LNR PROPERTY CORP
Form 10-Q
October 15, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 31, 2001

Commission file number 1-13223

LNR Property Corporation
(Exact name of registrant as specified in its charter)

Delaware	65-0777234
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

760 Northwest 107th Avenue, Miami, Florida 33172
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (305) 485-2000

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

Common shares outstanding as of the end of the current fiscal quarter:

Common	24,421,531
Class B Common	9,951,456

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements.

LNR Property Corporation and Subsidiaries

Consolidated Condensed Balance Sheets

(In thousands, except per share amounts) August 200

Assets	
Cash and cash equivalents	$
Restricted cash	
Investment securities	
Mortgage loans, net	
Operating properties and equipment, net	
Land held for investment	
Investments in and advances to partnerships	
Other assets	
Total assets	$ 2,

Liabilities and Stockholders' Equity	
Liabilities	
Accounts payable and other liabilities	$
Mortgage notes and other debts payable	1,
Total liabilities	1,
Minority interests	
Stockholders' equity	
Common stock, $.10 par value, 150,000 shares authorized, 24,422 and 24,215 shares issued and outstanding in 2001 and 2000, respectively	
Class B common stock, $.10 par value, 40,000 shares authorized, 9,951 and 9,999 shares issued and outstanding in 2001 and 2000, respectively	
Additional paid-in capital	
Retained earnings	
Unamortized value of restricted stock grants	
Accumulated other comprehensive earnings (loss)	
Total stockholders' equity	
Total liabilities and stockholders' equity	$ 2,

See accompanying notes to unaudited consolidated condensed financial statements.

LNR Property Corporation and Subsidiaries

Consolidated Condensed Statements of Earnings

	(Unaudited) Three Months Ended August 31,	
(In thousands, except per share amounts)	2001	2000
Revenues		
Rental income	$ 26,201	38,

Equity in earnings of partnerships	17,282	16,
Interest income	44,315	38,
Gains on sales of:		
Real estate	13,786	15,
Partnership interests	-	
Investment securities	4,842	13,
Management and servicing fees	11,549	7,
Other, net	(607)	
Total revenues	117,368	130,
Costs and expenses		
Cost of rental operations	13,183	21,
General and administrative	18,245	16,
Depreciation	6,088	9,
Minority interests	570	2,
Total costs and expenses	38,086	50,
Operating earnings	79,282	80,
Interest expense	26,978	32,
Earnings before income taxes	52,304	47,
Income taxes	17,088	14,
Net earnings	$ 35,216	33,
Weighted average shares outstanding:		
Basic	33,492	33,
Diluted	35,077	34,
Net earnings per share:		
Basic	$ 1.05	0
Diluted	$ 1.00	0

See accompanying notes to unaudited consolidated condensed financial statements.

LNR Property Corporation and Subsidiaries

Consolidated Condensed Statements of Comprehensive Earnings

(In thousands)	(Unaudited) Three Months Ended August 31, 2001	2000
Net earnings	$ 35,216	33,064

Other comprehensive earnings (loss), net of tax:			
Unrealized gain (loss) on available-for-sale securities, net and other		14,822	1,951
Unrealized loss on hedging activities		(70)	-
Transition adjustment related to accounting for derivative financial instruments and hedging activities		-	-
Less: reclassification adjustment for gains included in net earnings		(5,009)	(8,122
Other comprehensive earnings (loss)		9,743	(6,171
Comprehensive earnings	$	44,959	26,893

See accompanying notes to unaudited consolidated condensed financial statements.

LNR Property Corporation and Subsidiaries

Consolidated Condensed Statements of Cash Flows

(In thousands)

Cash flows from operating activities:	
Net earnings	$
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:	
Depreciation	
Minority interests	
Amortization of discount on CMBS, mortgage loans and other	
Gains on sales of real estate	
Gains on sales of partnership interests	
Gains on sales of investment securities	
Equity in earnings of partnerships	
Losses on hedging activities	
Changes in assets and liabilities:	
Decrease (increase) in restricted cash	
Increase in other assets	
Decrease in mortgage loans held for sale	
Increase in accounts payable and other liabilities	
Net cash (used in) provided by operating activities	
Cash flows from investing activities:	
Operating properties and equipment	
Additions	
Sales	
Land held for investment	
Additions	
Sales	
Investments in and advances to partnerships	
Distributions from partnerships	
Proceeds from sales of partnership interests	
Purchase of mortgage loans held for investment	

Proceeds from mortgage loans held for investment
Purchase of investment securities
Proceeds from principal collections on and sales of investment securities
Interest received on CMBS in excess of income recognized
Proceeds from sale of other assets
Syndication of affordable housing communities

Net cash provided by (used in) investing activities

Cash flows from financing activities:
Proceeds from stock option exercises
Purchase of treasury stock
Payment of dividends
Net payments borrowings under repurchase agreements and revolving credit lines
Mortgage notes and other debts payable:
Proceeds from borrowings
Principal payments

Net cash (used in) provided by financing activities

Net increase in cash and cash equivalents
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period $

LNR Property Corporation and Subsidiaries

Consolidated Condensed Statements of Cash Flows - continued

(In thousands)

Supplemental disclosure of non-cash investing and financing activities:	
Mortgage loan received on sale of operating property	$
Purchases of mortgage loans financed by seller	$
Purchases of investment securities financed by seller	$
Grant of restricted stock	$
Supplemental disclosure of non-cash transfers:	
Transfers between operating properties and land held for investment	$
Transfers between certain assets and liabilities and investments in partnerships	$

See accompanying notes to unaudited consolidated condensed financial statements.

