LENNAR CORP /NEW/
Form 10-Q
April 09, 2009

# 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, 2009**

**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 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, 2009:

| | |
|---|---|
| Class A | 129,147,528 |
| Class B | 31,283,965 |

**Part I. Financial Information**

**Item 1. Financial Statements**

**Lennar Corporation and Subsidiaries**

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

(unaudited)

| | February 28, 2009 | November 30, 2008 |
|---|---|---|
| **ASSETS** | | |
| **Homebuilding:** | | |
| Cash and cash equivalents | $ 1,099,864 | 1,091,468 |
| Restricted cash | 7,682 | 8,828 |
| Receivables, net | 99,871 | 94,520 |
| Income tax receivables | 4,592 | 255,460 |
| Inventories: | | |
| Finished homes and construction in progress | 2,016,302 | 2,080,345 |
| Land under development | 1,847,067 | 1,741,407 |
| Consolidated inventory not owned | 638,373 | 678,338 |
| Total inventories | 4,501,742 | 4,500,090 |
| Investments in unconsolidated entities | 776,812 | 766,752 |
| Other assets | 94,274 | 99,802 |
| | 6,584,837 | 6,816,920 |
| **Financial services** | 585,274 | 607,978 |
| **Total assets** | $ 7,170,111 | 7,424,898 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Homebuilding:** | | |
| Accounts payable | $ 203,776 | 246,727 |
| Liabilities related to consolidated inventory not owned | 557,599 | 592,777 |
| Senior notes and other debts payable | 2,574,115 | 2,544,935 |
| Other liabilities | 778,926 | 834,873 |
| | 4,114,416 | 4,219,312 |
| **Financial services** | 424,048 | 416,833 |
| **Total liabilities** | 4,538,464 | 4,636,145 |
| **Minority interest** | 164,272 | 165,746 |
| **Stockholders equity:** | | |
| Preferred stock | | |
| Class A common stock of $0.10 par value per share<br>Authorized: February 28, 2009 and November 30, 2008 300,000 shares<br>Issued: February 28, 2009 and November 30, 2008 140,503 shares | 14,050 | 14,050 |

| | | |
|---|---|---|
| Class B common stock of $0.10 par value per share<br>Authorized: February 28, 2009 and November 30, 2008 90,000 shares<br>Issued: February 28, 2009 and November 30, 2008 32,964 shares | 3,296 | 3,296 |
| Additional paid-in capital | 1,952,021 | 1,944,626 |
| Retained earnings | 1,110,818 | 1,273,159 |
| Treasury stock, at cost; February 28, 2009 11,347 Class A common shares and 1,680 Class B common shares; November 30, 2008 11,229 Class A common shares and 1,680 Class B common shares | (612,810) | (612,124) |
| **Total stockholders equity** | 2,467,375 | 2,623,007 |
| **Total liabilities and stockholders equity** | $ 7,170,111 | 7,424,898 |

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, 2009** | **February 29, 2008** |
| **Revenues:** | | |
| Homebuilding | $ 529,034 | 993,776 |
| Financial services | 64,029 | 69,137 |
| Total revenues | 593,063 | 1,062,913 |
| **Costs and expenses:** | | |
| Homebuilding (1) | 606,559 | 1,058,549 |
| Financial services | 63,537 | 78,829 |
| Corporate general and administrative | 28,031 | 34,822 |
| Total costs and expenses | 698,127 | 1,172,200 |
| Equity in loss from unconsolidated entities (2) | (2,917) | (22,980) |
| Other income (expense), net (3) | (47,834) | (21,793) |
| Minority interest income (expense), net | 1,734 | (234) |
| **Loss before (provision) benefit for income taxes** | (154,081) | (154,294) |
| (Provision) benefit for income taxes (4) | (1,848) | 66,078 |
| **Net loss** | $ (155,929) | (88,216) |
| **Basic and diluted loss per share** | $ (0.98) | (0.56) |
| **Cash dividends per each Class A and Class B common share** | $ 0.04 | 0.16 |

(1) Homebuilding costs and expenses include $51.2 million and $58.5 million, respectively, of valuation adjustments for the three months ended February 28, 2009 and February 29, 2008.

