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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2011

Commission File Number: 1-11749

Lennar Corporation

(Exact name of registrant as specified in its charter)

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

700 Northwest 107th Avenue, Miami, Florida 33172

(Address of principal executive offices) (Zip Code)

(305) 559-4000

(Registrant s telephone number, including area code)

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

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

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

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

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

Common stock outstanding as of March 31, 2011:

Class A 155,630,004

Class B 31,303,197

Part I. Financial Information

Item 1. Financial Statements

Lennar Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except shares and per share amounts)

(unaudited)

	February 28, 2011 (1)	November 30, 2010 (1)
ASSETS		
Lennar Homebuilding:		
Cash and cash equivalents	$ 1,014,000	1,207,247
Restricted cash	7,448	8,195
Receivables, net	61,258	82,202
Inventories:		
Finished homes and construction in progress	1,629,764	1,491,292
Land and land under development	2,230,240	2,223,300
Consolidated inventory not owned	436,768	455,016
Total inventories	4,296,772	4,169,608
Investments in unconsolidated entities	642,874	626,185
Other assets	316,406	307,810
	6,338,758	6,401,247
Rialto Investments:		
Cash and cash equivalents	82,961	76,412
Defeasance cash to retire notes payable	125,559	101,309
Loans receivable	1,025,826	1,219,314
Real estate owned, net	446,245	258,104
Investments in unconsolidated entities	100,220	84,526
Other assets	37,859	37,949
	1,818,670	1,777,614
Lennar Financial Services	423,056	608,990
Total assets	$ 8,580,484	8,787,851

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

As of February 28, 2011, total assets include $2,297.4 million related to consolidated VIEs of which $36.1 million is included in Lennar Homebuilding cash and cash equivalents, $0.2 million in Lennar Homebuilding restricted cash, $5.3 million in Lennar Homebuilding receivables, net, $232.9 million in Lennar Homebuilding finished homes and construction in progress, $372.7 million in Lennar Homebuilding land and land under development, $82.4 million in Lennar Homebuilding consolidated inventory not owned, $39.5 million in Lennar Homebuilding investments in unconsolidated entities, $155.3 million in Lennar Homebuilding other assets, $75.1 million in Rialto Investments cash and cash equivalents, $125.6 million in Rialto Investments defeasance cash to retire notes payable, $796.1 million in Rialto Investments loans receivable, $362.2 million in Rialto Investments real estate owned, net and $14.0 million in Rialto Investments other assets.

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

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Continued)

(In thousands, except shares and per share amounts)

(unaudited)

	February 28, 2011 (2)	November 30, 2010 (2)
LIABILITIES AND EQUITY		
Lennar Homebuilding:		
Accounts payable	$ 147,046	168,006
Liabilities related to consolidated inventory not owned	367,086	384,233
Senior notes and other debts payable	3,129,065	3,128,154
Other liabilities	645,541	694,142
	4,288,738	4,374,535
Rialto Investments:		
Notes payable and other liabilities	769,490	770,714
Lennar Financial Services	289,270	448,219
Total liabilities	5,347,498	5,593,468
Stockholders equity:		
Preferred stock		
Class A common stock of $0.10 par value per share; Authorized: February 28, 2011 and November 30, 2010 300,000,000 shares; Issued: February 28, 2011 167,295,873 and November 30, 2010 167,009,774 shares	16,730	16,701
Class B common stock of $0.10 par value per share; Authorized: February 28, 2011 and November 30, 2010 90,000,000 shares; Issued: February 28, 2011 32,982,817 and November 30, 2010 32,970,914 shares	3,298	3,297
Additional paid-in capital	2,321,800	2,310,339
Retained earnings	914,045	894,108
Treasury stock, at cost; February 28, 2011 11,665,494 Class A common shares and 1,679,620 Class B common shares; November 30, 2010 11,664,744 Class A common shares and 1,679,620 Class B common shares	(615,496)	(615,496)
Total stockholders equity	2,640,377	2,608,949
Noncontrolling interests	592,609	585,434
Total equity	3,232,986	3,194,383
Total liabilities and equity	$ 8,580,484	8,787,851

(2) As of February 28, 2011, total liabilities include $925.4 million related to consolidated VIEs as to which there was no recourse against the Company, of which $13.8 million is included in Lennar Homebuilding accounts payable, $54.3 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, $188.0 million in Lennar Homebuilding senior notes and other debts payable, $35.1 million in Lennar Homebuilding other liabilities and $634.2 million in Rialto Investments notes payable and other liabilities.

