unsecured fixed-rate notes from time-to-time. At both May 31, 2007 and November 30, 2006, no amounts were outstanding under this arrangement.

In June 2007, the Company redeemed its \$300 million senior floating-rate notes due 2009 (the Floating-Rate Notes ). The redemption price was \$300 million, or 100% of the principal amount of the Floating-Rate Notes outstanding, plus accrued and unpaid interest as of the redemption date.

The Company's debt arrangements contain certain financial covenants, which the Company was in compliance with at May 31, 2007.

**(9) Product Warranty**

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

| <i>(In thousands)</i>  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>May 31,</b>            |             | <b>May 31,</b>          |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| Warranty reserve, beginning of period                            | \$ 164,670                | 139,804     | 172,571                 | 144,916     |
| Additions to reserve for warranties issued during the period     | 28,733                    | 46,237      | 56,215                  | 80,004      |
| Adjustments to pre-existing warranties from changes in estimates | 9,051                     | 10,493      | 13,921                  | 16,315      |
| Payments   | (36,109)                  | (41,729)    | (76,362)                | (86,430)    |
| Warranty reserve, end of period                                  | \$ 166,345                | 154,805     | 166,345                 | 154,805     |

**(10) Stockholders' Equity**

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 the Company's outstanding common stock. There were no share repurchases during the three months ended May 31, 2007, and no material share repurchases during the six months ended May 31, 2007. As of May 31, 2007, 6.2 million shares of common stock can be repurchased in the future under the program. Treasury stock increased by 0.2 million common shares during the six months ended May 31, 2007, primarily related to forfeitures of restricted stock.

**(11) Share-Based Payment**

During the three months ended May 31, 2007 and 2006, compensation expense related to the Company's share-based payment awards was \$12.6 million and \$9.4 million, respectively, of which \$5.7 million and \$6.4 million, respectively, related to stock options and \$6.9 million and \$3.0 million, respectively, related to awards of restricted common stock (nonvested shares). During the six months ended May 31, 2007 and 2006, compensation expense related to the Company's share-based payment awards was \$20.6 million and \$17.6 million, respectively, of which \$10.6 million and \$12.0 million, respectively, related to stock options and \$10.0 million and \$5.6 million, respectively, related to nonvested shares. During the three months ended May 31, 2007 and 2006, the Company granted 0.1 million stock options and 0.2 million stock options, respectively, and issued 0.2 million nonvested shares and 0.6 million nonvested shares, respectively. During the six months ended May 31, 2007 and 2006, the Company granted 1.1 million stock options and 1.7 million stock options, respectively, and issued 1.5 million nonvested shares and 0.6 million nonvested shares, respectively.

**(12) Comprehensive Income (Loss)**

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

| <i>(Dollars in thousands)</i>   | Three Months Ended |         | Six Months Ended |         |
|---|--------------------|---------|------------------|---------|
|   | May 31,            |         | May 31,          |         |
|   | 2007               | 2006    | 2007             | 2006    |
| Net earnings (loss)   | \$ (244,205)       | 324,747 | (175,582)        | 582,799 |
| Unrealized gain arising during period on interest rate swaps, net of 36% and 37% tax effect, respectively, in 2007 and 2006 | 447                | 1,075   | 975              | 2,095   |
| Unrealized loss arising during period on available-for-sale investment securities, net of 37% tax effect in 2006            |                    | (242)   |                  | (238)   |
| Comprehensive income (loss)   | \$ (243,758)       | 325,580 | (174,607)        | 584,656 |

**(13) Consolidation of Variable Interest Entities**

The Company follows Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, (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 May 31, 2007, 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 the six months ended May 31, 2007 that were entered into or had reconsideration events during that period, and it consolidated entities that at May 31, 2007 had total combined assets and liabilities of \$30.2 million and \$22.6 million, respectively.

At May 31, 2007 and November 30, 2006, the Company's investments in unconsolidated entities were \$1.2 billion and \$1.4 billion, respectively. The Company's estimated maximum exposure to loss with regard to unconsolidated entities was primarily its investments in these entities and the exposure under the guarantees discussed in Note 3.

**Option Contracts**

In the Company's homebuilding operations, the Company has access to land through option contracts, which generally enables it to defer acquiring portions of properties owned by third parties (including land funds) and unconsolidated entities until the Company is ready to build homes on them.

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) at May 31, 2007 and 2006:

| May 31, 2007           | Controlled Homesites |               |                | Owned Homesites | Total Homesites |
|------------------------|----------------------|---------------|----------------|-----------------|-----------------|
|                        | Optioned             | JVs           | Total          |                 |                 |
| East                   | 33,167               | 17,118        | 50,285         | 36,101          | 86,386          |
| Central                | 21,726               | 27,755        | 49,481         | 21,515          | 70,996          |
| West                   | 5,787                | 38,134        | 43,921         | 23,717          | 67,638          |
| Other                  | 5,140                | 1,887         | 7,027          | 11,372          | 18,399          |
| <b>Total homesites</b> | <b>65,820</b>        | <b>84,894</b> | <b>150,714</b> | <b>92,705</b>   | <b>243,419</b>  |
| Total homesites (%)    | 27%                  | 35%           | 62%            | 38%             | 100%            |

  

| May 31, 2006           | Controlled Homesites |               |                | Owned Homesites | Total Homesites |
|------------------------|----------------------|---------------|----------------|-----------------|-----------------|
|                        | Optioned             | JVs           | Total          |                 |                 |
| East                   | 60,291               | 14,800        | 75,091         | 41,369          | 116,460         |
| Central                | 28,335               | 33,488        | 61,823         | 24,922          | 86,745          |
| West                   | 30,346               | 46,694        | 77,040         | 24,387          | 101,427         |
| Other                  | 13,403               | 2,091         | 15,494         | 12,959          | 28,453          |
| <b>Total homesites</b> | <b>132,375</b>       | <b>97,073</b> | <b>229,448</b> | <b>103,637</b>  | <b>333,085</b>  |
| Total homesites (%)    | 40%                  | 29%           | 69%            | 31%             | 100%            |

When the Company permits an option to terminate or walks away from an option, it writes-off any deposit and pre-acquisition costs associated with the option contract. For the three months ended May 31, 2007 and 2006, the Company wrote-off \$48.9 million and \$21.8 million, respectively, of option deposits and pre-acquisition costs related to land under option that it does not intend to purchase. For the six months ended May 31, 2007 and 2006, the Company wrote-off \$69.9 million and \$25.3 million, respectively, of option deposits and pre-acquisition costs related to land under option that it does not intend to purchase.

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 six months ended May 31, 2007, the effect of the consolidation of these option contracts was an increase of \$299.8 million to consolidated inventory not owned with a corresponding increase to liabilities related to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of May 31, 2007. This increase was offset primarily by the Company exercising its options to acquire land under certain contracts previously consolidated under FIN 46R, deconsolidation of certain option contracts and \$41.8 million of FAS 144 valuation adjustments, resulting in a net increase in consolidated inventory not owned of \$34.4 million. To reflect the purchase price of the inventory consolidated under FIN 46R, the Company reclassified \$13.7 million of related option deposits from land under development to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of May 31, 2007. The liabilities related to consolidated inventory not owned represent the difference between the option exercise prices for the optioned land and the Company's cash deposits.

At May 31, 2007 and November 30, 2006, 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 advanced costs totaling \$598.9 million and \$785.9 million, respectively. Additionally, the Company had posted \$442.1 million and \$553.4 million, respectively, of letters of credit in lieu of cash deposits under certain option contracts as of May 31, 2007 and November 30, 2006.

**(14) New Accounting Pronouncements**

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, ( FIN 48 ). FIN 48 provides interpretive guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006 (the Company's fiscal year beginning December 1, 2007). The Company is currently reviewing the effect of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements*, ( FAS 157 ). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (the Company's fiscal year beginning December 1, 2007), and interim periods within those fiscal years. FAS 157 is not expected to materially affect how the Company determines fair value.

In November 2006, the FASB issued Emerging Issues Task Force Issue No. 06-8, *Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums*, ( EITF 06-8 ). EITF 06-8 establishes that a company should evaluate the adequacy of the buyer's continuing investment in determining whether to recognize profit under the percentage-of-completion method. EITF 06-8 is effective for the first annual reporting period beginning after March 15, 2007 (the Company's fiscal year beginning December 1, 2007). The adoption of EITF 06-8 is not expected to be material to the Company's consolidated financial statements.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115*, ( FAS 159 ). FAS 159 permits companies to measure many financial instruments and certain other items at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007 (the Company's fiscal year beginning December 1, 2007). The adoption of FAS 159 is not expected to be material to the Company's consolidated financial statements.



**(15) Supplemental Financial Information**

The Company's obligations to pay principal, premium, if any, and interest under its Credit Facility, senior floating-rate notes due 2009, 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 wholly-owned subsidiaries other than finance company 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:

**Condensed Consolidating Balance Sheet**

May 31, 2007

| <i>(In thousands)</i>                             | Lennar<br>Corporation | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations       | Total             |
|---|-----------------------|---------------------------|-------------------------------|--------------------|-------------------|
| <b>ASSETS</b>                                     |                       |                           |                               |                    |                   |
| <b>Homebuilding:</b>                              |                       |                           |                               |                    |                   |
| Cash, restricted cash and receivables, net        | \$ 28,423             | 405,955                   | 16,906                        |                    | 451,284           |
| Inventories                                       |                       | 7,372,914                 | 332,320                       |                    | 7,705,234         |
| Investments in unconsolidated entities            |                       | 1,220,622                 | 14,981                        |                    | 1,235,603         |
| Goodwill  |                       | 190,198                   |                               |                    | 190,198           |
| Other assets                                      | 531,939               | 90,393                    | 12,679                        |                    | 635,011           |
| Investments in subsidiaries                       | 7,581,198             | 550,668                   |                               | (8,131,866)        |                   |
|   | 8,141,560             | 9,830,750                 | 376,886                       | (8,131,866)        | 10,217,330        |
| <b>Financial services</b>                         |                       | 21,991                    | 1,302,749                     |                    | 1,324,740         |
| <b>Total assets</b>                               | <b>\$ 8,141,560</b>   | <b>9,852,741</b>          | <b>1,679,635</b>              | <b>(8,131,866)</b> | <b>11,542,070</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>       |                       |                           |                               |                    |                   |
| <b>Homebuilding:</b>                              |                       |                           |                               |                    |                   |
| Accounts payable and other liabilities            | \$ 271,632            | 1,498,745                 | 69,971                        |                    | 1,840,348         |
| Liabilities related to consolidated inventory     |                       |                           |                               |                    |                   |
| not owned   |                       | 416,180                   |                               |                    | 416,180           |
| Senior notes and other debts payable              | 2,473,116             | 13,306                    | 98,864                        |                    | 2,585,286         |
| Intercompany                                      | (186,743)             | 340,114                   | (153,371)                     |                    |                   |
|   | 2,558,005             | 2,268,345                 | 15,464                        |                    | 4,841,814         |
| <b>Financial services</b>                         |                       | 3,198                     | 1,057,248                     |                    | 1,060,446         |
| <b>Total liabilities</b>                          | <b>2,558,005</b>      | <b>2,271,543</b>          | <b>1,072,712</b>              |                    | <b>5,902,260</b>  |
| <b>Minority interest</b>                          |                       |                           | 56,255                        |                    | 56,255            |
| <b>Stockholders' equity</b>                       | <b>5,583,555</b>      | <b>7,581,198</b>          | <b>550,668</b>                | <b>(8,131,866)</b> | <b>5,583,555</b>  |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 8,141,560</b>   | <b>9,852,741</b>          | <b>1,679,635</b>              | <b>(8,131,866)</b> | <b>11,542,070</b> |