LNR Property Corporation and Subsidiaries

Notes to Unaudited Consolidated Condensed Financial Statements

1. Basis of Presentation and Consolidation

The accompanying unaudited consolidated condensed financial statements include the accounts of LNR Property Corporation and its wholly-owned subsidiaries (the "Company"). The assets, liabilities and results of operations of entities (both corporations and partnerships) in which the Company has a controlling interest have been consolidated. The ownership interests of noncontrolling owners in such entities are reflected as minority interests. The Company's investments in partnerships (and similar entities) in which less than a controlling interest is held or of which control is shared are accounted for by the equity method (when significant influence can be exerted by the Company), or the cost method. All significant intercompany transactions and balances have been eliminated. The financial statements have been prepared by management without audit by independent public accountants and should be read in conjunction with the November 30, 2000 audited financial statements in the Company's Annual Report on Form 10-K for the year then ended. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for fair presentation of the accompanying unaudited consolidated condensed financial statements have been made.

2. Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that all derivative instruments be recorded as either an asset or liability on the balance sheet at their fair value, and that changes in the fair value be recognized currently in earnings unless specified criteria are met. This statement was effective for fiscal quarters of fiscal years beginning after June 15, 1999. SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" extended the effective date to all fiscal quarters of fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB Statement No. 133." This statement amends the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and certain hedging activities. The Company adopted the provisions of these standards on December 1, 2000. In accordance with these standards, the Company carries all derivative instruments in the balance sheet at fair value. At August 31, 2001, the Company has a derivative liability of $23.6 million which is included in accounts payable and other liabilities in the Consolidated Condensed Balance Sheets. Periods prior to December 1, 2000 have not been restated. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship.

Hedging Objectives and Strategies

With regard to risk management in general, and interest rate risk in particular, the Company's fundamental philosophy is centered on a desire to tolerate only a relatively small amount of risk. The Company has an interest rate risk management policy with the objective of: (1) managing its interest costs and (2) reducing the impact of unpredictable changes in asset values related to movements in interest rates on the Company's available-for-sale securities. To meet these objectives, the Company employs hedging strategies to limit the effects of changes in interest rates on its operating income and cash flows and on the value of its available-for-sale securities.

The Company does not acquire derivative instruments for any purpose other than cash flow and fair value hedging purposes. That is, the Company does not speculate using derivative instruments.

The Company believes its interest rate risk management policy is generally effective. Nonetheless, the Company's profitability may be adversely affected during particular periods as a result of changing interest rates. In addition, hedging transactions using derivative instruments involve risks such as counter-party credit risk and legal enforceability of hedging contracts. The counter-parties to the Company's arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. These counter-parties potentially expose the Company to loss in the event of their nonperformance.

Cash Flow Hedging Instruments

The Company's approach to managing interest cost is based primarily on match funding, with the objective that variable-rate assets be primarily financed by variable-rate liabilities and fixed-rate assets be primarily financed by fixed-rate liabilities. Management continually identifies and monitors changes in interest rate exposures that may adversely impact expected future cash flows by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate cash flow risk attributable both to the Company's outstanding or forecasted debt obligations and to the Company's offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analyses, to estimate the impact of changes in interest rates on the Company's future cash flows.

The Company periodically enters into derivative financial arrangements, primarily interest rate swap agreements, to manage fluctuations in cash flows resulting from interest rate risk. These swap agreements effectively change the variable-rate cash flows on debt obligations to fixed-rate cash flows. Under the terms of the interest rate swap agreements, the Company receives payments equal to interest at variable rates on specified nominal amounts and makes payments equal to interest at fixed rates on the same nominal amounts, thereby generating variable rate income to offset variable rate interest obligations and creating the equivalent of fixed-rate debt. At August 31, 2001, the Company had 14 such interest rate swap agreements with a notional amount of $292.6 million, which mature through February 2004.

The Company records the fair value of interest rate swap agreements designated as hedging instruments for variable-rate debt obligations as a derivative asset or liability. Changes in the fair value of the interest rate swap agreements are reported as unrealized gains or losses in stockholders' equity as a component of accumulated other comprehensive earnings. If a derivative instrument is not designated as a hedge, the gain or loss resulting from a change in fair value is recognized in earnings in the period of change. If a derivative instrument is designated as a hedge but the derivative instrument is not fully effective in hedging the designated risk, the ineffective portion of the gain or loss is reported in earnings immediately.

Interest expense for the quarter and nine months ended August 31, 2001 includes no net gains or losses representing cash flow hedge ineffectiveness arising from differences between the critical terms of interest rate swap agreements and the hedged debt obligations, since the terms of the Company's swap agreements and debt obligations are matched.

Fair Value Hedging Instruments

To manage the risk associated with unpredictable changes in asset values related to the effect of movements in interest rates on the Company's fixed-rate available-for-sale securities, the Company periodically uses derivative financial instruments, primarily interest rate swap agreements. Under the terms of these swap agreements, the Company receives variable interest rate payments and makes fixed interest rate payments. At August 31, 2001, the Company had eight such interest rate swap agreements with a notional amount of $279.7

million, which mature through December 2011.

The Company has designated these interest rate swap agreements as hedges of interest rates on certain available-for-sale securities and records the fair value of the agreements as derivative assets or liabilities. Changes in the fair value of the interest rate swap agreements are recorded in earnings, as are the changes in the fair value of the hedged available-for-sale securities resulting from changes in interest rates.

The Company recorded a loss of $0.6 million and $1.3 million, respectively, for hedge ineffectiveness during the three-month and nine-month periods ended August 31, 2001. These amounts are included in other revenue, net in the Consolidated Condensed Statements of Earnings.

Transition

Upon the adoption of SFAS No. 133, the Company recognized $4.1 million, net of tax benefit, of deferred hedging losses on derivative instruments. This amount was offset by $4.1 million, net of tax expense, of realized gains related to the hedged available-for-sale securities. Both of these amounts were previously recorded in stockholders' equity as a component of accumulated other comprehensive earnings. Also upon adoption of SFAS No. 133, the Company transferred $102.8 million of securities which were previously classified as held-to-maturity to available-for-sale. Upon this reclassification, the Company recorded a transition adjustment of $4.1 million, net of tax expense, which was the difference between the market value and the book value of the securities on December 1, 2000, the date the Company adopted SFAS No. 133. This adjustment is reported in stockholders' equity as a component of accumulated other comprehensive income.