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

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended February 28, 2011	2010
Revenues:		
Lennar Homebuilding	$ 466,709	520,776
Lennar Financial Services	57,713	53,365
Rialto Investments	33,623	301
Total revenues	558,045	574,442
Costs and expenses:		
Lennar Homebuilding	447,763	501,965
Lennar Financial Services	56,530	54,266
Rialto Investments	28,349	1,403
Corporate general and administrative	23,352	22,640
Total costs and expenses	555,994	580,274
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	8,661	(8,894)
Lennar Homebuilding other income, net (1)	29,960	14,203
Other interest expense	(22,079)	(18,665)
Rialto Investments equity in earnings from unconsolidated entities	4,525	143
Rialto Investments other income, net	13,203	
Earnings (loss) before income taxes	36,321	(19,045)
Benefit for income taxes	2,405	11,572
Net earnings (loss) (including net earnings (loss) attributable to noncontrolling interests)	$ 38,726	(7,473)
Less: Net earnings (loss) attributable to noncontrolling interests (2)	11,320	(950)
Net earnings (loss) attributable to Lennar	$ 27,406	(6,523)
Basic earnings (loss) per share	$ 0.15	(0.04)
Diluted earnings (loss) per share	$ 0.14	(0.04)
Cash dividends per each Class A and Class B common share	$ 0.04	0.04

(1) Lennar Homebuilding other income, net for the three months ended February 28, 2011 includes $8.3 million of valuation adjustments to the Company s investments in Lennar Homebuilding s unconsolidated entities.

(2) Net earnings (loss) attributable to noncontrolling interests for the three months ended February 28, 2011 includes $12.0 million of earnings related to the FDIC s interest in the portfolio of real estate loans that the Company acquired in partnership with the FDIC.

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Three months ended February 28, 2011	2010
Cash flows from operating activities:		
Net earnings (loss) (including net earnings (loss) attributable to noncontrolling interests)	$ 38,726	(7,473)
Adjustments to reconcile net earnings (loss) (including net earnings (loss) attributable to noncontrolling interests) to net cash provided by operating activities:		
Depreciation and amortization	3,767	2,904
Amortization of discount/premium on debt, net	4,061	382
Lennar Homebuilding equity in (earnings) loss from unconsolidated entities	(8,661)	8,894
Distributions of earnings from Lennar Homebuilding unconsolidated entities	1,322	
Rialto Investments equity in earnings from unconsolidated entities	(4,525)	(143)
Distributions of earnings from Rialto Investments unconsolidated entities	1,503	96
Share-based compensation expense	6,730	6,298
Excess tax benefits from share-based awards	(258)	
Gain on retirement of Lennar Homebuilding senior notes and other debt		(8,904)
Gains on Rialto Investments real estate owned	(17,375)	
Gains on Rialto Investments commercial mortgage-backed securities	(276)	
Valuation adjustments and write-offs of option deposits and pre-acquisition costs, other receivables and other assets	18,014	8,921
Changes in assets and liabilities:		
Decrease (increase) in restricted cash	3,214	(1,875)
Decrease in receivables	43,694	185,643
Increase in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs	(81,071)	(91,553)
(Increase) decrease in other assets	(13,851)	16,800
Decrease in Lennar Financial Services loans held-for-sale	110,412	41,783
Decrease in accounts payable and other liabilities	(95,751)	(72,357)
Net cash provided by operating activities	9,675	89,416
Cash flows from investing activities:		
Increase in restricted cash related to cash collateralized letters of credit		(164,150)
Net (additions) disposals of operating properties and equipment	8	(1,920)
Investments in and contributions to Lennar Homebuilding unconsolidated entities	(25,177)	(15,816)
Distributions of capital from Lennar Homebuilding unconsolidated entities	7,630	9,542
Investments in and contributions to Rialto Investments unconsolidated entities	(10,575)	(41,315)
Investments in and contributions to Rialto Investments consolidated entities (net of $54.0 million cash and cash equivalents consolidated at February 28, 2010)		(211,059)
Increase in Rialto Investments defeasance cash to retire notes payable	(24,250)	
Receipts of principal payments on Rialto Investments loans receivable	49,954	
Proceeds from sales of Rialto Investments real estate owned	7,792	
Improvements in Rialto Investments real estate owned	(2,718)	
Decrease in Lennar Financial Services loans held-for-investment, net	197	611
Purchases of Lennar Financial Services investment securities	(5,126)	(202)
Proceeds from sales and maturities of Lennar Financial Services investment securities	129	200
Net cash used in investing activities	(2,136)	(424,109)
Cash flows from financing activities:		