**(15) Supplemental Financial Information (Continued)****Condensed Consolidating Balance Sheet****November 30, 2006**

| <i>(In thousands)</i>                                   | <b>Lennar<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b>      |
|---|-------------------------------|-----------------------------------|---------------------------------------|---------------------|-------------------|
| <b>ASSETS</b>   |                               |                                   |                                       |                     |                   |
| <b>Homebuilding:</b>                                    |                               |                                   |                                       |                     |                   |
| Cash, restricted cash and receivables, net              | \$ 422,373                    | 395,261                           | 27,867                                |                     | 845,501           |
| Inventories   |                               | 7,523,554                         | 307,929                               |                     | 7,831,483         |
| Investments in unconsolidated entities                  |                               | 1,435,346                         | 11,832                                |                     | 1,447,178         |
| Goodwill  |                               | 196,638                           |                                       |                     | 196,638           |
| Other assets  | 360,708                       | 104,200                           | 9,182                                 |                     | 474,090           |
| Investments in subsidiaries                             | 7,839,517                     | 486,461                           |                                       | (8,325,978)         |                   |
|   | 8,622,598                     | 10,141,460                        | 356,810                               | (8,325,978)         | 10,794,890        |
| <b>Financial services</b>                               |                               | 25,108                            | 1,588,268                             |                     | 1,613,376         |
| <b>Total assets</b>                                     | <b>\$ 8,622,598</b>           | <b>10,166,568</b>                 | <b>1,945,078</b>                      | <b>(8,325,978)</b>  | <b>12,408,266</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>              |                               |                                   |                                       |                     |                   |
| <b>Homebuilding:</b>                                    |                               |                                   |                                       |                     |                   |
| Accounts payable and other liabilities                  | \$ 605,834                    | 1,644,304                         | 91,922                                |                     | 2,342,060         |
| Liabilities related to consolidated inventory not owned |                               | 333,723                           |                                       |                     | 333,723           |
| Senior notes and other debts payable                    | 2,471,928                     | 53,720                            | 87,855                                |                     | 2,613,503         |
| Intercompany  | (156,536)                     | 288,570                           | (132,034)                             |                     |                   |
|   | 2,921,226                     | 2,320,317                         | 47,743                                |                     | 5,289,286         |
| <b>Financial services</b>                               |                               | 6,734                             | 1,355,481                             |                     | 1,362,215         |
| <b>Total liabilities</b>                                | <b>2,921,226</b>              | <b>2,327,051</b>                  | <b>1,403,224</b>                      |                     | <b>6,651,501</b>  |
| <b>Minority interest</b>                                |                               |                                   | 55,393                                |                     | 55,393            |
| <b>Stockholders equity</b>                              | <b>5,701,372</b>              | <b>7,839,517</b>                  | <b>486,461</b>                        | <b>(8,325,978)</b>  | <b>5,701,372</b>  |
| <b>Total liabilities and stockholders equity</b>        | <b>\$ 8,622,598</b>           | <b>10,166,568</b>                 | <b>1,945,078</b>                      | <b>(8,325,978)</b>  | <b>12,408,266</b> |

**(15) Supplemental Financial Information (Continued)****Condensed Consolidating Statement of Earnings****Three Months Ended May 31, 2007**

| <i>(In thousands)</i>                                       | <b>Lennar<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|---|-------------------------------|-----------------------------------|---------------------------------------|---------------------|--------------|
| <b>Revenues:</b>  |                               |                                   |                                       |                     |              |
| Homebuilding  | \$                            | 2,724,852                         | 16,958                                |                     | 2,741,810    |
| Financial services  |                               | 2,767                             | 143,714                               | (12,348)            | 134,133      |
| Total revenues  |                               | 2,727,619                         | 160,672                               | (12,348)            | 2,875,943    |
| <b>Costs and expenses:</b>                                  |                               |                                   |                                       |                     |              |
| Homebuilding  |                               | 3,038,285                         | 17,071                                | (2,059)             | 3,053,297    |
| Financial services  |                               | 7,078                             | 126,857                               | (14,012)            | 119,923      |
| Corporate general and administrative                        | 45,817                        |                                   |                                       |                     | 45,817       |
| Total costs and expenses                                    | 45,817                        | 3,045,363                         | 143,928                               | (16,071)            | 3,219,037    |
| Equity in loss from unconsolidated entities                 |                               | (26,523)                          |                                       |                     | (26,523)     |
| Management fees and other income (expense), net             | 3,723                         | (12,831)                          |                                       | (3,723)             | (12,831)     |
| Minority interest expense, net                              |                               |                                   | 824                                   |                     | 824          |
| Earnings (loss) before provision (benefit) for income taxes | (42,094)                      | (357,098)                         | 15,920                                |                     | (383,272)    |
| Provision (benefit) for income taxes                        | (14,765)                      | (129,862)                         | 5,560                                 |                     | (139,067)    |
| Equity in earnings (loss) from subsidiaries                 | (216,876)                     | 10,360                            |                                       | 206,516             |              |
| <b>Net earnings (loss)</b>                                  | \$ (244,205)                  | (216,876)                         | 10,360                                | 206,516             | (244,205)    |

**Condensed Consolidating Statement of Earnings****Three Months Ended May 31, 2006**

| <i>(In thousands)</i>                | <b>Lennar<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|--------------------------------------|-------------------------------|-----------------------------------|---------------------------------------|---------------------|--------------|
| <b>Revenues:</b>                     |                               |                                   |                                       |                     |              |
| Homebuilding                         | \$                            | 4,310,351                         | 104,951                               |                     | 4,415,302    |
| Financial services                   |                               | 1,677                             | 170,847                               | (10,323)            | 162,201      |
| Total revenues                       |                               | 4,312,028                         | 275,798                               | (10,323)            | 4,577,503    |
| <b>Costs and expenses:</b>           |                               |                                   |                                       |                     |              |
| Homebuilding                         |                               | 3,818,869                         | 84,911                                | (1,265)             | 3,902,515    |
| Financial services                   |                               | 6,039                             | 133,800                               | (12,229)            | 127,610      |
| Corporate general and administrative | 56,532                        |                                   |                                       |                     | 56,532       |
| Total costs and expenses             | 56,532                        | 3,824,908                         | 218,711                               | (13,494)            | 4,086,657    |

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|   |            |         |        |           |         |
|---|------------|---------|--------|-----------|---------|
| Equity in earnings from unconsolidated entities             |            | 14,792  |        |           | 14,792  |
| Management fees and other income, net                       | 3,171      | 14,411  | 1,964  | (3,171)   | 16,375  |
| Minority interest expense, net                              |            |         | 6,541  |           | 6,541   |
| Earnings (loss) before provision (benefit) for income taxes | (53,361)   | 516,323 | 52,510 |           | 515,472 |
| Provision (benefit) for income taxes                        | (19,745)   | 191,040 | 19,430 |           | 190,725 |
| Equity in earnings from subsidiaries                        | 358,363    | 33,080  |        | (391,443) |         |
| <b>Net earnings</b>   | \$ 324,747 | 358,363 | 33,080 | (391,443) | 324,747 |

**(15) Supplemental Financial Information (Continued)****Condensed Consolidating Statement of Earnings****Six Months Ended May 31, 2007**

| <i>(In thousands)</i>                                       | <b>Lennar Corporation</b> | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b>     |
|---|---------------------------|-------------------------------|-----------------------------------|---------------------|------------------|
| <b>Revenues:</b>  |                           |                               |                                   |                     |                  |
| Homebuilding  | \$                        | 5,374,915                     | 30,065                            |                     | 5,404,980        |
| Financial services  |                           | 5,729                         | 280,805                           | (23,491)            | 263,043          |
| Total revenues  |                           | 5,380,644                     | 310,870                           | (23,491)            | 5,668,023        |
| <b>Costs and expenses:</b>                                  |                           |                               |                                   |                     |                  |
| Homebuilding  |                           | 5,724,427                     | 30,544                            | (3,508)             | 5,751,463        |
| Financial services  |                           | 18,880                        | 245,891                           | (31,807)            | 232,964          |
| Corporate general and administrative                        | 92,736                    |                               |                                   |                     | 92,736           |
| Total costs and expenses                                    | 92,736                    | 5,743,307                     | 276,435                           | (35,315)            | 6,077,163        |
| Gain on recapitalization of unconsolidated entity           |                           | 175,879                       |                                   |                     | 175,879          |
| Equity in loss from unconsolidated entities                 |                           | (40,728)                      |                                   |                     | (40,728)         |
| Management fees and other income, net                       | 11,824                    | 1,010                         |                                   | (11,824)            | 1,010            |
| Minority interest expense, net                              |                           |                               | 1,368                             |                     | 1,368            |
| Earnings (loss) before provision (benefit) for income taxes | (80,912)                  | (226,502)                     | 33,067                            |                     | (274,347)        |
| Provision (benefit) for income taxes                        | (29,128)                  | (81,541)                      | 11,904                            |                     | (98,765)         |
| Equity in earnings (loss) from subsidiaries                 | (123,798)                 | 21,163                        |                                   | 102,635             |                  |
| <b>Net earnings (loss)</b>                                  | <b>\$ (175,582)</b>       | <b>(123,798)</b>              | <b>21,163</b>                     | <b>102,635</b>      | <b>(175,582)</b> |

**Condensed Consolidating Statement of Earnings****Six Months Ended May 31, 2006**

| <i>(In thousands)</i>                | <b>Lennar Corporation</b> | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|--------------------------------------|---------------------------|-------------------------------|-----------------------------------|---------------------|--------------|
| <b>Revenues:</b>                     |                           |                               |                                   |                     |              |
| Homebuilding                         | \$                        | 7,334,954                     | 189,066                           |                     | 7,524,020    |
| Financial services                   |                           | 5,388                         | 312,667                           | (23,913)            | 294,142      |
| Total revenues                       |                           | 7,340,342                     | 501,733                           | (23,913)            | 7,818,162    |
| <b>Costs and expenses:</b>           |                           |                               |                                   |                     |              |
| Homebuilding                         |                           | 6,453,946                     | 162,144                           | (2,519)             | 6,613,571    |
| Financial services                   |                           | 9,637                         | 263,880                           | (24,591)            | 248,926      |
| Corporate general and administrative | 108,423                   |                               |                                   |                     | 108,423      |
| Total costs and expenses             | 108,423                   | 6,463,583                     | 426,024                           | (27,110)            | 6,970,920    |