3. New Accounting Pronouncements

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB No. 101 is applicable to the Company beginning no later than the fourth quarter of the year ending November 30, 2001. The Company believes that its revenue recognition policies conform to SAB No. 101.

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued in September 2000, and replaces SFAS No. 125. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, and is effective for disclosures relating to securitizations and other transfers of financial assets and collateral for the fiscal year ending November 30, 2001. Disclosures about securitizations and other transfers of financial assets and collateral need not be reported for prior periods presented for comparative purposes. The adoption of SFAS No. 140 insofar as it relates to accounting for transfers and servicing of financial assets and extinguishments of liabilities has not had a material effect on the Company's results of operations or financial position. The adoption of SFAS No. 140 insofar as it relates to disclosures relating to securitizations and other transfers of financial assets and collateral is not expected to have a material effect on the Company's results of operations or financial position.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated

after June 30, 2001 as well as all purchase method combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually on a basis set forth in SFAS No. 142, and that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated

residual values, and reviewed for impairment. SFAS No. 141 is effective July 1, 2001, and SFAS No. 142 is effective for the fiscal year ending November 30, 2001. Adoption of these two standards is not expected to have a material effect on the Company's results of operations or financial position.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the asset, and the associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the related asset and depreciated over the life of the asset. The liability is accreted each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement. The Company is required and plans to adopt the provisions of SFAS No. 143 for the quarter ending February 28, 2003. To accomplish this, the Company must identify all legal obligations associated with the retirement of tangible long-lived assets, if any, and determine the fair value of these obligations on the date of adoption. The Company has not determined the effect, if any, adoption of SFAS No. 143 will have on the Company's financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of a Disposal of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. This Statement also amends ARB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 is effective for the fiscal year ending November 30, 2003, and interim periods within fiscal 2003, with early application encouraged. The provisions of this Statement generally are to be applied prospectively. The Company has not determined the effect, if any, adoption of SFAS No. 144 will have on the Company's financial position and results of operations.

4. Reclassifications

Certain reclassifications have been made to the prior year consolidated condensed financial statements to conform to the current year presentation.

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

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

OPERATIONS CONTAINS INFORMATION WHICH CONSTITUTES FORWARD LOOKING STATEMENTS. FORWARD LOOKING STATEMENTS INHERENTLY INVOLVE RISKS AND UNCERTAINTIES. THE FACTORS, AMONG OTHERS, THAT COULD CAUSE THE COMPANY'S ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE ANTICIPATED BY THE FORWARD LOOKING STATEMENTS IN THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS INCLUDE (i) CHANGES IN DEMAND FOR COMMERCIAL REAL ESTATE NATIONALLY, IN AREAS IN WHICH THE COMPANY OWNS PROPERTIES, OR IN AREAS IN WHICH PROPERTIES SECURING MORTGAGES DIRECTLY OR INDIRECTLY OWNED BY THE COMPANY ARE LOCATED, (ii) INTERNATIONAL, NATIONAL OR REGIONAL BUSINESS CONDITIONS WHICH AFFECT THE ABILITY OF MORTGAGE OBLIGORS TO PAY PRINCIPAL OR INTEREST WHEN IT IS DUE, (iii) THE CYCLICAL NATURE OF THE COMMERCIAL REAL ESTATE BUSINESS, (iv) CHANGES IN INTEREST RATES, AND (v) CHANGES IN THE MARKET FOR VARIOUS TYPES OF REAL ESTATE BASED SECURITIES. SEE THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED NOVEMBER 30, 2000, FOR A FURTHER DISCUSSION OF RISKS AND UNCERTAINTIES APPLICABLE TO THE COMPANY'S BUSINESS.

OVERVIEW

LNR Property Corporation (together with its subsidiaries, the "Company") is a real estate investment, finance and management company. The Company engages primarily in (i) acquiring, developing, managing and repositioning commercial and multi-family residential real estate, (ii) investing in high yielding real estate loans and purchasing at a discount portfolios of loans backed by real estate, and (iii) investing in unrated and non-investment grade rated commercial mortgage-backed securities ("CMBS") as to which the Company has the right to be special servicer (i.e., to oversee workouts of underperforming and non-performing loans).

1. RESULTS OF OPERATIONS

The following discussion and analysis presents the significant changes in results of operations of the Company for the three months and nine months ended August 31, 2001 and 2000 after allocating among the core business segments certain non-corporate general and administrative expenses. The following discussion should be read in conjunction with the unaudited consolidated condensed financial statements and notes thereto.

	Three Months Ended August 31,		Nine Month August
(In thousands)	2001	2000	2001
Revenues			
Real estate properties	$ 50,913	62,939	162,497
Real estate loans	11,150	14,746	42,523
Real estate securities	55,305	52,657	153,637
Total revenues	117,368	130,342	358,657
Operating expenses			
Real estate properties	26,125	38,229	85,885
Real estate loans	1,706	2,193	5,394
Real estate securities	3,527	2,665	11,134
Corporate and other	6,728	7,230	17,942
Total operating expenses	38,086	50,317	120,355
Operating earnings			

Real estate properties	24,788	24,710	76,612
Real estate loans	9,444	12,553	37,129
Real estate securities	51,778	49,992	142,503
Corporate and other	(6,728)	(7,230)	(17,942)
Total operating earnings	79,282	80,025	238,302
Interest expense	26,978	32,108	86,263
Income tax expense	17,088	14,853	52,484
Net earnings	$ 35,216	33,064	99,555

Three months and nine months ended August 31, 2001 compared to three months and nine months ended August 31, 2000

The Company reported net earnings of $35.2 million and $99.6 million for the three- and nine-month periods ended August 31, 2001, respectively, compared to $33.1 million and $88.0 million for the same periods in 2000.