Net repayments under Lennar Financial Services debt	(149,339)	(105,172)
Partial redemption of senior notes		(38,275)
Proceeds from other borrowings	75	1,163
Principal payments on other borrowings	(27,838)	(45,118)
Exercise of land option contracts from an unconsolidated land investment venture	(10,855)	(16,070)
Receipts related to noncontrolling interests	115	5,127
Payments related to noncontrolling interests	(4,789)	(3,127)
Excess tax benefits from share-based awards	258	

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(In thousands)

(unaudited)

	Three months ended February 28, 2011	2010
Common stock:		
Issuances	4,754	890
Repurchases		(1,573)
Dividends	(7,469)	(7,386)
Net cash used in financing activities	(195,088)	(209,541)
Net decrease in cash and cash equivalents	$ (187,549)	(544,234)
Cash and cash equivalents at beginning of period	1,394,135	1,457,438
Cash and cash equivalents at end of period	$ 1,206,586	913,204
Summary of cash and cash equivalents:		
Lennar Homebuilding	$ 1,014,000	732,386
Lennar Financial Services	109,625	126,818
Rialto Investments	82,961	54,000
	$ 1,206,586	913,204
Supplemental disclosures of non-cash investing and financing activities:		
Non-cash contributions to Lennar Homebuilding unconsolidated entities	$ 14,098	2,023
Non-cash distributions from Lennar Homebuilding unconsolidated entities	$ 11,006	
Purchases of inventories financed by sellers	$ 10,476	3,590
Rialto Investments real estate owned acquired in satisfaction of loans receivable	$ 175,875	
Consolidations of newly formed or previously unconsolidated entities, net:		
Loans receivable	$	1,217,294
Inventories	$ 18,621	8,517
Investments in Lennar Homebuilding unconsolidated entities	$ (525)	
Investments in Rialto Investments consolidated entities	$	(211,059)
Other assets	$	18,268
Debts payable	$ (14,703)	(635,147)
Other liabilities	$ (2,864)	(285)
Noncontrolling interests	$ (529)	(397,588)

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

(1) Basis of Presentation

Basis of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Lennar Corporation and all subsidiaries, partnerships and other entities in which Lennar Corporation has a controlling interest and VIEs (see Note 15) in which Lennar Corporation is deemed to be the primary beneficiary (the Company). The Company s investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary, are accounted for by the equity method. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended November 30, 2010. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the accompanying condensed consolidated financial statements have been made.

The Company has historically experienced, and expects to continue to experience, variability in quarterly results. The condensed consolidated statement of operations for the three months ended February 28, 2011 is not necessarily indicative of the results to be expected for the full year.