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|   |            |         |        |           |         |
|---|------------|---------|--------|-----------|---------|
| Equity in earnings from unconsolidated entities             |            | 52,982  |        |           | 52,982  |
| Management fees and other income, net                       | 3,197      | 31,756  | 4,052  | (3,197)   | 35,808  |
| Minority interest expense, net                              |            |         | 10,954 |           | 10,954  |
| Earnings (loss) before provision (benefit) for income taxes | (105,226)  | 961,497 | 68,807 |           | 925,078 |
| Provision (benefit) for income taxes                        | (38,934)   | 355,754 | 25,459 |           | 342,279 |
| Equity in earnings from subsidiaries                        | 649,091    | 43,348  |        | (692,439) |         |
| <b>Net earnings</b>   | \$ 582,799 | 649,091 | 43,348 | (692,439) | 582,799 |

**(15) Supplemental Financial Information (Continued)****Condensed Consolidating Statement of Cash Flows****Six Months Ended May 31, 2007**

| <i>(In thousands)</i>   | <b>Lennar<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|---|-------------------------------|-----------------------------------|---------------------------------------|---------------------|--------------|
| <b>Cash flows from operating activities:</b>  |                               |                                   |                                       |                     |              |
| Net earnings (loss)   | \$ (175,582)                  | (123,798)                         | 21,163                                | 102,635             | (175,582)    |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities | (468,925)                     | 72,398                            | 266,464                               | (102,635)           | (232,698)    |
| Net cash provided by (used in) operating activities   | (644,507)                     | (51,400)                          | 287,627                               |                     | (408,280)    |
| <b>Cash flows from investing activities:</b>  |                               |                                   |                                       |                     |              |
| Decrease in investments in unconsolidated entities, net   |                               | 46,034                            |                                       |                     | 46,034       |
| Distributions in excess of investment in unconsolidated entity                                      |                               | 354,644                           |                                       |                     | 354,644      |
| Other   | 12,026                        | (17,405)                          | 15,193                                |                     | 9,814        |
| Net cash provided by investing activities   | 12,026                        | 383,273                           | 15,193                                |                     | 410,492      |
| <b>Cash flows from financing activities:</b>  |                               |                                   |                                       |                     |              |
| Net repayments under financial services debt  |                               |                                   | (288,860)                             |                     | (288,860)    |
| Proceeds from other borrowings  |                               | 25,382                            | 6,934                                 |                     | 32,316       |
| Principal payments on other borrowings  |                               | (91,053)                          |                                       |                     | (91,053)     |
| Net payments related to minority interests  |                               |                                   | (1,543)                               |                     | (1,543)      |
| Excess tax benefits from share-based awards   | 4,276                         |                                   |                                       |                     | 4,276        |
| Common stock:   |                               |                                   |                                       |                     |              |
| Issuances   | 19,909                        |                                   |                                       |                     | 19,909       |
| Repurchases   | (3,009)                       |                                   |                                       |                     | (3,009)      |
| Dividends   | (50,554)                      |                                   |                                       |                     | (50,554)     |
| Intercompany  | 269,037                       | (293,752)                         | 24,715                                |                     |              |
| Net cash provided by (used in) financing activities   | 239,659                       | (359,423)                         | (258,754)                             |                     | (378,518)    |
| Net increase (decrease) in cash   | (392,822)                     | (27,550)                          | 44,066                                |                     | (376,306)    |
| Cash at beginning of period   | 420,845                       | 218,453                           | 139,021                               |                     | 778,319      |
| Cash at end of period   | \$ 28,023                     | 190,903                           | 183,087                               |                     | 402,013      |

**(15) Supplemental Financial Information (Continued)****Condensed Consolidating Statement of Cash Flows****Six Months Ended May 31, 2006**

| <i>(Dollars in thousands)</i>  | <b>Lennar<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|--|-------------------------------|-----------------------------------|---------------------------------------|---------------------|--------------|
| <b>Cash flows from operating activities:</b>   |                               |                                   |                                       |                     |              |
| Net earnings   | \$ 582,799                    | 649,091                           | 43,348                                | (692,439)           | 582,799      |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities | (352,849)                     | (1,810,962)                       | 278,357                               | 692,439             | (1,193,015)  |
| Net cash provided by (used in) operating activities  | 229,950                       | (1,161,871)                       | 321,705                               |                     | (610,216)    |
| <b>Cash flows from investing activities:</b>   |                               |                                   |                                       |                     |              |
| Increase in investments in unconsolidated entities, net                                      |                               | (247,997)                         |                                       |                     | (247,997)    |
| Acquisitions, net of cash acquired   |                               | (30,329)                          | (3,000)                               |                     | (33,329)     |
| Other  | (1,262)                       | (20,285)                          | (7,195)                               |                     | (28,742)     |
| Net cash used in investing activities  | (1,262)                       | (298,611)                         | (10,195)                              |                     | (310,068)    |
| <b>Cash flows from financing activities:</b>   |                               |                                   |                                       |                     |              |
| Net repayments under financial services debt   |                               |                                   | (37,629)                              |                     | (37,629)     |
| Net borrowings under revolving credit facility   | 185,000                       |                                   |                                       |                     | 185,000      |
| Proceeds from 5.95% senior notes   | 248,665                       |                                   |                                       |                     | 248,665      |
| Proceeds from 6.50% senior notes   | 248,933                       |                                   |                                       |                     | 248,933      |
| Principal payments on other borrowings   | (2,336)                       | (126,099)                         | (12,746)                              |                     | (141,181)    |
| Net payments related to minority interests   |                               |                                   | (39,515)                              |                     | (39,515)     |
| Excess tax benefits from share-based awards  | 5,681                         |                                   |                                       |                     | 5,681        |
| Common stock:  |                               |                                   |                                       |                     |              |
| Issuances  | 27,967                        |                                   |                                       |                     | 27,967       |
| Repurchases  | (270,006)                     |                                   |                                       |                     | (270,006)    |
| Dividends  | (50,964)                      |                                   |                                       |                     | (50,964)     |
| Intercompany   | (1,023,095)                   | 1,234,748                         | (211,653)                             |                     |              |
| Net cash provided by (used in) financing activities  | (630,155)                     | 1,108,649                         | (301,543)                             |                     | 176,951      |
| Net increase (decrease) in cash  | (401,467)                     | (351,833)                         | 9,967                                 |                     | (743,333)    |
| Cash at beginning of period  | 401,467                       | 495,081                           | 162,795                               |                     | 1,059,343    |
| Cash at end of period  | \$                            | 143,248                           | 172,762                               |                     | 316,010      |



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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included under Item 1 of this Report and our audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for our fiscal year ended November 30, 2006.

Some of the statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Quarterly Report on Form 10-Q, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include statements regarding our business, financial condition, results of operations, cash flows, strategies and prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption *Risk Factors* included in Item 1A of our Annual Report on Form 10-K for our fiscal year ended November 30, 2006. We do not undertake any obligation to update forward-looking statements.

**Outlook**

The housing market continued to deteriorate throughout the second quarter of 2007. The increased supply of new and existing homes, as well as intensified competitor pressures to sell those homes, resulted in declining home prices across our markets. We continued to adjust pricing primarily through sales incentives to reflect current market conditions. While this allowed us to manage inventory levels, it also resulted in lower gross margins.

Our management team continues to focus on daily operations, our balance sheet first approach and refining individual asset strategies and values based on current market conditions. We are using the slow market conditions to refine our operating processes and improve efficiencies. We are continuing to focus on reducing SG&A expenses, reducing hard construction costs, driving sales, and managing our assets by reducing both land purchases and starts.

As we look to our third quarter and the remainder of 2007, we continue to see weak, and perhaps deteriorating, market conditions. Supply and demand are continuing to shift in many markets, and we believe three things will have to happen before we see a stabilization and recovery in the market:

1. Inventories of both new and existing homes will have to stabilize first and then be absorbed;
2. The mortgage markets will need to settle, especially relative to the sub-prime market; and
3. Consumer confidence relative to home buyers is going to have to be restored.

If the market does not begin to stabilize and we see further deterioration in market conditions, this may lead to an increase in the supply of new and existing homes as a result of decreased absorption levels. Although the decrease in sales absorption may lead to higher sales incentives and reduced gross margins, it may be partially offset by our efforts to reduce hard construction costs and sales and marketing expenses. Reduced gross margins may lead to additional valuation adjustments in the future. Additionally, current

market conditions may cause us to re-evaluate our strategy regarding certain assets that could result in additional valuation adjustments related to our inventory and write-offs of deposits and pre-acquisition costs as a result of the abandonment of option contracts. If market conditions continue to deteriorate, we may need to continue to negotiate the terms of our land seller notes receivable, which may result in additional write-offs in the future.

Additionally, with respect to the loans we originate on the homes we deliver, which are substantially sold in the secondary mortgage market, investor concerns about mortgage payment defaults could adversely affect the price for which we will be able to sell those loans.

Given uncertain market conditions, we continue to be unable to predict future results, but we currently expect to be in a loss position in our third quarter.

## (1) Results of Operations

### Overview

We historically have experienced, and expect to continue to experience, variability in quarterly results. Our results of operations for the three and six months ended May 31, 2007 are not necessarily indicative of the results to be expected for the full year.

Net loss was \$244.2 million, or \$1.55 per diluted share, in the second quarter of 2007, compared to net earnings of \$324.7 million, or \$2.00 per diluted share, in the second quarter of 2006. Net loss was \$175.6 million, or 1.12 per diluted share, in the six months ended May 31, 2007, compared to net earnings of \$582.8 million, or \$3.57 per diluted share, in the six months ended May 31, 2006. The decrease in net earnings was attributable to weak market conditions that have persisted during the first half of 2007 and have impacted all of our operations, including our homebuilding gross margins. Our gross margins decreased due to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, ( FAS 144 ) valuation adjustments and a decrease in the average sales price of homes delivered due primarily to higher sales incentives offered to homebuyers in the three and six months ended May 31, 2007, compared to the same periods in the prior year.