(2) Equity in loss from unconsolidated entities includes $18.9 million of the Company s share of SFAS 144 valuation adjustments related to assets of unconsolidated entities in which the Company has investments for the three months ended February 29, 2008.

(3) Other income (expense), net includes $37.2 million and $29.6 million, respectively, of APB 18 valuation adjustments to the Company s investments in unconsolidated entities for the three months ended February 28, 2009 and February 29, 2008.

(4) (Provision) benefit for income taxes for the three months ended February 28, 2009 includes a valuation allowance of $57.7 million that the Company recorded against the entire amount of deferred tax assets generated as a result of its net loss during that period.

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, 2009** | **February 29, 2008** |
| **Cash flows from operating activities:** | | |
| Net loss | $ (155,929) | (88,216) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,329 | 9,888 |
| Amortization of discount/premium on debt, net | 721 | 644 |
| Equity in loss from unconsolidated entities, including $18.9 million of the Company s share of SFAS 144 valuation adjustments related to assets of unconsolidated entities in the three months ended February 29, 2008 | 2,917 | 22,980 |
| Distributions of earnings from unconsolidated entities | 982 | 6,277 |
| Minority interest (income) expense, net | (1,734) | 234 |
| Share-based compensation expense | 7,720 | 6,398 |
| Tax provision from share-based awards | | (805) |
| Deferred income tax benefit | | (138,005) |
| Valuation adjustments and write-offs of option deposits and pre-acquisition costs | 88,453 | 88,174 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in restricted cash | (7,546) | 460 |
| Decrease in receivables | 218,473 | 1,009,048 |
| Increase in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs | (31,376) | (39,242) |
| Decrease (increase) in other assets | 4,862 | (3,988) |
| Decrease in financial services loans held-for-sale | 36,830 | 98,987 |
| Decrease in accounts payable and other liabilities | (89,507) | (128,311) |
| Net cash provided by operating activities | 80,195 | 844,523 |
| **Cash flows from investing activities:** | | |
| Net disposals of operating properties and equipment | 98 | 317 |
| Contributions to unconsolidated entities | (61,639) | (172,133) |
| Distributions of capital from unconsolidated entities | 2,036 | 43,762 |
| Decrease in financial services loans held-for-investment | 894 | 641 |
| Purchases of investment securities | (72) | (55,026) |
| Proceeds from sales and maturities of investment securities | 1,964 | 51,819 |
| Net cash used in investing activities | (56,719) | (130,620) |
| **Cash flows from financing activities:** | | |
| Net borrowings (repayments) under financial services debt | 4,554 | (247,445) |
| Proceeds from other borrowings | 14,030 | 408 |
| Principal payments on other borrowings | (20,020) | (45,972) |
| Exercise of land option contracts from an unconsolidated land investment venture | (3,768) | (13,573) |
| Receipts related to minority interests | 3,376 | 2,009 |
| Payments related to minority interests | (2,866) | (2,539) |
| Common stock: | | |
| Issuances | | 224 |
| Repurchases | (686) | (344) |
| Dividends | (6,412) | (25,725) |

| | | |
|---|---|---|
| Net cash used in financing activities | (11,792) | (332,957) |

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, 2009 | February 29, 2008 |
| Net increase in cash and cash equivalents | $ 11,684 | 380,946 |
| Cash and cash equivalents at beginning of period | 1,203,422 | 795,194 |
| Cash and cash equivalents at end of period | $ 1,215,106 | 1,176,140 |
| **Summary of cash and cash equivalents:** | | |
| Homebuilding | $ 1,099,864 | 1,088,141 |
| Financial services | 115,242 | 87,999 |
| | $ 1,215,106 | 1,176,140 |
| **Supplemental disclosures of non-cash investing and financing activities:** | | |
| Non-cash contributions to unconsolidated entities | $ 239 | 16,362 |
| Non-cash distributions from unconsolidated entities | $ | 45,431 |
| Purchases of inventories financed by sellers | $ 4,226 | 1,392 |

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 variable interest entities (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 variable interest entities in which the Company is not deemed to be the primary beneficiary, are accounted for by the equity method. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the November 30, 2008 consolidated financial statements in the Company s Annual Report on Form 10-K for the year then ended. 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, 2009 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 2009 presentation. These reclassifications had no impact on the Company s results of operations.