Reclassification

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

Use of Estimates

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

(2) Operating and Reporting Segments

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

(1) Homebuilding East

(2) Homebuilding Central

(3) Homebuilding West

(4) Homebuilding Houston

(5) Lennar Financial Services

(6) Rialto Investments

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

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Evaluation of segment performance is based primarily on operating earnings (loss) before income taxes. Operations of the Company s homebuilding segments primarily include the construction and sale of single-family attached and detached homes, as well as the purchase, development and sale of residential land directly and through the Company s unconsolidated entities. Operating earnings (loss) for the homebuilding segments consist of revenues generated from the sales of homes and land, equity in earnings (loss) from unconsolidated entities and other income (expense), net, less the cost of homes sold and land sold, selling, general and administrative expenses and other interest expense of the segment. The Company s reportable homebuilding segments and all other homebuilding operations not required to be reported separately have operations located in:

East: Florida, Maryland, New Jersey and Virginia

Central: Arizona, Colorado and Texas [(1)]

West: California and Nevada

Houston: Houston, Texas

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

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

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

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

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

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

(In thousands)	February 28, 2011	November 30, 2010
Assets:		
Homebuilding East	$ 1,550,463	1,524,095
Homebuilding Central	702,335	716,595
Homebuilding West	2,139,678	2,051,888
Homebuilding Houston	239,915	226,749
Homebuilding Other	736,337	737,486
Rialto Investments (1)	1,818,670	1,777,614
Lennar Financial Services	423,056	608,990
Corporate and unallocated	970,030	1,144,434
Total assets	$ 8,580,484	8,787,851

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

(In thousands)	Three Months Ended February 28, 2011	2010
Revenues:		
Homebuilding East	$ 188,464	142,060
Homebuilding Central	67,006	66,083
Homebuilding West	96,382	164,317
Homebuilding Houston	52,953	75,794
Homebuilding Other	61,904	72,522
Lennar Financial Services	57,713	53,365
Rialto Investments	33,623	301
Total revenues (1)	$ 558,045	574,442
Operating earnings (loss):		
Homebuilding East	$ 11,020	20,523
Homebuilding Central	(15,124)	(7,247)
Homebuilding West (2)	49,345	(7,892)
Homebuilding Houston	(41)	5,454
Homebuilding Other	(9,712)	(5,383)
Lennar Financial Services	1,183	(901)
Rialto Investments	23,002	(959)
Total operating earnings	59,673	3,595
Corporate and unallocated	(23,352)	(22,640)

Earnings (loss) before income taxes	$	36,321	(19,045)

(1) Total revenues are net of sales incentives of $62.9 million ($33,100 per home delivered) for the three months ended February 28, 2011, compared to $73.7 million ($37,100 per home delivered) for the three months ended February 28, 2010.

(2) For the three months ended February 28, 2011, operating earnings include $37.5 million related to the receipt of a litigation settlement, as well as $15.4 million related to the Company s share of a gain on debt extinguishment and the recognition of $10.0 million of previously deferred management fee income related to a Lennar Homebuilding unconsolidated entity.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

(In thousands)	Three Months Ended February 28, 2011	2010
Valuation adjustments to finished homes, CIP and land on which the Company intends to build homes:		
East	$ 731	297
Central	3,876	1,099
West	14	689
Houston	49	60
Other	142	3,924
Total	4,812	6,069
Valuation adjustments to land the Company intends to sell or has sold to third parties:		
East	20	
Central	23	1,334
Houston	10	
Total	53	1,334
Write-offs of option deposits and pre-acquisition costs:		
Houston	81	
Total	81	
Company s share of valuation adjustments related to assets of unconsolidated entities:		
Central	371	
West	1,660	1,216
Other	2,495	
Total	4,526	1,216
Valuation adjustments to investments in unconsolidated entities:		
East	8,262	
Total	8,262	
Write-offs of other receivables and other assets:		
Other	4,806	1,518
Total	4,806	1,518
Total valuation adjustments and write-offs of option deposits and pre-acquisition costs, other receivables and other assets	$ 22,540	10,137

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

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(3) Lennar Homebuilding Investments in Unconsolidated Entities

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

Statements of Operations

(In thousands)	Three Months Ended February 28, 2011	2010
Revenues	$ 67,063	56,755
Costs and expenses	88,580	79,180
Other income	123,007	
Net earnings (loss) of unconsolidated entities	$ 101,490	(22,425)
The Company s share of net earnings (loss) recognized (1)	$ 8,661	(8,894)

(1) For the three months ended February 28, 2011, the Company s share of net earnings recognized includes a $15.4 million gain related to the Company s share of a $123.0 million gain on debt extinguishment at a Lennar Homebuilding unconsolidated entity, partially offset by $4.5 million of valuation adjustments related to assets of Lennar Homebuilding s unconsolidated entities.