Financial information relating to our operations was as follows:

|  | Three Months Ended  |                | Six Months Ended |                |
|--|---------------------|----------------|------------------|----------------|
|  | May 31,<br>2007     | 2006           | May 31,<br>2007  | 2006           |
| <i>(In thousands)</i>                                  |                     |                |                  |                |
| <b>Homebuilding revenues:</b>                          |                     |                |                  |                |
| Sales of homes   | \$ 2,687,388        | 4,023,273      | 5,309,879        | 6,943,968      |
| Sales of land  | 54,422              | 392,029        | 95,101           | 580,052        |
| Total homebuilding revenues                            | 2,741,810           | 4,415,302      | 5,404,980        | 7,524,020      |
| <b>Homebuilding costs and expenses:</b>                |                     |                |                  |                |
| Cost of homes sold                                     | 2,494,183           | 3,076,765      | 4,755,778        | 5,269,537      |
| Cost of land sold                                      | 163,219             | 350,959        | 230,364          | 489,878        |
| Selling, general and administrative                    | 395,895             | 474,791        | 765,321          | 854,156        |
| Total homebuilding costs and expenses                  | 3,053,297           | 3,902,515      | 5,751,463        | 6,613,571      |
| Gain on recapitalization of unconsolidated entity      |                     |                | 175,879          |                |
| Equity in earnings (loss) from unconsolidated entities | (26,523)            | 14,792         | (40,728)         | 52,982         |
| Management fees and other income (expense), net        | (12,831)            | 16,375         | 1,010            | 35,808         |
| Minority interest expense, net                         | 824                 | 6,541          | 1,368            | 10,954         |
| <b>Homebuilding operating earnings (loss)</b>          | <b>\$ (351,665)</b> | <b>537,413</b> | <b>(211,690)</b> | <b>988,285</b> |
| Financial services revenues                            | \$ 134,133          | 162,201        | 263,043          | 294,142        |
| Financial services costs and expenses                  | 119,923             | 127,610        | 232,964          | 248,926        |

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|  |              |         |           |           |
|--|--------------|---------|-----------|-----------|
| <b>Financial services operating earnings</b>                       | \$ 14,210    | 34,591  | 30,079    | 45,216    |
| <b>Total operating earnings (loss)</b>                             | \$ (337,455) | 572,004 | (181,611) | 1,033,501 |
| Corporate general and administrative expenses                      | 45,817       | 56,532  | 92,736    | 108,423   |
| <b>Earnings (loss) before provision (benefit) for income taxes</b> | \$ (383,272) | 515,472 | (274,347) | 925,078   |

*Three Months Ended May 31, 2007 versus Three Months Ended May 31, 2006*

Revenues from home sales decreased 33% in the second quarter of 2007 to \$2.7 billion from \$4.0 billion in 2006. Revenues were lower primarily due to a 29% decrease in the number of home deliveries and a 7% decrease in the average sales price of homes delivered in 2007. New home deliveries, excluding unconsolidated entities, decreased to 8,940 homes in the second quarter of 2007 from 12,506 homes last year. In the second quarter of 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 \$298,000 in the second quarter of 2007 from \$322,000 in the same period last year, primarily due to higher sales incentives offered to homebuyers (\$43,700 per home delivered in the second quarter of 2007, compared to \$24,700 per home delivered in the same period last year).

Gross margins on home sales excluding FAS 144 valuation adjustments were \$364.8 million, or 13.6%, in the second quarter of 2007, compared to \$955.2 million, or 23.7%, in 2006. Gross margins on home sales excluding FAS 144 valuation adjustments is a non-GAAP financial measure disclosed by certain of our competitors and has been presented by us because we find it useful in evaluating our operating performance and believe that it helps readers of our financial statements compare our operations with those of our competitors. Gross margin percentage on home sales decreased compared to last year in all of our homebuilding segments primarily due to higher sales incentives offered to homebuyers. The gross margin percentage decline was highest in our Homebuilding East and West segments. Gross margins on home sales were \$193.2 million, or 7.2%, in the second quarter of 2007 including \$171.6 million of FAS 144 valuation adjustments (\$100.3 million, \$16.2 million, \$49.1 million and \$6.0 million, respectively, in our Homebuilding East, Central and West segments and Homebuilding Other), compared to gross margins on home sales of \$946.5 million, or 23.5%, in the second quarter of 2006 including \$8.7 million of FAS 144 valuation adjustments (\$5.9 million, \$1.6 million and \$1.2 million, respectively, in our Homebuilding East, Central and West segments).

Selling, general and administrative expenses decreased \$78.9 million, or 17%, in the second quarter of 2007, compared to the same period last year. As a percentage of revenues from home sales, selling, general and administrative expenses increased to 14.7% in the second quarter of 2007, from 11.8% in 2006. The 290 basis point increase was primarily due to lower revenues and costs related to the consolidation of operations in certain markets.

Loss on land sales totaled \$108.8 million in the second quarter of 2007, including \$69.4 million of FAS 144 valuation adjustments and \$48.9 million of write-offs of deposits and pre-acquisition costs related to approximately 5,400 homesites under option that we do not intend to purchase. In the second quarter of last year, gross profit from land sales totaled \$41.1 million, net of \$16.6 million of FAS 144 valuation adjustments and \$21.8 million of write-offs of deposits and pre-acquisition costs related to approximately 4,800 homesites that were under option. FAS 144 valuation adjustments in the second quarter of 2007 were \$30.6 million, \$2.7 million, \$19.3 million and \$16.9 million, respectively, in our Homebuilding East, Central and West segments and Homebuilding Other, compared to \$3.0 million, \$5.7 million and \$7.9 million, respectively, in the prior year in our Homebuilding East and Central segments and Homebuilding Other. Write-offs of deposits and pre-acquisition costs in the second quarter of 2007 were \$16.0 million, \$9.9 million, \$21.7 million and \$1.3 million, respectively, in our Homebuilding East, Central and West segments and Homebuilding Other, compared to \$1.6 million, \$0.5 million, \$7.3 million and \$12.5 million, respectively, in the prior year in our Homebuilding East, Central and West segments and Homebuilding Other.

Equity in loss from unconsolidated entities was \$26.5 million in the second quarter of 2007, which included \$27.5 million of FAS 144 valuation adjustments (\$1.1 million and \$26.3 million, respectively, in our Homebuilding Central and West segments) to our investments in unconsolidated entities, compared to equity in earnings from unconsolidated entities of \$14.8 million last year. Management fees and other income (expense), net, totaled (\$12.8) million in the second quarter of 2007 (including \$11.6 million of valuation adjustments), compared to \$16.4 million in the second quarter of 2006. Minority interest expense, net was \$0.8 million and \$6.5 million, respectively, in the second quarter of 2007 and 2006. Sales of land, equity in earnings (loss) from unconsolidated entities, management fees and other income (expense), net and minority interest 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 earnings for the Financial Services segment were \$14.2 million in the second quarter of 2007, compared to \$34.6 million last year. The decrease was primarily due to decreased profitability from the segment's mortgage operations as a result of decreased volume and profit per loan, and \$14.4 million of partial write-offs of land seller notes receivable due to the renegotiation of terms.

Corporate general and administrative expenses were reduced by \$10.7 million, or 19%, in the second quarter of 2007, compared to the same period last year. As a percentage of total revenues, corporate general and administrative expenses increased to 1.6% in the second quarter of 2007, from 1.2% in 2006, primarily due to lower revenues.

For the three months ended May 31, 2007 and 2006, our effective income tax rate was 36.28% and 37%, respectively.

*Six Months Ended May 31, 2007 versus Six Months Ended May 31, 2006*

Revenues from home sales decreased 24% in the six months ended May 31, 2007 to \$5.3 billion from \$6.9 billion in 2006. Revenues were lower primarily due to an 18% decrease in the number of home deliveries and a 7% decrease in the average sales price of homes delivered in 2007. New home deliveries, excluding unconsolidated entities, decreased to 17,506 homes in the six months ended May 31, 2007 from 21,410 homes last year. In the six months ended May 31, 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 \$300,000 in the six months ended May 31, 2007 from \$324,000 in 2006 primarily due to higher sales incentives offered to homebuyers (\$44,600 per home delivered in 2007, compared to \$20,200 per home delivered in 2006).

Gross margins on home sales excluding FAS 144 valuation adjustments were \$774.0 million, or 14.6%, in the six months ended May 31, 2007, compared to \$1.7 billion, or 24.2%, in 2006. Gross margin percentage on home sales decreased compared to last year in all of our homebuilding segments and Homebuilding Other primarily due to higher sales incentives offered to homebuyers. The gross margin percentage decline was highest in our Homebuilding East and West segments. Gross margins on home sales were \$554.1 million, or 10.4%, in the six months ended May 31, 2007 including \$219.9 million of FAS 144 valuation adjustments (\$119.4 million, \$27.5 million, \$66.2 million and \$6.8 million, respectively, in our Homebuilding East, Central and West segments and Homebuilding Other), compared to gross margins on home sales of \$1.7 billion, or 24.1%, in the six months ended May 31, 2006 including \$8.7 million of FAS 144 valuation adjustments (\$5.9 million, \$1.6 million and \$1.2 million, respectively, in our Homebuilding East, Central and West segments).

Selling, general and administrative expenses decreased \$88.8 million, or 10%, in the six months ended May 31, 2007, compared to the same period last year. As a percentage of revenues from home sales, selling, general and administrative expenses increased to 14.4% in the six months ended May 31, 2007, from 12.3% in 2006. The 210 basis point increase was primarily due to lower revenues, higher broker commissions as a percentage of revenues from home sales and costs related to the consolidation of operations in certain markets.

Loss on land sales totaled \$135.3 million in the six months ended May 31, 2007, including \$82.7 million of FAS 144 valuation adjustments and \$69.9 million of write-offs of deposits and pre-acquisition costs related to approximately 9,400 homesites under option that we do not intend to purchase. In the six months ended May 31, 2006, gross profit from land sales totaled \$90.2 million, net of \$24.0 million of FAS 144 valuation adjustments and \$25.3 million of write-offs of deposits and pre-acquisition costs related to approximately 6,500 homesites that were under option. FAS 144 valuation adjustments in the six months ended May 31, 2007 were \$40.1 million, \$2.7 million, \$22.8 million and \$17.1 million, respectively, in our Homebuilding East, Central and West segments and Homebuilding Other, compared to \$3.0 million, \$12.7 million and \$8.2 million, respectively, in the prior year in our Homebuilding East and Central segments and Homebuilding Other. Write-offs of deposits and pre-acquisition costs in the six months ended May 31, 2007 were \$29.8 million, \$11.2 million, \$24.7 million and \$4.1 million, respectively, in our Homebuilding East, Central and West segments and Homebuilding Other, compared to \$3.2 million, \$0.6 million, \$8.3 million and \$13.3 million, respectively, in the prior year in our Homebuilding East, Central and West segments and Homebuilding Other.

Equity in loss from unconsolidated entities was \$40.7 million in the six months ended May 31, 2007, which included \$34.0 million of FAS 144 valuation adjustments (\$3.8 million, \$1.1 million and \$29.1 million, respectively, in our Homebuilding East, Central and West segments) to our investments in unconsolidated entities, compared to equity in earnings from unconsolidated entities of \$53.0 million last year. Management fees and other income, net, totaled \$1.0 million in the six months ended May 31, 2007 (net of \$14.3 million of valuation adjustments), compared to \$35.8 million in 2006. Minority interest expense, net was \$1.4 million and \$11.0 million, respectively, in the six months ended May 31, 2007 and 2006. Sales of land, equity in earnings (loss) from unconsolidated entities, management fees and other income, net and minority interest 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.

In February 2007, our LandSource joint venture admitted MW Housing Partners as a new strategic partner. The transaction resulted in a cash distribution to us of \$707.6 million. Our resulting ownership of LandSource was 16%. If LandSource reaches certain financial targets, we will have a disproportionate share of the entity's future positive net cash flow. As a result of the recapitalization, we recognized a pretax gain of \$175.9 million in 2007 and could potentially recognize an additional \$400 million in future years, in addition to profits from our continuing ownership interest.

Operating earnings for the Financial Services segment were \$30.1 million in the six months ended May 31, 2007, compared to \$45.2 million last year. The decrease was primarily due to \$18.6 million of partial write-offs of land seller notes receivable due to the renegotiation of terms, and decreased profitability from the segment's title operations as a result of decreased volume and profit per transaction.

Corporate general and administrative expenses were reduced by \$15.7 million, or 14%, for the six months ended May 31, 2007, compared to 2006. As a percentage of total revenues, corporate general and administrative expenses increased to 1.6% in the six

months ended May 31, 2007, from 1.4% in the same period last year, primarily due to lower revenues.