*Use of Estimates*

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

**(2) Operating and Reporting Segments**

The Company s operating segments are aggregated into reportable segments in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 131, *Disclosures About Segments of an Enterprise and Related Information*, ( SFAS 131 ) based primarily upon similar economic characteristics, geography and product type. The Company s reportable segments consist of:

(1) Homebuilding East

(2) Homebuilding Central

(3) Homebuilding West

(4) Homebuilding Houston

(5) Financial Services

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

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

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

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

**West:** California and Nevada

**Houston:** Houston, Texas

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

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

Operations of the Financial Services segment include mortgage financing, title insurance, closing services and other ancillary services (including high-speed Internet and cable television) for both buyers of the Company s homes and others. Substantially all of the loans the Financial Services segment originates are sold in the secondary mortgage market on a servicing released, non-recourse basis; although, the Company remains liable for certain limited representations and warranties related to loan sales. The Financial Services segment operates generally in the same states as the Company s homebuilding operations, as well as other states.

Evaluation of segment performance is based primarily on operating earnings (loss) before (provision) benefit for income taxes. Operating earnings (loss) for the homebuilding segments consist of revenues generated from the sales of homes and land, equity in earnings (loss) from unconsolidated entities, other income (expense), net and minority interest income (expense), net, less the cost of homes and land sold and selling, general and administrative expenses. Homebuilding operating loss for the three months ended February 28, 2009 includes the following:

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, ( SFAS 144 ) valuation adjustments to finished homes, construction in progress ( CIP ) and land on which the Company intends to build homes,

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

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

Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, ( APB 18 ) valuation adjustments to the Company s investments in unconsolidated entities, recorded in other income (expense), net.

Financial Services operating earnings (loss) consist of revenues generated from mortgage financing, title insurance, closing services, and other ancillary services (including high-speed Internet and cable television) less the cost of such services and certain selling, general and administrative expenses incurred by the Financial Services segment.

Each reportable segment follows the same accounting policies described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements in the Company s 2008 Annual Report on Form 10-K. Operational results of each segment are not necessarily indicative of the results that would have occurred had the segment been an independent, stand-alone entity during the periods presented.

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

| *(In thousands)* | February 28, 2009 | November 30, 2008 |
|---|---|---|
| **Assets:** | | |
| Homebuilding East | $ 1,624,946 | 1,588,299 |
| Homebuilding Central | 738,264 | 774,412 |
| Homebuilding West | 2,021,801 | 2,022,787 |
| Homebuilding Houston | 272,115 | 267,628 |
| Homebuilding Other | 848,035 | 849,726 |
| Financial Services | 585,274 | 607,978 |
| Corporate and unallocated | 1,079,676 | 1,314,068 |
| **Total assets** | $ 7,170,111 | 7,424,898 |

| | Three Months Ended | |
|---|---|---|
| *(In thousands)* | February 28, 2009 | February 29, 2008 |
| **Revenues:** | | |
| Homebuilding East | $ 180,698 | 312,019 |
| Homebuilding Central | 62,709 | 143,388 |
| Homebuilding West | 141,226 | 329,800 |
| Homebuilding Houston | 81,028 | 111,481 |
| Homebuilding Other | 63,373 | 97,088 |
| Financial Services | 64,029 | 69,137 |
| **Total revenues (1)** | $ 593,063 | 1,062,913 |
| **Operating earnings (loss):** | | |
| Homebuilding East | $ (32,074) | (23,270) |
| Homebuilding Central | (26,602) | (17,358) |
| Homebuilding West | (58,945) | (64,240) |
| Homebuilding Houston | 215 | 5,810 |
| Homebuilding Other | (9,136) | (10,722) |
| Financial Services | 492 | (9,692) |
| **Total operating loss** | (126,050) | (119,472) |
| Corporate and unallocated | (28,031) | (34,822) |
| **Loss before (provision) benefit for income taxes** | $ (154,081) | (154,294) |