Balance Sheets

(In thousands)	February 28, 2011	November 30, 2010
Assets:		
Cash and cash equivalents	$ 75,768	82,573
Inventories	3,286,866	3,371,435
Other assets	315,280	307,244
	$ 3,677,914	3,761,252
Liabilities and equity:		
Accounts payable and other liabilities	$ 275,652	327,824
Debt	1,142,480	1,284,818
Equity	2,259,782	2,148,610
	$ 3,677,914	3,761,252

In 2007, the Company sold a portfolio of land to a strategic land investment venture with Morgan Stanley Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., in which the Company has a 20% ownership interest and 50% voting rights. Due to the Company s continuing involvement, the transaction did not qualify as a sale by the Company under GAAP; thus, the inventory has remained on the Company s condensed consolidated balance sheet in consolidated inventory not owned. As of February 28, 2011 and November 30, 2010, the portfolio of land (including land development costs) of $407.0 million and $424.5 million, respectively, is also reflected as inventory in the summarized condensed financial information related to Lennar Homebuilding s unconsolidated entities.

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

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

(In thousands)	February 28, 2011	November 30, 2010
Several recourse debt repayment	$ 70,432	33,399
Several recourse debt maintenance	16,399	29,454
Joint and several recourse debt repayment	48,365	48,406
Joint and several recourse debt maintenance	43,466	61,591
The Company s maximum recourse exposure	178,662	172,850
Less: joint and several reimbursement agreements with the Company s partners	(57,167)	(58,878)
The Company s net recourse exposure	$ 121,495	113,972

During the three months ended February 28, 2011, the Company s maximum recourse exposure related to indebtedness of Lennar Homebuilding unconsolidated entities increased by $5.8 million, which includes a $36.3 million increase for consideration given in the form of a several guarantee in connection with the favorable debt maturity extension and principal reduction at Heritage Fields El Toro, one of Lennar Homebuilding s unconsolidated entities as discussed in the table below. This increase was partially offset by reductions in the Company s maximum recourse exposure with regard to other unconsolidated entities, of which $2.3 million was paid by the Company primarily through capital contributions to unconsolidated entities and $28.2 million primarily related to the consolidation of a joint venture, the restructuring of a guarantee and the joint ventures selling inventory.

As of February 28, 2011 and November 30, 2010, the Company had $6.9 million and $10.2 million, respectively, of obligation guarantees accrued as a liability on its condensed consolidated balance sheets. During the three months ended February 28, 2011, the liability was reduced by $2.6 million related to a change in estimate of a previously accrued obligation guarantee and by a $0.7 million cash payment related to another obligation guarantee previously recorded. The obligation guarantees are estimated based on current facts and circumstances and any unexpected changes may lead the Company to incur additional obligation guarantees in the future.

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

(In thousands)	February 28, 2011	November 30, 2010
Assets (1)	$ 2,269,922	990,028
Liabilities (1)	954,906	487,606
Equity (1)	1,315,016	502,422

(1) In the three months ended February 28, 2011, Heritage Fields El Toro, one of Lennar Homebuilding s unconsolidated entities, extended the maturity of its $573.5 million debt without recourse to Lennar until 2018. In exchange for the extension and partial debt extinguishment,

which reduced the outstanding debt balance to $481.0 million as of February 28, 2011, all the partners agreed to provide a limited several repayment guarantee on the outstanding debt, which resulted in a $36.3 million increase to the Company s maximum recourse exposure and a subsequent increase to assets, liabilities and equity of Lennar Homebuilding unconsolidated entities that have recourse debt. In addition, the Company recognized a $15.4 million gain for its share of the $123.0 million gain on debt extinguishment.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

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

During the three months ended February 28, 2011, there were: (1) payments of $1.7 million under the Company s maintenance guarantees and (2) other loan paydowns of $0.6 million, a portion of which related to amounts paid under the Company s repayment guarantees. During the three months ended February 28, 2010, there were: (1) no payments under maintenance guarantees and (2) other loan paydowns of $5.9 million, a portion of which related to amounts paid under the Company s repayment guarantees. During the three months ended February 28, 2011 and 2010, there were no payments under completion guarantees.