For the six months ended May 31, 2007 and 2006, our effective income tax rate was 36% and 37%, respectively.

### Homebuilding Segments

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

At May 31, 2007, our reportable homebuilding segments and Homebuilding Other consisted of homebuilding divisions located in the following states:

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

**Central:** Arizona, Colorado and Texas

**West:** California and Nevada

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

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

### *Selected Financial and Operational Data*

| <i>(In thousands)</i> | Three Months Ended |                  | Six Months Ended |                  |
|-----------------------|--------------------|------------------|------------------|------------------|
|                       | May 31,            | 2006             | May 31,          | 2006             |
| <b>Revenues:</b>      |                    |                  |                  |                  |
| <b>East:</b>          |                    |                  |                  |                  |
| Sales of homes        | \$ 778,622         | 1,176,339        | 1,576,019        | 2,033,263        |
| Sales of land         | 5,211              | 21,428           | 14,103           | 66,287           |
| <b>Total East</b>     | <b>783,833</b>     | <b>1,197,767</b> | <b>1,590,122</b> | <b>2,099,550</b> |
| <b>Central:</b>       |                    |                  |                  |                  |
| Sales of homes        | 682,347            | 948,531          | 1,333,332        | 1,690,490        |
| Sales of land         | 13,318             | 22,788           | 24,056           | 49,967           |
| <b>Total Central</b>  | <b>695,665</b>     | <b>971,319</b>   | <b>1,357,388</b> | <b>1,740,457</b> |
| <b>West:</b>          |                    |                  |                  |                  |
| Sales of homes        | 985,862            | 1,611,089        | 1,900,744        | 2,709,122        |
| Sales of land         | 26,573             | 345,231          | 45,228           | 456,592          |
| <b>Total West</b>     | <b>1,012,435</b>   | <b>1,956,320</b> | <b>1,945,972</b> | <b>3,165,714</b> |
| <b>Other:</b>         |                    |                  |                  |                  |
| Sales of homes        | 240,557            | 287,314          | 499,784          | 511,093          |
| Sales of land         | 9,320              | 2,582            | 11,714           | 7,206            |
| <b>Total Other</b>    | <b>249,877</b>     | <b>289,896</b>   | <b>511,498</b>   | <b>518,299</b>   |

**Total homebuilding revenues**

\$ 2,741,810 4,415,302 5,404,980 7,524,020



| <i>(In thousands)</i>                                  | Three Months Ended  |                | Six Months Ended |                |
|--|---------------------|----------------|------------------|----------------|
|  | May 31,             |                | May 31,          |                |
|  | 2007                | 2006           | 2007             | 2006           |
| <b>Operating earnings (loss):</b>                      |                     |                |                  |                |
| <b>East:</b>   |                     |                |                  |                |
| Sales of homes   | \$ (148,760)        | 166,174        | (154,339)        | 287,968        |
| Sales of land  | (40,896)            | (306)          | (57,899)         | 13,384         |
| Equity in earnings (loss) from unconsolidated entities | 1,184               | 609            | (451)            | 5,716          |
| Management fees and other income (expense), net        | (3,858)             | (115)          | 7                | (320)          |
| Minority interest expense, net                         | (653)               | (763)          | (1,840)          | (2,506)        |
| Total East   | (192,983)           | 165,599        | (214,522)        | 304,242        |
| <b>Central:</b>  |                     |                |                  |                |
| Sales of homes   | 6,115               | 75,456         | 27,935           | 138,590        |
| Sales of land  | (10,224)            | (2,107)        | (12,167)         | 1,925          |
| Equity in earnings from unconsolidated entities        | 2,652               | 3,474          | 2,861            | 2,959          |
| Management fees and other income (expense), net        | (678)               | 3,253          | 206              | 6,945          |
| Minority interest income, net                          |                     | 235            | 23               | 235            |
| Total Central  | (2,135)             | 80,311         | 18,858           | 150,654        |
| <b>West:</b>   |                     |                |                  |                |
| Sales of homes   | (59,958)            | 232,511        | (74,353)         | 403,841        |
| Sales of land  | (39,971)            | 63,804         | (44,141)         | 95,240         |
| Gain on recapitalization of unconsolidated entity      |                     |                | 175,879          |                |
| Equity in earnings (loss) from unconsolidated entities | (31,605)            | 7,918          | (44,374)         | 34,530         |
| Management fees and other income (expense), net        | (9,738)             | 12,445         | (1,815)          | 28,085         |
| Minority interest expense, net                         | (490)               | (6,013)        | (243)            | (8,683)        |
| Total West   | (141,762)           | 310,665        | 10,953           | 553,013        |
| <b>Other:</b>  |                     |                |                  |                |
| Sales of homes   | (87)                | (2,424)        | (10,463)         | (10,124)       |
| Sales of land  | (17,706)            | (20,321)       | (21,056)         | (20,375)       |
| Equity in earnings from unconsolidated entities        | 1,246               | 2,791          | 1,236            | 9,777          |
| Management fees and other income, net                  | 1,443               | 792            | 2,612            | 1,098          |
| Minority interest income, net                          | 319                 |                | 692              |                |
| Total Other  | (14,785)            | (19,162)       | (26,979)         | (19,624)       |
| <b>Total homebuilding operating earnings (loss)</b>    | <b>\$ (351,665)</b> | <b>537,413</b> | <b>(211,690)</b> | <b>988,285</b> |

**Summary of Homebuilding Data**

| Deliveries   | At or for the      |               |                  |               |
|--------------|--------------------|---------------|------------------|---------------|
|              | Three Months Ended |               | Six Months Ended |               |
|              | May 31,            |               | May 31,          |               |
|              | 2007               | 2006          | 2007             | 2006          |
| East         | 3,065              | 3,832         | 5,664            | 6,404         |
| Central      | 3,267              | 4,546         | 6,398            | 7,954         |
| West         | 2,435              | 3,798         | 4,841            | 6,358         |
| Other        | 801                | 1,049         | 1,700            | 1,808         |
| <b>Total</b> | <b>9,568</b>       | <b>13,225</b> | <b>18,603</b>    | <b>22,524</b> |

Of the total deliveries listed above, 628 and 1,097, respectively, represent deliveries from unconsolidated entities for the three and six months ended May 31, 2007, compared to 719 and 1,114 deliveries in the same periods last year.

**New Orders**

|              |              |               |               |               |
|--------------|--------------|---------------|---------------|---------------|
| East         | 2,668        | 2,785         | 4,743         | 5,868         |
| Central      | 2,636        | 4,447         | 5,009         | 8,066         |
| West         | 1,891        | 3,507         | 3,756         | 5,824         |
| Other        | 861          | 1,018         | 1,680         | 1,792         |
| <b>Total</b> | <b>8,056</b> | <b>11,757</b> | <b>15,188</b> | <b>21,550</b> |

Of the total new orders listed above, 382 and 736, respectively, represent new orders from unconsolidated entities for the three and six months ended May 31, 2007, compared to 619 and 901 new orders in the same periods last year.

**Backlog Homes**

|              |              |               |
|--------------|--------------|---------------|
| East         | 3,224        | 7,172         |
| Central      | 2,209        | 4,659         |
| West         | 1,906        | 4,671         |
| Other        | 860          | 1,488         |
| <b>Total</b> | <b>8,199</b> | <b>17,990</b> |

Of the total homes in backlog listed above, 688 represents homes in backlog from unconsolidated entities at May 31, 2007, compared to 1,504 homes in backlog at May 31, 2006.

**Backlog Dollar Value (In thousands)**

|         |              |           |
|---------|--------------|-----------|
| East    | \$ 1,095,567 | 2,607,195 |
| Central | 495,664      | 1,184,992 |
| West    | 926,283      | 2,189,609 |
| Other   | 325,688      | 545,718   |

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|       |              |           |
|-------|--------------|-----------|
| Total | \$ 2,843,202 | 6,527,514 |
|-------|--------------|-----------|

Of the total dollar value of homes in backlog listed above, \$316,633 represents the backlog dollar value from unconsolidated entities at May 31, 2007, compared to \$613,370 of backlog dollar value at May 31, 2006.

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 29% during the second quarter of 2007, compared to 27% in the second quarter of 2006 and 29% in the first quarter of 2007. Although our cancellation rate in the second quarter of 2007 increased compared to the second quarter of 2006, we focused significant efforts on reselling the homes that were the subject of cancelled contracts, which, in many instances, included the use of higher 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 mid-to-high-rise multi-level buildings under construction for which revenue is recognized under percentage-of-completion accounting.

*Three Months Ended May 31, 2007 versus Three Months Ended May 31, 2006*

**Homebuilding East:** Homebuilding revenues decreased for the three months ended May 31, 2007, compared to the same period of the prior year, 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 FAS 144 valuation adjustments were \$80.2 million, or 10.3%, for the three months ended May 31, 2007, compared to \$315.5 million, or 26.8%, for the same period last year. Gross margins decreased compared to last year primarily due to higher sales incentives offered to homebuyers of 16.5% in 2007, compared to 8.5% in 2006. Gross margins on home sales were (\$20.1) million, or (2.6%), in 2007 including FAS 144 valuation adjustments of \$100.3 million in all states, compared to gross margins on home sales of \$309.5 million, or 26.3%, in 2006 including \$5.9 million of FAS 144 valuation adjustments in New Jersey.

Loss on land sales was \$40.9 million for the three months ended May 31, 2007 (including \$16.0 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$30.6 million of FAS 144 valuation adjustments), compared to loss on land sales of \$0.3 million during the same period last year (including \$1.6 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$3.0 million of FAS 144 valuation adjustments).

**Homebuilding Central:** Homebuilding revenues decreased for the three months ended May 31, 2007, compared to the same period of the prior year, primarily due to a decrease in the number of home deliveries in all 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 FAS 144 valuation adjustments were \$114.7 million, or 16.8%, for the three months ended May 31, 2007, compared to \$187.2 million, or 19.7%, for the same period last year. Gross margins decreased compared to last year primarily due to higher sales incentives offered to homebuyers of 10.6% in 2007, compared to 8.4% in 2006. Gross margins on home sales were \$98.5 million, or 14.4%, in 2007 including FAS 144 valuation adjustments of \$16.2 million in all states, compared to gross margins on home sales of \$185.6 million, or 19.6% in 2006 including \$1.6 million of FAS 144 valuation adjustments in Colorado.

Loss on land sales was \$10.2 million for the three months ended May 31, 2007 (including \$9.9 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$2.7 million of FAS 144 valuation adjustments), compared to loss on land sales of \$2.1 million during the same period last year (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 \$5.7 million of FAS 144 valuation adjustments).

**Homebuilding West:** Homebuilding revenues decreased for the three months ended May 31, 2007, compared to the same period of the prior year, primarily due to a decrease in the number of home deliveries and the average sales price of homes delivered in all of the states in this segment. Gross margins on home sales excluding FAS 144 valuation adjustments were \$127.8 million, or 13.0%, for the three months ended May 31, 2007, compared to \$407.4 million, or 25.3%, for the same period last year. Gross margins decreased compared to last year primarily due to higher sales incentives offered to homebuyers of 12.3% in 2007, compared to 5.5% in 2006. Gross margins on home sales were \$78.7 million, or 8.0%, in 2007 including FAS 144 valuation adjustments of \$49.1 million in all states, compared to gross margins on home sales of \$406.2 million, or 25.2%, in 2006 including \$1.2 million of FAS 144 valuation adjustments in California.