(1) Total revenues are net of sales incentives of $107.9 million ($50,500 per home delivered) for the three months ended February 28, 2009, compared to $164.9 million ($48,000 per home delivered) for the three months ended February 29, 2008.

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

| *(In thousands)* | Three Months Ended February 28, 2009 | Three Months Ended February 29, 2008 |
|---|---|---|
| **SFAS 144 valuation adjustments to finished homes, CIP and land on which the Company intends to build homes:** | | |
| East | $ 13,478 | 8,106 |
| Central | 8,081 | 1,667 |
| West | 18,398 | 9,920 |
| Houston | 146 | 112 |
| Other | 677 | 6,424 |
| **Total** | 40,780 | 26,229 |
| **SFAS 144 valuation adjustments to land the Company intends to sell or has sold to third parties:** | | |
| East | 139 | 1,372 |
| Central | 78 | 9,233 |
| West | | 4,192 |
| Houston | | 64 |
| Other | | 594 |
| **Total** | 217 | 15,455 |
| **Write-offs of option deposits and pre-acquisition costs:** | | |
| East | 5,780 | 7,054 |
| Central | 82 | 4,079 |
| West | 515 | 3,364 |
| Houston | 721 | 265 |
| Other | 3,133 | 2,090 |
| **Total** | 10,231 | 16,852 |
| **Company s share of SFAS 144 valuation adjustments related to assets of unconsolidated entities:** | | |
| East | | 4,157 |
| Central | | 158 |
| West | | 14,025 |
| Houston | | |
| Other | | 597 |
| **Total** | | 18,937 |
| **APB 18 valuation adjustments to investments in unconsolidated entities:** | | |
| East | 2,566 | 937 |
| Central | 7,618 | 228 |
| West | 25,550 | 28,439 |
| Houston | | |
| Other | 1,491 | 34 |
| **Total** | 37,225 | 29,638 |
| **Total valuation adjustments and write-offs of option deposits and pre-acquisition costs** | $ 88,453 | 107,111 |

During the first quarter of 2009, the housing market continued its downward trend. Despite historically low interest rates, there was low consumer confidence, rising unemployment and a growing number of foreclosures that continued to negatively impact new home sales in a majority of the Company s markets. These challenging market conditions combined with restricted credit availability in the financial markets

have resulted in an increase in the supply of new and existing homes for sale, as well as intensified competitive pressures to sell those homes. Sales pace continues to be depressed and has resulted in valuation adjustments and write-offs of option deposits and pre-acquisition costs related to land under development that the Company does not intend to purchase and higher than historical sales incentives.

Further deterioration in the homebuilding market may cause additional pricing pressures and slower absorption, which may lead to additional valuation adjustments in the future. In addition, market conditions may cause the Company to re-evaluate its strategy regarding certain assets that could result in further valuation adjustments and/or additional write-offs of option deposits and pre-acquisition costs due to abandonment of those option contracts.

**(3) Investments in Unconsolidated Entities**

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

| **Statements of Operations** | **Three Months Ended** | |
|---|---|---|
| ***(In thousands)*** | **February 28, 2009** | **February 29, 2008** |
| Revenues | $ 65,783 | 397,559 |
| Costs and expenses | 115,198 | 497,022 |
| Net loss of unconsolidated entities | (49,415) | (99,463) |
| The Company s share of net loss recognized (1) | $ (2,917) | (22,980) |

(1) For the three months ended February 29, 2008, the Company s share of net loss recognized from unconsolidated entities includes $18.9 million of the Company s share of SFAS 144 valuation adjustments related to assets of unconsolidated entities in which the Company has investments.