The quarter-over-quarter improvement in net earnings is primarily attributable to (i) an increase in recurring income (net rents, interest and fees including the Company's pro-rata share of net rents, interest and fees from partnerships), (ii) a reduction in interest expense primarily due to a decrease in interest rates and, to a lesser extent, reduced borrowing levels, and (iii) a decrease in depreciation expense primarily due to the timing of property sale activity relative to new acquisitions or development properties coming on line. These increases were offset somewhat by a decrease in gains on sales of real estate and investment securities.

The year-over-year improvement in net earnings is primarily attributable to (i) an increase in recurring income, (ii) an increase in gains on sales of real estate and (iii) a decrease in depreciation expense. These increases were offset somewhat by (i) a decrease in gains on sales of partnership interests due to the sale of the Company's investment interests in its Japanese

discount loan portfolios in April of 2000, (ii) a decrease in equity in earnings of partnerships from both the Company's domestic and Japanese discount loan portfolio businesses and from the Company's real estate property partnerships, (iii) a decrease in gains on sales of investment securities and (iv) an increase in general and administrative expenses from the Company's growing businesses.

The Company's total revenues were down $13.0 million for the quarter and up $7.6 million for the year-to-date period. Revenues were down 10% for the quarter and only up 2% for the year, primarily due to the timing of asset sales, reduced interest income on floating-rate assets and the shift in the mix of the Company's investments. Lower interest income is a result of transactions that are match-funded with floating-rate debt, with no impact to net earnings. The shift in mix relates primarily to recycling sales proceeds from stabilized properties into other investments that produce higher net margins including primarily securities and loans.

Real estate properties

	Three Months Ended August 31,		Nine Months E[nded] August 31
(In thousands)	2001	2000	2001

Rental income	$ 26,201	38,437	86,178
Equity in earnings of partnerships	6,477	7,381	12,078
Gains on sales of real estate	13,786	15,736	57,657
Gains on sales of partnership interests	-	505	-
Management fees	4,449	880	6,584
Total revenues	50,913	62,939	162,497
Cost of rental operations	13,183	21,391	43,684
Other operating expenses	6,602	5,727	22,455
Minority interests	252	1,210	284
Depreciation	6,088	9,901	19,462
Total operating expenses (1)	26,125	38,229	85,885
Operating earnings	$ 24,788	24,710	76,612
Balance sheet data:			
Operating properties and equipment, net	$ 756,625	998,153	756,625
Land held for investment	43,117	106,794	43,117
Investments in and advances to partnerships	243,048	182,403	243,048
Total segment assets	$ 1,042,790	1,287,350	1,042,790

(1) Operating expenses do not include interest expense.

Real estate properties include rental apartment communities (market-rate and affordable housing communities), office buildings, industrial/warehouse facilities, hotels, retail centers and land that the Company acquires and develops, redevelops or repositions. These properties may be wholly owned or owned through a partnership that is either consolidated or reflected as an investment in partnership. Real estate properties also include the Company's 50% interest in Lennar Land Partners ("LLP"), a partnership engaged in the acquisition, development and sale of land. Total revenues from real estate properties include rental income from operating properties, equity in earnings of partnerships that own and operate real estate properties, gains on sales of the properties and the partnership interests and fees earned from managing the partnerships. Operating expenses include the direct costs of operating the real estate properties, the related depreciation and the overhead associated with managing the properties and partnerships.

Throughout the year, the Company has sold stabilized properties at prices it believes to be favorable and has not been replacing stabilized properties in the portfolio as quickly as they have been sold. The Company has had limited new acquisitions in the property segment and instead has concentrated on completing the development, repositioning and lease-up of its existing portfolio. Additionally, an increasing share of the Company's newer development and repositioning property investments have been through partnerships, most of which are reflected as investments in partnerships. This has resulted in an overall lower investment in the property segment for the Company. Approximately half of the Company's remaining property portfolio is still undergoing development or repositioning. The majority of these properties are pre-leased, which will

result in their contribution to net rents/recurring income as these properties are completed and tenants begin to pay rent.

Three months and nine months ended August 31, 2001 compared to three months and nine months ended August 31, 2000

Overall, operating earnings from real estate properties were $24.8 million and $76.6 million for the three- and nine-month periods ended August 31, 2001, respectively, compared to $24.7 million and $48.7 million for the same periods in 2000.

Operating earnings from real estate properties was slightly higher for the three months ended August 31, 2001, primarily due to lower depreciation expense and increased management fees. These increases were offset by lower net rents from wholly owned or consolidated property partnerships and fewer gains on sales of real estate.

Operating earnings from real estate properties increased by 57% or $27.9 million for the nine months ended August 31, 2001. The increase was primarily due to higher gains on sales of real estate, lower depreciation expense and higher recurring income. These increases were partially offset by a decrease in equity in earnings and gains on sales of partnerships, and an increase in other operating expenses.

Recurring income in the real estate property segment (net rents and fees including the Company's pro-rata share of net rents and fees from properties owned through partnerships that are reflected as investments in partnerships), increased to $21.9 million and $66.5 million for the three- and nine-month periods ended August 31, 2001, respectively, from $20.7 million and $53.3 million for the same periods in 2000. Recurring income grew despite increased property sales, reflecting the Company's success in leasing up newly developed and repositioned properties.

For the three- and nine-month periods ended August 31, 2001, gains on sales of real estate decreased by $2.0 million and increased by $38.2 million, respectively, compared to the same prior year periods. For the three- and nine-month periods ended Aug 31, 2001, respectively, gains on sales of real estate were $11.0 million and $44.2 million from sales of stabilized market rate operating properties, $2.1 million and $5.2 million from sales of the Company's low income housing tax credit syndication program, and $0.7 million and $8.3 million from sales of land. Gains on sales of real estate may vary from period to period based on activity levels and profit margins. During the three-month period, the Company sold stabilized market rate properties with a book value of $37.7 million for a net sales price of $48.7 million compared with sales of stabilized market rate properties with a book value of $49.8 million for a net sales price of $63.0 million in the prior year three-month period. During the nine-month period, the Company sold stabilized market rate properties with a book value of $120.2 million for a net sales price of $164.4 million compared with sales of stabilized market rate properties with a book value of $60.1 million for a net sales price of $75.0 million in the prior year nine-month period.