Loss on land sales was \$40.0 million for the three months ended May 31, 2007 (including \$21.7 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$19.3 million of FAS 144 valuation adjustments), compared to gross profit on land sales of \$63.8 million during the same period last year (net of \$7.3 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase).

**Homebuilding Other:** Homebuilding revenues decreased for the three months ended May 31, 2007, compared to the same period of the prior year, primarily due to a decrease in the number of home deliveries in all of the states, except New York (which is a relatively new market for us), partially offset by an increase in the average sales price of homes delivered in all of the states in Homebuilding Other, except Illinois where the average sales price of homes decreased. Gross margins on home sales excluding FAS 144 valuation adjustments were \$42.1 million, or 17.5%, for the three months ended May 31, 2007. Gross margin percentage increased compared to last year primarily due to the increase in average sales price of homes delivered, partially offset by higher sales incentives offered to homebuyers of 7.0% in 2007, compared to 6.2% in 2006. Gross margins on home sales were \$36.1 million, or 15.0%, in 2007 including FAS 144 valuation adjustments of \$6.0 million in Illinois and Minnesota, compared to gross margins on home sales of \$45.1 million, or 15.7%, for the same period last year.

Loss on land sales was \$17.7 million for the three months ended May 31, 2007 (including \$1.3 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$16.9 million of FAS 144 valuation adjustments), compared to loss on land sales of \$20.3 million during the same period last year (including \$12.5 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$7.9 million of FAS 144 valuation adjustments).

*Six Months Ended May 31, 2007 versus Six Months Ended May 31, 2006*

**Homebuilding East:** Homebuilding revenues decreased for the six months ended May 31, 2007, compared to the same period of the prior year, 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 FAS 144 valuation adjustments were \$222.4 million, or 14.1%, for the six months ended May 31, 2007, compared to \$553.1 million, or 27.2%, for the same period last year. Gross margins decreased compared to last year primarily due to higher sales incentives offered to homebuyers of 16.2% in 2007, compared to 6.8% in 2006. Gross margins on home sales were \$103.0 million, or 6.5%, in 2007 including FAS 144 valuation adjustments of \$119.4 million in all states, compared to gross margins on home sales of \$547.1 million, or 26.9%, in 2006 including \$5.9 million of FAS 144 valuation adjustments in New Jersey.

Loss on land sales was \$57.9 million for the six months ended May 31, 2007 (including \$29.8 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$40.1 million of FAS 144 valuation adjustments), compared to gross profit on land sales of \$13.4 million during the same period last year (net of \$3.2 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$3.0 million of FAS 144 valuation adjustments).

**Homebuilding Central:** Homebuilding revenues decreased for the six months ended May 31, 2007, compared to the same period of the prior year, primarily due to a decrease in the number of home deliveries in Texas and Colorado and a decrease in the average sales price of homes delivered in Arizona and Colorado. Gross margins on home sales excluding FAS 144 valuation adjustments were \$229.9 million, or 17.2%, for the six months ended May 31, 2007, compared to \$338.1 million, or 20.0%, for the same period last year. Gross margins decreased compared to last year primarily due to higher sales incentives offered to homebuyers of 10.7% in 2007, compared to 7.4% in 2006. Gross margins on home sales were \$202.4 million, or 15.2%, in 2007 including FAS 144 valuation adjustments of \$27.5 million in all states, compared to gross margins on homes sales of \$336.5 million, or 19.9%, in 2006 including \$1.6 million of FAS 144 valuation adjustments in Colorado.

Loss on land sales was \$12.2 million for the six months ended May 31, 2007 (including \$11.2 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$2.7 million of FAS 144 valuation adjustments), compared to gross profit on land sales of \$1.9 million during the same period last year (net of \$0.6 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$12.7 million of FAS 144 valuation adjustments).

**Homebuilding West:** Homebuilding revenues decreased for the six months ended May 31, 2007, compared to the same period of the prior year, primarily due to a decrease in both 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 FAS 144 valuation adjustments were \$253.1 million, or 13.3%, for the six months ended May 31, 2007, compared to \$713.8 million, or 26.3%, for the same period last year. Gross margins decreased compared to last year primarily due to higher sales incentives offered to homebuyers of 12.7% in 2007, compared to 4.2% in 2006. Gross margins on home sales were \$186.9 million, or 9.8%, in 2007 including FAS 144 valuation adjustments of \$66.2 million in all states, compared to gross margins on home sales of \$712.5 million, or 26.3%, in 2006 including \$1.2 million of FAS 144 valuation adjustments in California.

Loss on land sales was \$44.1 million for the six months ended May 31, 2007 (including \$24.7 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$22.8 million of FAS 144 valuation adjustments), compared to gross profit on land sales of \$95.2 million during the same period last year (net of \$8.3 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase).

**Homebuilding Other:** Homebuilding revenues decreased for the six months ended May 31, 2007, compared to the same period of the prior year, primarily due to a decrease in the number of home deliveries in all of the states, except Minnesota and New York (which is a relatively new market for us), partially offset by an increase in the average sales price of homes delivered in New York

and the Carolinas. Gross margins on home sales excluding FAS 144 valuation adjustments were \$68.6 million, or 13.7%, for the six months ended May 31, 2007. Gross margins decreased compared to last year primarily due to higher sales incentives offered to homebuyers of 8.4% in 2007, compared to 5.6% in 2006. Gross margins on home sales were \$61.8 million, or 12.4%, in 2007 including FAS 144 valuation adjustments of \$6.8 million in all states, except the Carolinas, compared to gross margins on home sales of \$78.2 million, or 15.3%, for the same period last year.

Loss on land sales was \$21.1 million for the six months ended May 31, 2007 (including \$4.1 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$17.1 million of FAS 144 valuation adjustments), compared to loss on land sales of \$20.4 million during the same period last year (including \$13.3 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and \$8.2 million of FAS 144 valuation adjustments).

The FAS 144 valuation adjustments and write-offs of deposits and pre-acquisition costs in our homebuilding segments and Homebuilding Other resulted primarily from deteriorating market conditions that persisted during the three and six months ended May 31, 2007. The FAS 144 valuation adjustments were calculated based on assumptions of current market conditions and estimates made by our management, which may differ from actual results if market conditions change, leading to potential material inventory impairment charges to be recorded in the future.

At May 31, 2007 and 2006, we owned 92,705 homesites and 103,637 homesites, respectively, and had access to an additional 150,714 homesites and 229,448 homesites, respectively, through either option contracts with third parties or agreements with unconsolidated entities in which we have investments. At November 30, 2006, we owned 92,325 homesites and had access to an additional 189,279 homesites through either option contracts with third parties or agreements with unconsolidated entities in which we have investments. At May 31, 2007, 7% of the homesites we owned were subject to home purchase contracts. At May 31, 2007 and 2006, our backlog of sales contracts was 8,199 homes (\$2.8 billion) and 17,990 homes (\$6.5 billion), respectively. The lower backlog was primarily attributable to weak market conditions that have persisted in the first half of 2007, which resulted in lower new orders in the first half of 2007, compared to the prior year.

**Financial Services Segment**

The following table presents selected financial data related to our Financial Services segment for the periods indicated:

| <i>(Dollars in thousands)</i>                    | <b>Three Months Ended</b> |               | <b>Six Months Ended</b> |               |
|--|---------------------------|---------------|-------------------------|---------------|
|  | <b>May 31,</b>            |               | <b>May 31,</b>          |               |
|  | <b>2007</b>               | <b>2006</b>   | <b>2007</b>             | <b>2006</b>   |
| Revenues   | \$ 134,133                | 162,201       | 263,043                 | 294,142       |
| Costs and expenses                               | 119,923                   | 127,610       | 232,964                 | 248,926       |
| <b>Operating earnings</b>                        | <b>\$ 14,210</b>          | <b>34,591</b> | <b>30,079</b>           | <b>45,216</b> |
| Dollar value of mortgages originated             | \$ 2,257,000              | 2,728,000     | 4,268,000               | 4,725,000     |
| Number of mortgages originated                   | 8,900                     | 10,900        | 16,700                  | 19,100        |
| Mortgage capture rate of Lennar homebuyers       | 72%                       | 64%           | 71%                     | 63%           |
| Number of title and closing service transactions | 38,900                    | 43,000        | 74,200                  | 77,700        |
| Number of title policies issued                  | 42,800                    | 53,300        | 78,900                  | 95,000        |

**(2) Financial Condition and Capital Resources**

At May 31, 2007, we had cash related to our homebuilding and financial services operations of \$402.0 million, compared to \$316.0 million at May 31, 2006. 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 unsecured credit facility (the Credit Facility), issuances of commercial paper and unsecured, fixed-rate notes and borrowings under our warehouse lines of credit.

In February 2007, our LandSource joint venture admitted a new strategic partner. The transaction resulted in a cash distribution to us of \$707.6 million, of which \$76.6 million represented distributions of our share of cumulative earnings from LandSource, \$276.4 million represented distributions of our invested capital in LandSource and \$354.6 million represented distributions in excess of our invested capital in LandSource.

**Operating Cash Flow Activities**

In the six months ended May 31, 2007, cash flows used in operating activities totaled \$408.3 million, compared to \$610.2 million in the same period last year and \$501.7 million in the first quarter of 2007. The improvement in cash flows used in operating activities during the second quarter of 2007, compared to the first quarter of 2007, was primarily related to our focus on carefully managing inventories, which includes the re-evaluation of all land purchases to reflect current market conditions. During the six months ended May 31, 2007, cash flows used in operating activities consisted primarily of our net loss, a decrease in accounts payable and other liabilities and an increase in other assets. Cash flows used in operating activities were partially offset by a net decrease in inventories as a result of a reduction in construction in progress resulting from lower new home starts, valuation adjustments and write-offs of option deposits and pre-acquisition costs, our deferred income tax provision, a decrease in receivables resulting primarily from a decrease in land sales and a decrease in financial services loans held-for-sale resulting from lower home deliveries.



**Investing Cash Flow Activities**

Cash flows provided by investing activities totaled \$410.5 million in the six months ended May 31, 2007, compared to cash flows used in investing activities of \$310.1 million in the same period last year. In the six months ended May 31, 2007, we contributed \$301.8 million of cash to unconsolidated entities, compared to \$404.9 million in the same period last year. Our investing activities also included distributions of capital from unconsolidated entities during the six months ended May 31, 2007 and 2006 of \$347.8 million and \$156.9 million, respectively, and distribution of \$354.6 million in excess of our investment in the LandSource unconsolidated entity due to its recapitalization in 2007. We are always looking at the possibility of acquiring homebuilders and other companies. However, at May 31, 2007, we had no agreements or understandings regarding any significant transactions.