| **Balance Sheets** ***(In thousands)*** | **February 28, 2009** | **November 30, 2008** |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 103,950 | 135,081 |
| Inventories | 7,053,539 | 7,115,360 |
| Other assets | 408,985 | 541,984 |
| | $ 7,566,474 | 7,792,425 |
| **Liabilities and equity:** | | |
| Accounts payable and other liabilities | $ 959,485 | 1,042,002 |
| Debt | 3,978,419 | 4,062,058 |
| Equity of: | | |
| The Company | 776,812 | 766,752 |
| Others | 1,851,758 | 1,921,613 |
| Total equity of unconsolidated entities | 2,628,570 | 2,688,365 |
| | $ 7,566,474 | 7,792,425 |
| The Company s equity in its unconsolidated entities | 30% | 29% |

In fiscal 2007, the Company sold a portfolio of land consisting of approximately 11,000 homesites in 32 communities located throughout the country to a strategic land investment venture with Morgan Stanley Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., in which the Company has a 20% ownership interest and 50% voting rights. Due to the Company s continuing involvement, the transaction did not qualify as a sale by the Company under GAAP; thus, the inventory has remained on the Company s consolidated balance sheet in consolidated inventory

not owned. As of February 28, 2009 and November 30, 2008, the portfolio of land (including land development costs) of $545.9 million and $538.4 million, respectively, is reflected as inventory in the summarized condensed financial information related to unconsolidated entities in which the Company has investments.

In June 2008, LandSource Communities Development LLC, ( LandSource ), an unconsolidated entity in which the Company has a 16% ownership interest, and a number of its subsidiaries commenced proceedings under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The bankruptcy filing could result in LandSource losing some or all of the properties it owns and termination of the Company s management agreement with LandSource, claims against the Company and a substantial reduction (or total elimination) of the Company s 16% ownership interest in LandSource, which had a carrying value of zero at February 28, 2009. Subsequent to February 28, 2009, the Company submitted a non-binding proposal to acquire an interest in LandSource and to purchase certain of LandSource s assets. Additionally, any outstanding claims between LandSource and the Company would be settled.

The consolidated assets and liabilities of LandSource were $1.7 billion and $1.8 billion, respectively, at February 28, 2009. At November 30, 2008, the consolidated assets and liabilities of LandSource were both $1.8 billion. These amounts represent the carrying amounts and have not been adjusted for the previously disclosed LandSource bankruptcy.

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

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

| *(In thousands)* | February 28, 2009 | November 30, 2008 |
|---|---|---|
| Several recourse debt repayment | $ 74,840 | 78,547 |
| Several recourse debt maintenance | 144,439 | 167,941 |
| Joint and several recourse debt repayment | 151,047 | 138,169 |
| Joint and several recourse debt maintenance | 94,709 | 123,051 |
| Land seller debt and other debt recourse exposure | 8,920 | 12,170 |
| The Company s maximum recourse exposure | 473,955 | 519,878 |
| Less: joint and several reimbursement agreements with the Company s partners | (122,413) | (127,428) |
| The Company s net recourse exposure | $ 351,542 | 392,450 |

During the three months ended February 28, 2009, the Company reduced its maximum recourse exposure related to unconsolidated entities by $45.9 million, of which $18.8 million was paid by the Company and $27.1 million related to the joint ventures selling inventory, dissolutions of joint ventures and renegotiation of joint venture debt agreements. In addition, during the three months ended February 28, 2009, the Company recorded a $23.7 million obligation for guarantees related to debt of certain of its unconsolidated entities. The $23.7 million is recorded as a liability as of February 28, 2009.

The Company s Credit Facility requires the Company to effect quarterly reductions of its maximum recourse exposure related to joint ventures in which it has investments by a total of $200 million by November 30, 2009, of which the Company has already reduced it by $164.4 million. The Company must also effect quarterly reductions during its 2010 fiscal year totaling $180 million and during the first six months of its 2011 fiscal year totaling $80 million. By May 31, 2011, the Company s maximum recourse exposure related to joint ventures in which it has investments cannot exceed $275 million (see Note 9).