Equity in earnings of partnerships decreased to $6.5 million and $12.1 million for the three- and nine-month periods ended August 31, 2001, respectively, from $7.4 million and $23.7 million for the same periods in 2000. The decrease for the three months ended August 31, 2001 compared to the same period in 2000 is primarily due to an increase in the Company's stabilized affordable housing partnership investments. These partnerships typically generate pre-tax operating losses

which are more than offset by the tax credits and benefits which directly reduce the Company's overall income taxes. The decrease in equity in earnings of partnerships for the nine months ended August 31, 2001 compared to the same period in 2000 is primarily due to an increase in the Company's stabilized affordable housing partnership investments and lower earnings from LLP. LLP primarily sells land to Lennar Corporation, its former parent company and its partner in LLP, and other homebuilders. Equity in earnings from LLP may vary from period to period depending on the timing of housing starts.

Gains on sales of partnership interests decreased $0.5 million and $3.3 million for the three- and nine-month periods ended August 31, 2001, respectively, compared to the same periods in 2000. The decrease for the nine-month period is because the Company sold its interest in a single-asset partnership in the second quarter of 2000.

Management fees increased to $4.4 million and $6.6 million for the three- and nine-month periods ended August 31, 2001, respectively, from $0.9 million and $1.9 million for the same periods in 2000. This increase is primarily due to developer and other fees the Company receives for managing the value-add process for its partners.

Depreciation expense decreased to $6.1 million and $19.5 million for the three- and nine-month periods ended August 31, 2001, respectively, from $9.9 million and $27.1 million for the same periods in 2000. Since the Company has not been replacing stabilized assets in the property segment as quickly as they have been sold, this has resulted in a lower investment in operating properties and a corresponding lower depreciation expense for the three- and nine-month periods.

Other operating expenses, which represent an allocation of salary, professional and other administrative expenses, increased to $6.6 million and $22.5 million for the three- and nine-month periods ended August 31, 2001, respectively, from $5.7 million and $15.9 million for the same periods in 2000. These increases were due to additional personnel and administrative costs necessary to support the growth in the overall real estate portfolio managed by the Company, including real estate owned and managed through partnerships.

The net book value of market-rate operating properties and equipment, excluding affordable housing communities, at August 31, 2001 and the annualized net operating income for the nine-month period ended on that date with regard to various types of property owned by the Company were as follows:

(In thousands, except percentages)	Net Book Value	Occupancy Rate	Annualized Net Operating Income (NOI) (1)
Stabilized operating properties			
Office	$ 188,454	93%	$ 26,236
Retail	28,424	96%	3,259
Industrial / Warehouse	49,612	100%	6,592
Ground Leases	18,907	100%	2,950
Commercial	285,397	97%	39,037
Hotel	15,571	58%	1,919
	300,968		40,956
Under development or repositioning			

Office	232,895	6,669
Retail	32,440	1,988
Commercial	265,335	8,657
Multi-family	77,617	205
Hotel	29,492	677
	372,444	9,539
Furniture, fixtures and equipment	6,370	-
Total (2)	$ 679,782	$ 50,495

(1) Annualized NOI for purposes of this schedule is rental income less cost of rental operations before commissions and non-operating expenses.
(2) Total market-rate operating properties and equipment, net, excluding affordable housing communities.

At August 31, 2001, approximately 45% of the Company's market-rate operating properties, based on net book value, had reached stabilized occupancy levels and were yielding in total 14% on net book cost. At August 31, 2000, these percentages were 40% and 14%, respectively. The anticipated improvements in the earnings of the not yet stabilized market-rate operating properties are not expected to be recognized until future periods.

Pre-tax operating margins for the affordable housing communities, which qualify for Low-Income Housing Tax Credits, are generally lower than for market-rate rentals. However, the Company receives its desired yield from these investments after adding in (1) the impact of lower income taxes as a result of the tax credits and other related tax deductions and (2) profits from sales of tax credits to others.

The net investment in the Company's affordable housing communities at August 31, 2001 and the annualized yield on the stabilized affordable housing communities for the nine-month period then ended, were as follows:

(In thousands, except percentages)

Net book value of apartment communities	$
Investments in partnerships	
Debt and other	
Net investment in stabilized apartment communities	
Net investment in apartment communities under development	
Net investment in affordable housing communities	$
Stabilized apartment communities:	
Annualized NOI as a % of net book value	
Annualized adjusted NOI as a % of net book value (1)	

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(1) Annualized adjusted NOI includes the annualized effect of tax credits and other related tax deductions.

As of August 31, 2001, the Company had been awarded and held rights to over $174 million in tax credits, with approximately 64% relating to apartment communities that have not yet reached stabilized occupancy levels.

At the time of the acquisition of the Affordable Housing Group ("AHG") in 1998, the Company's strategy was to retain the tax credits generated through owning the partnership interests in the affordable housing communities and then use those credits to reduce the Company's overall effective tax rate. However, the demand for credits has since increased significantly and the Company found it could generate higher returns on its investment by selling the credits than by using them. The Company began to shift its strategy away from owning the partnership interests in the affordable housing communities toward syndicating such interests. The Company expects to generate fee income and gains in future years from such syndications. As a result, the Company's investment in affordable housing communities, as well as the amount of tax credits it holds and utilizes to reduce its tax rate, has been declining in 2001.