**Financing Cash Flow Activities**

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. Homebuilding debt to total capital and net homebuilding debt to total capital are calculated as follows:

| <i>(Dollars in thousands)</i>              | May 31,             |                  |
|--|---------------------|------------------|
|  | 2007                | 2006             |
| Homebuilding debt                          | \$ 2,585,286        | 2,908,296        |
| Stockholders' equity                       | 5,583,555           | 5,766,219        |
| <b>Total capital</b>                       | <b>\$ 8,168,841</b> | <b>8,674,515</b> |
| Homebuilding debt to total capital         | 31.6%               | 33.5%            |
| Homebuilding debt                          | \$ 2,585,286        | 2,908,296        |
| Less: Homebuilding cash                    | 234,256             | 164,157          |
| <b>Net homebuilding debt</b>               | <b>\$ 2,351,030</b> | <b>2,744,139</b> |
| Net homebuilding debt to total capital (1) | 29.6%               | 32.2%            |

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

The improvement in the ratios primarily resulted from our focus on fortifying our balance sheet by carefully managing inventory levels (converting both land and home inventory to cash). 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 requirements. 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 Facility, issuances of commercial paper and unsecured, fixed-rate notes, cash generated from operations, sales of assets or the issuance of public debt, common stock or preferred stock.

Our average debt outstanding was \$3.5 billion for the six months ended May 31, 2007, compared to \$4.2 billion last year. The average rate for interest incurred was 5.8% for the six months ended May 31, 2007, compared to 5.5% for the same period last year.

Interest incurred related to homebuilding debt for the six months ended May 31, 2007 was \$112.3 million, compared to \$112.5 million last year. 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, funds available under our Credit Facility and through issuances of commercial paper and unsecured, fixed-rate notes. Our Credit Facility provides that proceeds from the Credit Facility may be used to repay amounts outstanding under our commercial paper program, which is described below. Our Credit Facility is guaranteed by substantially all of our wholly-owned subsidiaries other than finance company subsidiaries (which include mortgage and title insurance 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 six months ended May 31, 2007 and 2006, the average daily borrowings under the Credit Facility were \$1.7 million and \$773.7 million, respectively. At May 31, 2007 and November 30, 2006, \$391.9 million and \$496.9 million, respectively, of our total letters of credit outstanding discussed below were collateralized against certain borrowings available under the Credit Facility.

We have a structured letter of credit facility (the LC Facility ) with a financial institution. The purpose of the LC Facility is to facilitate the issuance of up to \$200 million of letters of credit on a senior unsecured basis. In connection with the LC Facility, the financial institution issued \$200 million of their senior notes, which were linked to our performance on the LC Facility. If there is an event of default under the LC Facility, including our failure to reimburse a draw against an issued letter of credit, the financial institution would assign its claim against us, to the extent of the amount due and payable by us under the LC Facility, to its noteholders in lieu of repaying principal on the performance-linked senior notes. No material amounts have been drawn to date on any letters of credit issued under the LC Facility.

At May 31, 2007 and November 30, 2006, we had letters of credit outstanding in the amount of \$1.1 billion and \$1.4 billion, respectively, which included \$152.3 million and \$190.8 million, respectively, outstanding under the LC Facility. 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.

We have a commercial paper program (the Program ) under which we may, from time-to-time, issue short-term, unsecured notes in an aggregate amount not to exceed \$2.0 billion. This program has allowed us to obtain more favorable short-term borrowing rates than we would obtain otherwise. Issuances under the Program are guaranteed by all of our wholly-owned subsidiaries that are also guarantors of our Credit Facility. During the six months ended May 31, 2007 and 2006, the average daily borrowings under the Program were \$802.1 million, and \$448.6 million, respectively.

We also have an arrangement with a financial institution whereby we can issue short-term, unsecured fixed-rate notes from time-to-time. During the six months ended May 31, 2007, the average daily borrowings under these notes were \$72.5 million.

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

At May 31, 2007, our Financial Services segment had warehouse lines of credit totaling \$1.1 billion to fund our mortgage loan activities. At May 31, 2007 and November 30, 2006, borrowings under the lines of credit were \$829.2 million and \$1.1 billion,

respectively. The warehouse lines of credit mature in June 2008 (\$700 million) and in April 2008 (\$425 million), at which time we expect the facilities to be renewed. At May 31, 2007 and November 30, 2006, we had advances under a conduit funding agreement with a major financial institution amounting to \$7.1 million and \$1.7 million, respectively. We also had a \$25 million revolving line of credit with a bank that matures in July 2007, at which time we expect the line of credit to be renewed. At May 31, 2007 and November 30, 2006, borrowings under the line of credit were \$23.8 million and \$23.7 million, respectively.

Our debt arrangements contain certain financial covenants, which we were in compliance with at May 31, 2007. As market conditions have continued to deteriorate in the first half of 2007, we have closely monitored these covenants and our ability to comply with them. One covenant in particular, our interest coverage ratio, requires our EBITDA before non-cash expenses such as FAS 144 valuation adjustments and write-offs of option deposits and pre-acquisition costs for the rolling four quarters to be at least two times our interest incurred. If market conditions continue to deteriorate, we would request of our lenders a waiver or an amendment to our Credit Facility to amend certain covenants so that we remain in compliance with such covenants.

### Changes in Capital

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. There were no share repurchases during the three months ended May 31, 2007, and no material share repurchases during the six months ended May 31, 2007. As of May 31, 2007, 6.2 million shares of common stock can be repurchased in the future under the program. Treasury stock increased 0.2 million common shares during the six months ended May 31, 2007, primarily related to forfeitures of restricted stock.

On May 14, 2007, we paid cash dividends of \$0.16 per share for both our Class A and Class B common stock to holders of record at the close of business on May 4, 2007, as declared by our Board of Directors on March 28, 2007. On June 28, 2007, our Board of Directors declared a quarterly cash dividend of \$0.16 per share on both our Class A and Class B common stock payable on August 15, 2007 to holders of record at the close of business on August 3, 2007.

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.

### Off-Balance Sheet Arrangements

#### Investments in Unconsolidated Entities

At May 31, 2007, we had equity investments in approximately 250 unconsolidated entities. Our investments in unconsolidated entities are generally land development ventures and homebuilding ventures.

Our investments in unconsolidated entities by type of venture were as follows:

| <i>(In thousands)</i>   | May 31,<br>2007     | November 30,<br>2006 |
|-------------------------|---------------------|----------------------|
| Land development        | \$ 960,231          | 1,163,671            |
| Homebuilding            | 275,372             | 283,507              |
| <b>Total investment</b> | <b>\$ 1,235,603</b> | <b>1,447,178</b>     |

At May 31, 2007, the unconsolidated entities in which we had investments had total assets of \$10.3 billion and total liabilities of \$6.9 billion, which included \$5.5 billion of debt. These unconsolidated entities usually finance their activities with a combination of partner equity and debt financing. As of May 31, 2007, our equity in these unconsolidated entities represented 37% of the entities' total equity. In some instances, we and our partners have guaranteed debt of certain unconsolidated entities. Our summary of guarantees related to our unconsolidated entities was as follows:

| <i>(In thousands)</i>  | May 31,<br>2007 | November 30,<br>2006 |
|--|-----------------|----------------------|
| Sole recourse debt   | \$ 18,920       | 18,920               |
| Several recourse debt - repayment                                      | 119,456         | 163,508              |
| Several recourse debt - maintenance                                    | 481,865         | 560,823              |
| Joint and several recourse debt - repayment                            | 237,144         | 64,473               |
| Joint and several recourse debt - maintenance                          | 774,744         | 956,682              |
| <br>   |                 |                      |
| Lennar's maximum recourse exposure                                     | 1,613,209       | 1,764,406            |
| Less joint and several reimbursement agreements with Lennar's partners | (666,149)       | (661,486)            |
| <br>   |                 |                      |
| Lennar's net recourse exposure   | 947,060         | 1,102,920            |
| Debt without recourse to Lennar  | 4,570,930       | 3,898,705            |
| <br>   |                 |                      |
| Total debt   | \$ 5,517,990    | 5,001,625            |

The maintenance amounts above are our maximum exposure to loss from maintenance guarantees, which assumes that the fair value of the underlying collateral is zero.

In addition, we and/or our partners occasionally grant liens on our respective interests in 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 would constitute a capital contribution or loan to the unconsolidated entity and increase our share of any funds the unconsolidated entity distributes. During the three and six months ended May 31, 2007, amounts paid under our maintenance guarantees were not material. As of May 31, 2007, the fair values of the maintenance guarantees and repayment guarantees were not material. We believe that as of May 31, 2007, if there was an occurrence of a triggering event or condition under a guarantee, the collateral should be sufficient to repay the obligation.

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

| <b><u>Balance Sheets</u></b>           | <b>May 31,</b>       | <b>November 30,</b> |
|--|----------------------|---------------------|
| <i>(In thousands)</i>                  | <b>2007</b>          | <b>2006</b>         |
| <b>Assets:</b>                         |                      |                     |
| Cash                                   | \$ 400,579           | 276,501             |
| Inventories                            | 8,930,712            | 8,955,567           |
| Other assets                           | 930,222              | 868,073             |
|  | <b>\$ 10,261,513</b> | <b>10,100,141</b>   |
| <b>Liabilities and equity:</b>         |                      |                     |
| Accounts payable and other liabilities | \$ 1,392,165         | 1,387,745           |
| Debt                                   | 5,517,990            | 5,001,625           |
| Equity of:                             |                      |                     |
| Lennar                                 | 1,235,603            | 1,447,178           |
| Others                                 | 2,115,755            | 2,263,593           |
|  | <b>\$ 10,261,513</b> | <b>10,100,141</b>   |

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

|  | <b>May 31,</b>      | <b>November 30,</b> |
|--|---------------------|---------------------|
| <i>(Dollars in thousands)</i>                        | <b>2007</b>         | <b>2006</b>         |
| Debt   | \$ 5,517,990        | 5,001,625           |
| Equity   | 3,351,358           | 3,710,771           |
| <b>Total capital</b>                                 | <b>\$ 8,869,348</b> | <b>8,712,396</b>    |
| Debt to total capital of our unconsolidated entities | 62.2%               | 57.4%               |

| <b><u>Statements of Earnings and Selected Information</u></b>                                | <b>Six Months Ended</b>   |             |                |             |
|--|---------------------------|-------------|----------------|-------------|
|  | <b>Three Months Ended</b> |             | <b>May 31,</b> |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>    | <b>2006</b> |
| <i>(Dollars in thousands)</i>  |                           |             |                |             |
| Revenues   | \$ 580,835                | 517,774     | 1,237,980      | 1,003,287   |
| Costs and expenses   | 658,101                   | 481,498     | 1,256,349      | 859,985     |
| Net earnings (loss) of unconsolidated entities   | \$ (77,266)               | 36,276      | (18,369)       | 143,302     |
| Our share of net earnings (loss)   | \$ (35,729)               | 19,389      | (5,851)        | 63,258      |
| Our share of net earnings (loss) recognized (1)  | \$ (26,523)               | 14,792      | (40,728)       | 52,982      |
| Our cumulative share of net earnings deferred at May 31, 2007 and May 31, 2006, respectively |                           |             | \$ 99,703      | 59,442      |
| Our investments in unconsolidated entities   |                           |             | \$ 1,235,603   | 1,450,699   |
| Equity of the unconsolidated entities  |                           |             | \$ 3,351,358   | 3,889,155   |

|   |       |       |
|---|-------|-------|
| Our investment % in the unconsolidated entities | 36.9% | 37.3% |
|---|-------|-------|

(1) For the three and six months ended May 31, 2007, our share of net loss recognized from unconsolidated entities includes \$27.5 million and \$34.0 million, respectively, of FAS 144 valuation adjustments related to assets of the unconsolidated entities.