As of February 28, 2011, the fair values of the maintenance guarantees, repayment guarantees and completion guarantees were not material. The Company believes that as of February 28, 2011, in the event it becomes legally obligated to perform under a guarantee of the obligation of a Lennar Homebuilding unconsolidated entity due to a triggering event under a guarantee, most of the time the collateral should be sufficient to repay at least a significant portion of the obligation or the Company and its partners would contribute additional capital into the venture. In certain instances, the Company has placed performance letters of credit and surety bonds with municipalities for its joint ventures (see Note 11).

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

(In thousands)	February 28, 2011	November 30, 2010
The Company s net recourse exposure	$ 121,495	113,972
Reimbursement agreements from partners	57,167	58,878
The Company s maximum recourse exposure	$ 178,662	172,850
Non-recourse bank debt and other debt (partner s share of several recourse)	$ 176,229	79,921
Non-recourse land seller debt or other debt	60,620	58,604
Non-recourse debt with completion guarantees	505,069	600,297
Non-recourse debt without completion guarantees	221,900	373,146
Non-recourse debt to the Company	963,818	1,111,968

Total debt	$ 1,142,480	1,284,818
The Company s maximum recourse exposure as a % of total JV debt	16%	13%

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(4) Equity and Comprehensive Earnings (Loss)

The following table reflects the changes in equity attributable to both Lennar Corporation and the noncontrolling interests of its consolidated subsidiaries in which it has less than a 100% ownership interest for both the three months ended February 28, 2011 and 2010:

		Stockholders Equity					
(In thousands)	**Total Equity**	**Class A Common Stock**	**Class B Common Stock**	**Additional Paid in Capital**	**Treasury Stock**	**Retained Earnings**	**Noncontrolling Interests**
Balance at November 30, 2010	$ 3,194,383	16,701	3,297	2,310,339	(615,496)	894,108	585,434
Net earnings (including net earnings attributable to noncontrolling interests)	38,726					27,406	11,320
Employee stock and directors plans	6,123	29	1	6,093			
Amortization of restricted stock	5,368			5,368			
Cash dividends	(7,469)					(7,469)	
Receipts related to noncontrolling interests	115						115
Payments related to noncontrolling interests	(4,789)						(4,789)
Lennar Homebuilding non-cash consolidations	529						529
Balance at February 28, 2011	$ 3,232,986	16,730	3,298	2,321,800	(615,496)	914,045	592,609

		Stockholders Equity					
(In thousands)	**Total Equity**	**Class A Common Stock**	**Class B Common Stock**	**Additional Paid in Capital**	**Treasury Stock**	**Retained Earnings**	**Noncontrolling Interests**
Balance at November 30, 2009	$ 2,588,014	16,515	3,296	2,208,934	(613,690)	828,424	144,535
Net loss (including net loss attributable to noncontrolling interests)	(7,473)					(6,523)	(950)
Employee stock and directors plans	1,305	8	1	2,869	(1,573)		
Amortization of restricted stock	4,316			4,316			
Cash dividends	(7,386)					(7,386)	
Receipts related to noncontrolling interests	5,127						5,127
Payments related to noncontrolling interests	(3,127)						(3,127)
Rialto Investments non-cash consolidations	397,588						397,588
Balance at February 28, 2010	$ 2,978,364	16,523	3,297	2,216,119	(615,263)	814,515	543,173

Comprehensive earnings (loss) attributable to Lennar for both the three months ended February 28, 2011 and 2010 was the same as net earnings (loss) attributable to Lennar. Comprehensive earnings (loss) attributable to noncontrolling interests for both the three months ended February 28, 2011 and 2010 was the same as net earnings (loss) attributable to noncontrolling interests.

The Company has a stock repurchase program which permits the purchase of up to 20 million shares of its outstanding common stock. During the three months ended February 28, 2011 and 2010, there were no repurchases of common stock under the stock repurchase program. As of February 28, 2011, 6.2 million shares of common stock can be repurchased in the future under the program.