Real estate loans

	Three Months Ended August 31,		Nine Months En August 31,
(In thousands)	2001	2000	2001
Interest income	$ 9,874	8,770	37,235
Equity in earnings of partnerships	463	2,004	1,651
Gains on sales of partnership interests	-	-	-
Management fees	760	3,925	3,536
Other income	53	47	101
Total revenues	11,150	14,746	42,523
Operating expenses	1,184	1,625	3,640
Minority interests	522	568	1,754
Total operating expenses (1)	1,706	2,193	5,394
Operating earnings	$ 9,444	12,553	37,129
Balance sheet data:			
Mortgage loans, net	$ 240,263	227,207	240,263
Other investments	52,361	49,536	52,361
Investments in and advances to partnerships	9,593	14,293	9,593
Total segment assets	$ 302,217	291,036	302,217

(1) Operating expenses do not include interest expense.

Real estate loans include the Company's direct investments in high yielding loans, as well as its domestic and foreign discount loan portfolio investments, owned primarily through partnerships, and related loan workout operations. Total revenues include interest income, equity in earnings of partnerships and management fees earned from those partnerships. Operating expenses include the overhead associated with servicing the loans and managing the partnerships.

Three months and nine months ended August 31, 2001 compared to three months and nine months ended August 31, 2000

Operating earnings from real estate loans were $9.4 million and $37.1 million for the three- and nine-month periods ended August 31, 2001, respectively, compared to $12.6 million and $59.4 million for the same periods in 2000. These decreases were primarily due to lower earnings from the Company's domestic and Japanese discount loan portfolio businesses. These decreases were offset by increases in the earnings from the Company's growing portfolio of high-yielding loans.

Interest income increased to $9.9 million and $37.2 million for the three- and nine-month periods ended August 31, 2001, respectively, from $8.8 million and $25.6 million for the same periods in 2000. Interest income primarily includes interest earned on investments in structured junior participations in high-quality short- to medium-term variable rate first mortgage real estate loans ("B-Notes"). During the third quarter of 2001, the Company funded one additional B-Note investment for $9.9 million and three B-Note investments with a face amount of $77.7 million paid off in full, bringing the portfolio of B-Note investments at August 31, 2001 to $183.5 million. These investments contributed approximately $6.0 million and $19.6 million to interest income for the three- and nine-month periods ended August 31, 2001, respectively, compared to $5.9 million and $15.3 million for the comparable periods in 2000. For the nine-month period ended August 31, 2001, interest income also included $4.2 million from the early payoff of a discounted mortgage loan in the first quarter of 2001.

Equity in earnings of partnerships decreased $1.5 million and $14.1 million for the three- and nine-month periods ending August 31, 2001, respectively, compared to the same periods in 2000. The decrease for the three-month period was due to a decrease in earnings from the Company's domestic discount loan portfolios because most of the assets in those portfolios had been liquidated. The decrease for the nine-month period was partly due to a decrease in earnings from the Company's domestic discount loan portfolios and partly due to a decrease in earnings from the Company's Japanese discount loan portfolios. The Company sold its remaining interests in its Japanese discount loan portfolios in April 2000.

Gains on sales of partnership interests of $20.3 million for the nine-month period ended August 31, 2000 represents the gain on sale of the Company's interests in its Japanese discount loan portfolios.

Management fees decreased to $0.8 million and $3.5 million for the three- and nine-month periods ended August 31, 2001, respectively, from $3.9 million and $4.4 million for the same periods in 2000. The decreases were due to a fee received from one of the domestic discount loan portfolios in the third quarter of 2000.

Operating expenses decreased to $1.2 million and $3.6 million for the three- and nine-month periods ended August 31, 2001, respectively, from $1.6 million and $5.2 million for the same periods in 2000, primarily due to the sale of the

Company's interests in its Japanese discount loan portfolios in April 2000, partially offset by increased general and administrative expenses to support the growth in the Company's mortgage loan portfolio.

Real estate securities

	Three Months Ended August 31,		Nine Months En August 31,
(In thousands)	2001	2000	2001
Interest income	$ 34,441	29,723	98,184
Equity in earnings of partnerships	10,342	6,665	33,054
Gains on sales of securities	4,842	13,134	4,842
Management and servicing fees	6,340	3,135	18,869
Other, net	(660)	-	(1,312)
Total revenues	55,305	52,657	153,637
Operating expenses	3,731	2,413	10,910
Minority interests	(204)	252	224
Total operating expenses (1)	3,527	2,665	11,134
Operating earnings	$ 51,778	49,992	142,503
Balance sheet data:			
Investment securities	$ 952,470	623,904	952,470
Investments in and advances to partnerships	102,807	107,632	102,807
Other investments	-	8,820	-
Total segment assets	$ 1,055,277	740,356	1,055,277

(1) Operating expenses do not include interest expense.

Real estate securities include unrated and non-investment grade rated subordinated CMBS which are collateralized by pools of mortgage loans on commercial and multi-family residential real estate properties. It also includes the Company's investment in Madison Square Company LLC ("Madison"), a limited liability company that invests in CMBS, as well as investments in entities in related businesses. Total revenues from real estate securities include interest income, equity in the earnings of Madison, gains on sales of securities, servicing fees from acting as special servicer for CMBS transactions and fees earned from managing Madison. Operating expenses include the

overhead associated with managing the investments and Madison, and costs of the special servicing responsibilities.

Three months and nine months ended August 31, 2001 compared to three months and nine months ended August 31, 2000

Overall, operating earnings from real estate securities increased to $51.8 million and $142.5 million for the three- and nine-month periods ended August 31, 2001, respectively, from $50.0 million and $126.6 million for the same periods in 2000. Earnings were higher for both periods primarily due to (i) increased interest income and fees resulting from the growth of the Company's CMBS portfolio and (ii) greater recognition of earnings due to actual CMBS performance continuing to exceed original expectations. These increases were partially offset by (i) a decrease in gains on sales of investment securities and (ii) higher operating expenses.

In recording CMBS interest income, the Company recognizes interest received plus the amortization of the difference between the carrying value and the face amount of the securities to achieve a level yield. To date, this has resulted in less recognition of interest income than the amount of interest actually received. The excess interest received is applied to reduce the Company's CMBS investment. The Company's initial and ongoing estimates of its returns on CMBS investments are based on a number of assumptions that are subject to various business and economic conditions, the most significant of which is the timing and magnitude of credit losses on the underlying mortgages.