In February 2007, our LandSource joint venture admitted MW Housing Partners as a new strategic partner. The transaction resulted in a cash distribution to us of \$707.6 million. As a result, our ownership in LandSource was reduced to 16%. If LandSource reaches certain financial targets, we will have a disproportionate share of the entity's future positive net cash flow. As a result of the recapitalization, we recognized a pretax financial statement gain of \$175.9 million during the six months ended May 31, 2007 and could potentially recognize an additional \$400 million primarily in future years, in addition to profits from our continuing ownership interest.

## Option Contracts

In our homebuilding operations, we have access to land through option contracts, which generally enables us to defer acquiring portions of properties owned by third parties (including land funds) and unconsolidated entities until we are ready to build homes on them.

When we permit an option to terminate or walk away from an option, we write-off any deposit and pre-acquisition costs associated with the option contract. For the three months ended May 31, 2007 and 2006, we wrote-off \$48.9 million and \$21.8 million, respectively, of option deposits and pre-acquisition costs related to approximately 5,400 homesites and 4,800 homesites, respectively, under option that we do not intend to purchase. For the six months ended May 31, 2007 and 2006, we wrote-off \$69.9 million and \$25.3 million, respectively, of option deposits and pre-acquisition costs related to approximately 9,400 homesites and 6,500 homesites, respectively.

We evaluated all option contracts for land when entered into or upon a reconsideration event and determined we were the primary beneficiary of certain of these option contracts. Although we do not have legal title to the optioned land, under Financial Accounting Standards Board ( 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 option at the purchase price of the optioned land. During the six months ended May 31, 2007, the effect of the consolidation of these option contracts was an increase of \$299.8 million to consolidated inventory not owned with a corresponding increase to liabilities related to consolidated inventory not owned in our condensed consolidated balance sheet as of May 31, 2007. This increase was offset primarily by the exercising of our options to acquire land under certain contracts previously consolidated under FIN 46R, deconsolidation of certain option contracts and \$41.8 million of FAS 144 valuation adjustments, resulting in a net increase in consolidated inventory not owned of \$34.4 million. To reflect the purchase price of the inventory consolidated under FIN 46R, we reclassified \$13.7 million of related option deposits from land under development to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of May 31, 2007. The liabilities related to consolidated inventory not owned represent the difference between the option exercise prices for the optioned land and our cash deposits.

At May 31, 2007 and November 30, 2006, our exposure to loss related to our option contracts with third parties and unconsolidated entities consisted of our non-refundable option deposits and advanced costs totaling \$598.9 million and \$785.9 million, respectively. Additionally, we had posted \$442.1 million and \$553.4 million, respectively, of letters of credit in lieu of cash deposits under certain option contracts as of May 31, 2007 and November 30, 2006.

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) at May 31, 2007 and 2006:

| May 31, 2007           | Controlled Homesites |               |                | Owned Homesites | Total Homesites |
|------------------------|----------------------|---------------|----------------|-----------------|-----------------|
|                        | Optioned             | JVs           | Total          |                 |                 |
| East                   | 33,167               | 17,118        | 50,285         | 36,101          | 86,386          |
| Central                | 21,726               | 27,755        | 49,481         | 21,515          | 70,996          |
| West                   | 5,787                | 38,134        | 43,921         | 23,717          | 67,638          |
| Other                  | 5,140                | 1,887         | 7,027          | 11,372          | 18,399          |
| <b>Total homesites</b> | <b>65,820</b>        | <b>84,894</b> | <b>150,714</b> | <b>92,705</b>   | <b>243,419</b>  |
| Total homesites (%)    | 27%                  | 35%           | 62%            | 38%             | 100%            |

| May 31, 2006           | Controlled Homesites |               |                | Owned Homesites | Total Homesites |
|------------------------|----------------------|---------------|----------------|-----------------|-----------------|
|                        | Optioned             | JVs           | Total          |                 |                 |
| East                   | 60,291               | 14,800        | 75,091         | 41,369          | 116,460         |
| Central                | 28,335               | 33,488        | 61,823         | 24,922          | 86,745          |
| West                   | 30,346               | 46,694        | 77,040         | 24,387          | 101,427         |
| Other                  | 13,403               | 2,091         | 15,494         | 12,959          | 28,453          |
| <b>Total homesites</b> | <b>132,375</b>       | <b>97,073</b> | <b>229,448</b> | <b>103,637</b>  | <b>333,085</b>  |
| Total homesites (%)    | 40%                  | 29%           | 69%            | 31%             | 100%            |

#### Contractual Obligations and Commercial Commitments

Our contractual obligations and commercial commitments have not changed materially from those reported in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended November 30, 2006.

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 are ready to build homes on them. This reduces our financial risk associated with land holdings. At May 31, 2007, we had access to 150,714 homesites through option contracts with third parties and unconsolidated entities in which we have investments. At May 31, 2007, we had \$598.9 million of non-refundable option deposits and advanced costs related to certain of these homesites. Additionally, we had posted \$442.1 million of letters of credit in lieu of cash deposits under certain option contracts as of May 31, 2007.

At May 31, 2007, we had letters of credit outstanding in the amount of \$1.1 billion (including the \$442.1 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, we had outstanding performance and surety bonds related to site improvements at various projects of \$1.7 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. We do not believe there will be any draws upon these bonds, but if there were any, 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 \$2.3 billion at May 31, 2007. Loans in process for which interest rates were committed to the borrowers totaled approximately \$328.2 million as of May 31, 2007. 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 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 and MBS option contracts to hedge its interest rate exposure during the period from when it extends an interest rate lock to a loan applicant until the time at which the loan is sold to an investor. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk is managed by entering into MBS forward commitments and MBS option contracts with well-capitalized investment banks, most of whom have primary dealer status, and national bank affiliates and loan sales transactions with permanent 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 May 31, 2007, we had open commitments amounting to \$393.5 million to sell MBS with varying settlement dates through August 2007.

### **(3) New Accounting Pronouncements**

See Note 14 of our condensed consolidated financial statements included under Item 1 of this Report for a discussion of new accounting pronouncements applicable to our company.

### **(4) Critical Accounting Policies**

There have been no significant changes to our critical accounting policies during the six months ended May 31, 2007, as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended November 30, 2006.

### **Item 3. 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 derivative instruments, including interest rate swaps, in conjunction with our overall strategy to manage our exposure to changes in interest rates. We also utilize forward commitments and option contracts to mitigate the risks associated with our mortgage loan portfolio.

Our Annual Report on Form 10-K for the year ended November 30, 2006 contains information about market risks under Item 7A. Quantitative and Qualitative Disclosures About Market Risk. There have been no material changes in our exposure to market risks during the six months ended May 31, 2007.

### **Item 4. 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 May 31, 2007. Based on their participation in

that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of May 31, 2007 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 May 31, 2007. That evaluation did not identify any changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II. Other Information**

**Item 1. Not applicable.**

**Item 1A. Not applicable.**

**Item 2. Not applicable.**

**Item 3. Not applicable.**

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

The following matters were resolved by vote at the March 28, 2007 annual meeting of stockholders of Lennar Corporation:

(1) The following members of the Board of Directors were re-elected to hold office until 2010:

|                  | <b>Votes For</b> | <b>Votes Withheld</b> |
|------------------|------------------|-----------------------|
| Irvin Bolotin    | 390,668,203      | 10,337,735            |
| R. Kirk Landon   | 387,855,597      | 13,150,341            |
| Donna E. Shalala | 399,285,210      | 1,720,728             |

The terms of office of our other directors, Steven L. Gerard, Sidney Lapidus, Stuart A. Miller, and Jeffrey Sonnenfeld, continued after the annual meeting.

(2) Stockholders approved a proposal regarding the adoption of the Lennar Corporation 2007 Equity Incentive Plan. The results of the vote were as follows:

| <b>Votes</b> |                      |                         |                         |
|--------------|----------------------|-------------------------|-------------------------|
| <b>For</b>   | <b>Votes Against</b> | <b>Votes Abstaining</b> | <b>Broker Non-votes</b> |
| 330,762,100  | 32,568,059           | 3,266,315               | 34,409,464              |

(3) Stockholders approved a proposal regarding the adoption of the Lennar Corporation 2007 Incentive Compensation Plan. The results of the vote were as follows:

| <b>Votes</b> | <b>Votes</b>   | <b>Votes</b>      | <b>Broker</b>    |
|--------------|----------------|-------------------|------------------|
| <b>For</b>   | <b>Against</b> | <b>Abstaining</b> | <b>Non-votes</b> |
| 330,649,304  | 32,480,989     | 3,466,181         | 34,409,464       |

(4) Stockholders did not approve a stockholder proposal requesting a Sustainability Report. The results of the vote were as follows:

| <b>Votes</b> | <b>Votes</b>   | <b>Votes</b>      | <b>Broker</b>    |
|--------------|----------------|-------------------|------------------|
| <b>For</b>   | <b>Against</b> | <b>Abstaining</b> | <b>Non-votes</b> |
| 23,531,730   | 329,213,610    | 13,851,134        | 34,409,464       |

(5) Stockholders did not approve a stockholder proposal regarding Executive Compensation. The results of the vote were as follows:

| <b>Votes</b> | <b>Votes</b>   | <b>Votes</b>      | <b>Broker</b>    |
|--------------|----------------|-------------------|------------------|
| <b>For</b>   | <b>Against</b> | <b>Abstaining</b> | <b>Non-votes</b> |
| 34,591,402   | 328,715,349    | 3,289,723         | 34,409,464       |

**Item 5. Not applicable.**

**Item 6. Exhibits.**

- 10.1. 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.
- 10.2. 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.
- 31.1. Rule 13a-14(a) certification by Stuart A. Miller, President and Chief Executive Officer.
- 31.2. Rule 13a-14(a) certification by Bruce E. Gross, Vice President and Chief Financial Officer.
- 32. Section 1350 certifications by Stuart A. Miller, President and Chief Executive Officer, and Bruce E. Gross, Vice President and Chief Financial Officer.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned thereunto duly authorized.

**Lennar Corporation**  
(Registrant)

Date: July 10, 2007

/s/ Bruce E. Gross  
Bruce E. Gross  
Vice President and  
Chief Financial Officer

Date: July 10, 2007

/s/ Diane J. Bessette  
Diane J. Bessette  
Vice President and  
Controller

Exhibit Index

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 10.1.                 | 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        |
| 10.2.                 | 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. |
| 31.1.                 | Rule 13a-14(a) certification by Stuart A. Miller, President and Chief Executive Officer.   |
| 31.2.                 | Rule 13a-14(a) certification by Bruce E. Gross, Vice President and Chief Financial Officer.  |
| 32.                   | Section 1350 certifications by Stuart A. Miller, President and Chief Executive Officer, and Bruce E. Gross, Vice President and Chief Financial Officer.              |