During the three months ended February 28, 2011, treasury stock increased by an immaterial amount of common shares.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(5) Income Taxes

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

Based upon all available evidence, during the first quarter of fiscal 2011, the Company recorded a reversal of its deferred tax asset valuation allowance of $8.5 million primarily due to the net earnings generated during the period. At February 28, 2011 and November 30, 2010, the Company s deferred tax asset valuation allowance was $601.0 million and $609.5 million, respectively. In future periods, the allowance could be reduced based on sufficient evidence indicating that it is more likely than not that a portion or all of the Company s deferred tax assets will be realized.

At February 28, 2011 and November 30, 2010, the Company had $49.3 million and $46.0 million of gross unrecognized tax benefits. If the Company were to recognize its gross unrecognized tax benefits as of February 28, 2011, $29.8 million would affect the Company s effective tax rate.

The Company expects the total amount of unrecognized tax benefits to decrease by $25.0 million within twelve months as a result of settlements with various taxing authorities and the expiration of certain statutes of limitations.

At February 28, 2011, the Company had $26.7 million accrued for interest and penalties, of which $3.7 million was recorded during the three months ended February 28, 2011. During the three months ended February 28, 2011, the accrual for interest and penalties was reduced by $5.2 million as a result of the settlement of state tax nexus issues. At November 30, 2010, the Company had $28.2 million accrued for interest and penalties.

During the three months ended February 28, 2011, the Company s gross unrecognized tax benefits increased by $12.6 million related to a settlement for certain losses carried back to prior years as well as retroactive changes in certain state tax laws. There was also a decrease to the Company s gross unrecognized tax benefits of $9.3 million as a result of the settlement of certain state tax nexus issues. This resulted in a net increase of gross unrecognized tax benefits of $3.3 million and an increase in the Company s effective tax rate from (22.58%) to (9.62%).

The IRS is currently examining the Company s federal income tax returns for fiscal years 2005 through 2010, and certain state taxing authorities are examining various fiscal years. The final outcome of these examinations is not yet determinable. The statute of limitations for the Company s major tax jurisdictions remains open for examination for fiscal year 2003 and subsequent years.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(6) Earnings (Loss) Per Share

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

Under certain provisions of ASC Topic 260, *Earnings per Share*, all outstanding nonvested shares that contain non-forfeitable rights to dividends or dividend equivalents that participate in undistributed earnings with common stock are considered participating securities and are included in computing earnings per share pursuant to the two-class method. The two class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and participation rights in undistributed earnings. The Company s restricted common stock (nonvested shares) are considered participating securities. For the three months ended February 28, 2010, the nonvested shares were excluded from the calculation of the denominator for diluted loss per share because including them would be anti-dilutive due to the Company s net loss during the period.

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

(In thousands, except per share amounts)	Three Months Ended February 28, 2011	2010
Numerator:		
Net earnings (loss) attributable to Lennar	$ 27,406	(6,523)
Less: distributed earnings allocated to nonvested shares	101	87
Less: undistributed earnings allocated to nonvested shares	269	
Numerator for basic earnings (loss) per share	27,036	(6,610)
Plus: interest on 2.00% convertible senior notes due 2020	871	
Plus: undistributed earnings allocated to convertible shares	269	
Less: undistributed earnings reallocated to convertible shares	265	
Numerator for diluted earnings (loss) per share	$ 27,911	(6,610)
Denominator:		
Denominator for basic earnings (loss) per share weighted average common shares outstanding	184,155	182,660
Effect of dilutive securities:		
Shared based payments	699	
2.00% convertible senior notes due 2020	10,005	
Denominator for diluted earnings (loss) per share weighted average common shares outstanding	194,859	182,660
Basic earnings (loss) per share	$ 0.15	(0.04)
Diluted earnings (loss) per share	$ 0.14	(0.04)

Options to purchase 1.2 million and 5.9 million shares, respectively, in total of Class A and Class B common stock were outstanding and anti-dilutive for the three months ended February 28, 2011 and 2010.