The Company has already begun to receive principal payments from twelve of its securities, and four have matured entirely. Actual loss experience to date, particularly for older transactions (3 to 8 years in age), is significantly lower than originally underwritten by the Company. Therefore, changes to original estimated yields have resulted, and the Company believes they should continue to result, in improved earnings from these transactions. The Company believes these improvements resulted from its success in managing and working out the underlying loans and strong real estate fundamentals. However, the positive experience on these older transactions will not necessarily translate into yield improvements on newer investments.

During the quarter ended August 31, 2001, the Company acquired $241.9 million face amount of fixed-rate CMBS for $117.4 million and $46.0 million face amount of short-term floating-rate CMBS for $40.6 million. The following is a summary of the CMBS portfolio held by the Company at August 31, 2001:

	Face Amount	Weighted Average Interest Rate	Book Value	% of Face Amount	Weighted Average Cash Yield (1)	Wei Ave B Yie
	(In thousands, except percentages)					
Fixed-rate						
BB rated or above	$ 374,666	6.78%	$ 265,541	70.9%	9.6%	
B rated	561,768	6.51%	300,735	53.5%	11.8%	
Unrated	922,219	7.05%	214,854	23.3%	28.1%	
Total	1,858,653	6.83%	781,130	42.0%	15.5%	
Floating-rate/ short-term						
BB rated or above	$ 12,789	5.11%	$ 11,201	87.6%	5.8%	
B rated	22,413	9.88%	20,783	92.7%	10.7%	
Unrated	108,609	12.97%	88,982	81.9%	15.8%	
Total	143,811	11.79%	120,966	84.1%	14.4%	
Unrealized gains on securities	-		50,374			

Total CMBS portfolio (3)	$ 2,002,464	7.21%	$ 952,470	47.6%	14.5%

(1) Cash yield is determined by annualizing the actual cash received during the month of August 2001, and dividing the result by the book value at August 31, 2001.
(2) Book yield is determined by annualizing the interest income for the month of August 2001, and dividing the result by the book value at August 31, 2001 .
(3) This table excludes CMBS owned through non-consolidated partnerships.

Equity in earnings of partnerships primarily represents the Company's participation in Madison, which was formed in April 1999. The venture owns approximately $1.5 billion of real estate related securities. The Company's investment in the venture at August 31, 2001 was $102.8 million, representing a 25.8% ownership interest. In addition to its investment in the venture, the Company maintains a significant ongoing role in the venture, for which it earns fees, both as the special servicer for the purchased CMBS transactions and as the provider of management services. Madison contributed $10.3 million and $33.1 million of equity in earnings of partnerships to the real estate securities line of business for the three- and nine-month periods ended August 31, 2001, respectively.

The $4.8 million gain on sale of investment securities recognized during the third quarter of 2001 primarily represents the sale of six investment grade CMBS securities for $38.3 million. Due to the excellent performance of these investments and the Company's efforts as special servicer, the rating agencies upgraded these bonds from non-investment grade levels. These bonds, which were originally purchased at substantial discounts, were sold at or above par. During the third quarter of 2000, the Company recognized a gain on sale of investment securities of $13.1 million for the sale of its remaining 417,000 shares of common stock in Bank United Corporation.

Management and servicing fees increased to $6.3 million and $18.9 million for the three- and nine-month periods ended August 31, 2001, respectively, from $3.1 million and $11.8 million for the same periods in 2000. This increase was primarily attributable to an increase in the number of CMBS mortgage pools (81 at August 31, 2001 versus 63 at August 31, 2000) for which the Company acts as special servicer.

Operating expenses increased to $3.7 million and $10.9 million for the three- and nine-month periods ended August 31, 2001, respectively, from $2.4 million and $7.5 million for the same periods in 2000. This increase is primarily due to increased personnel and out-of-pocket expenses directly related to the growth of the Company's CMBS portfolio.

Corporate, Other, Interest and Income Tax Expenses

Three months and nine months ended August 31, 2001 compared to three months and nine months ended August 31, 2000

Corporate and other operating expenses decreased to $6.7 million and $17.9 million for the three- and nine-month periods ended August 31, 2001, respectively, from $7.2 million and $18.7 million for the same periods in 2000.

Interest expense decreased to $27.0 million and $86.3 million for the three- and nine-month periods ended August 31, 2001, respectively, from $32.1 million and $88.5 million for the same periods in 2000. These decreases were primarily due to a decrease in interest rates and reduced borrowing levels. The Company's

mortgage notes and other debts payable decreased to $1.45 billion at August 31, 2001 from $1.55 billion at August 31, 2000.

Income tax expense increased to $17.1 million and $52.5 million for the three- and nine-month periods ended August 31, 2001, respectively, from $14.9 million and $39.5 million for the same periods in 2000, primarily due to an increase in pre-tax earnings, and to a lesser extent, a lower level of Low-Income Housing Tax Credits utilized. The Company's effective tax rate was 33% and 35% for the three- and nine-month periods ended August 31, 2001, respectively, compared to 31% for the same periods in 2000.

2. LIQUIDITY AND FINANCIAL RESOURCES

The Company's operating activities used $5.0 million of cash during the nine months ended August 31, 2001, and provided $13.8 million of cash during the nine months ended August 31, 2000. This increase in cash used in operating activities is primarily due to a lower decrease in mortgage loans held for sale and a smaller increase in accounts payable and other liabilities. This increase in cash used was offset by a decrease in restricted cash resulting from less cash held in escrow related to the sale of operating properties, a lower increase in other assets and an increase in cash flow from net earnings of $13.6 million, after adjusting for the effects of non-cash items, whose contributions to cash flow are reflected in cash from investing activities below.

The Company's investing activities provided $30.0 million of cash during the nine months ended August 31, 2001, and used $28.5 million of cash during the same period in 2000. This increase in cash provided by investing activities is primarily due to fewer acquisitions of and less development spending on properties, more proceeds from sales of operating properties and land investments, increased principal collections on mortgage loans and more proceeds from the syndication of affordable housing partnership interests. These increases were offset by additional purchases of investment securities, fewer proceeds from the sale of partnership interests and an increase in investments in and advances to partnerships.

The Company's financing activities used $14.3 million of cash during the nine months ended August 31, 2001, and provided $33.7 million of cash during the same period in 2000. This increase in cash used in financing activities is primarily due to $144.3 million more of net payments made under the Company's repurchase agreements and revolving credit lines and $66.6 million more of principal payments made on mortgage notes and other debt. These increases in cash used were offset by $133.8 million more of proceeds received from borrowings under the Company's mortgage notes and other debts payable and $27.9 million less in purchases of treasury stock.

The Company continues to diversify its capital structure and to manage its debt position with a combination of short-, medium- and long-term financings, with a goal of properly matching the maturities of its debt with the expected lives of its assets.

At August 31, 2001, the Company had approximately $802 million of available liquidity, which included approximately $689 million of cash and availability under credit facilities, and approximately $113 million of committed project level term financing.

The Company has a $350 million unsecured revolving credit facility, which matures in July 2004 assuming a one-year extension option is exercised. At August 31, 2001, $0 was outstanding under this facility, although the Company had issued and outstanding $31.3 million of standby letters of credit utilizing the facility.

The Company has various secured revolving lines of credit with an aggregate commitment of $364.6 million, of which $151.5 million was outstanding at August 31, 2001. These lines are collateralized by CMBS and mortgage loans and mature through January 2006.

The Company has financed some of its purchases of CMBS under reverse repurchase obligation facilities ("repos"). The repo agreements contain provisions which may require the Company to repay amounts or post additional collateral prior to the scheduled maturity dates if the market values of the bonds which collateralize them significantly decline. At August 31, 2001, the Company had three repo lines through which it financed selected CMBS. The first facility had a commitment of $80.4 million, of which $44.9 million was outstanding, and is required to be paid in full by June 2004. The second facility had a commitment of $50.0 million of which $0 was outstanding. This facility matures in June 2002. The third facility is a $150 million non-recourse facility, which matures in March 2003, and had an outstanding balance of $101.5 million at August 31, 2001. Additionally, the Company has received seller financing in the form of term repos for nine specific CMBS transactions. These agreements had an aggregate commitment of $138.2 million with an outstanding balance of $138.2 million at August 31, 2001 and expire through August 2004.

Because the Company borrows significant sums in connection with its activities, the Company could be adversely affected by reluctance of lenders to make loans to companies in real estate related businesses. Difficulty obtaining financing can reduce the Company's ability to take advantage of investment opportunities.

In February 2001, the Company issued $150 million of long-term unsecured senior subordinated notes, bringing the Company's total long-term unsecured senior subordinated notes to $450 million. The $150 million of notes bear interest at 10.5% and are due in January 2009. The Company used the proceeds from the issuance to pay down debt, primarily secured credit facilities, and for general corporate purposes.

During the second quarter of 2001, Standard and Poor's upgraded the Company's senior unsecured credit rating to BB from BB- and the Company's senior subordinated note rating to B+ from B.

At August 31, 2001, the Company had scheduled maturities on existing debt of $261.3 million through August 31, 2002, assuming the Company takes advantage of extensions which are exercisable at the Company's option. The Company's ability to make scheduled payments of principal or interest on or to refinance this indebtedness depends on its future performance, which to a certain extent, is subject to general economic, financial, competitive and other factors beyond the Company's control. The Company believes its borrowing availability under existing credit facilities, its operating cash flow and unencumbered asset values, and its ability to obtain new borrowings and/or raise new capital, should provide the funds necessary to meet its working capital requirements, debt service and maturities and short- and long-term needs based upon currently anticipated levels of growth. However, limitations on access to financing constrain the Company's ability to take advantage of opportunities which might lead to more significant growth.

Approximately 63% of the Company's existing indebtedness bears interest at variable rates. However, most of the Company's investments generate interest or rental income at essentially

fixed rates. The Company has entered into derivative financial instruments to manage its interest costs and hedge against risks associated with changing interest rates on its debt portfolio. At August 31, 2001, 32% of the Company's variable-rate debt had been swapped to fixed rates and 48% was match-funded against floating-rate assets. After considering the variable-rate debt that had

been swapped or was match-funded, 12% of the Company's debt remained variable-rate and 88% of the debt was fixed-rate or match-funded. As of August 31, 2001, the Company estimates that a 100 basis point change in LIBOR would impact net earnings by $0.4 million and earnings per share by approximately 0.3% of the Company's 2001 earnings per share goal of $3.70 to $3.85.

The weighted average interest rate on outstanding debt, after giving consideration to the interest rate swap agreements mentioned above, at August 31, 2001 and August 31, 2000, was 7.6% and 8.5%, respectively.

In December 2000, the Company purchased 300,000 shares of its common stock, bringing the total purchases to date under the Company's buy-back program to 3,244,100 shares. This represents 59% of the Company's repurchase authorization and over 9% of the Company's total stock outstanding when the buy-back program began. At the end of the third quarter, the Company had authorization under its buy-back program to purchase an additional 2,255,900 shares.

3. NEW ACCOUNTING PRONOUNCEMENTS

Information about new accounting pronouncements appears in Note 3 to the unaudited consolidated condensed financial statements in Item 1.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not subject to any legal proceedings other than suits in the ordinary course of its business, most of which are covered by insurance. The Company believes these suits will not, in the aggregate, have a material adverse effect upon the Company.

Items 2-5. Not applicable.

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

(a) Exhibits:

None

(b) Reports on Form 8-K:

None

SIGNATURES

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

Signature and Title	Date
/s/ Shelly Rubin Shelly Rubin Chief Financial Officer (Principal Financial Officer)	October 15, 2001