If the joint ventures are unable to reduce their debt, where there is recourse to the Company, through the sale of inventory or other means, then the Company and its partners may be required to contribute capital to the joint ventures.

The recourse debt exposure in the table above 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 Company s unconsolidated entities that have recourse debt have a significant amount of assets and equity. The summarized balance sheets of the Company s unconsolidated entities with recourse debt were as follows:

| *(In thousands)* | February 28, 2009 | November 30, 2008 |
|---|---|---|
| Assets | $ 2,244,818 | 2,846,819 |
| Liabilities | 1,244,814 | 1,565,148 |
| Equity | 1,000,004 | 1,281,671 |

In addition, in most instances in which the Company has guaranteed debt of an unconsolidated entity, the Company s partners have also guaranteed that debt and are required to contribute their share of the guarantee payment. Some of the Company s guarantees are repayment and maintenance guarantees. In a repayment guarantee, the Company and its venture partners guarantee repayment of a portion or all of the debt in the event of a default before the lender would have to exercise its rights against the collateral. In the event of default, if the Company s venture partner does not have adequate financial resources to meet its obligations under the reimbursement 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 unconsolidated entity and increase the Company s share of any funds the unconsolidated entity distributes.

In many of the loans to 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, very often the guarantee is to complete only the phases as to which construction has already commenced and for which loan proceeds were used. Under many of the completion guarantees, the guarantors are permitted, under certain circumstances, to use undisbursed loan proceeds to satisfy the completion obligations, and in many of those cases, the guarantors pay interest only on those funds, with no repayment of the principal of such funds required. During the three months ended February 28, 2009, the Company made payments of $5.6 million under completion guarantees.

During the three months ended February 28, 2009, amounts paid under the Company s repayment guarantees were $18.8 million. During the three months ended February 28, 2009, there were no payments under the Company s maintenance guarantees. In accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 45, *Guarantor s Accounting and Disclosure for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, as of February 28, 2009, the fair values of the maintenance guarantees, repayment guarantees and completion guarantees were not material. The Company believes that as of February 28, 2009, in the event it becomes legally obligated to perform under a guarantee of the obligation of an unconsolidated entity due to a triggering event under a guarantee, most of the time the collateral should be sufficient to repay at least a significant portion of the obligation or the Company and its partners would contribute additional capital into the venture.

In certain instances, the Company has placed performance letters of credit and surety bonds with municipalities for its joint ventures (see Note 9).

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

| *(In thousands)* | **February 28, 2009** | **November 30, 2008** |
|---|---|---|
| The Company s net recourse exposure | $ 351,542 | 392,450 |
| Reimbursement agreements from partners | 122,413 | 127,428 |
| The Company s maximum recourse exposure | $ 473,955 | 519,878 |
| Partner several recourse | $ 243,366 | 285,519 |
| Non-recourse land seller debt and other debt | 84,660 | 90,519 |
| Non-recourse bank debt with completion guarantees excluding LandSource | 784,779 | 820,435 |
| Non-recourse bank debt without completion guarantees excluding LandSource | 1,040,494 | 994,580 |
| Non-recourse bank debt without completion guarantees LandSource | 1,351,165 | 1,351,127 |
| Non-recourse debt to the Company | 3,504,464 | 3,542,180 |
| Total debt | $ 3,978,419 | 4,062,058 |
| The Company s maximum recourse exposure as a % of total JV debt | 12% | 13% |

**(4) Income Taxes**

*FIN 48*

At both February 28, 2009 and November 30, 2008, the Company had $100.2 million of gross unrecognized tax benefits. Although the Company has not recognized these benefits, $25.4 million would affect the Company s effective tax rate, if the Company were to recognize these tax benefits.

The Company expects the total amount of unrecognized tax benefits to decrease by $62.0 million within twelve months as a result of the settlement of certain tax accounting items with the IRS with respect to the prior examination cycle that carried over to the current years under examination, and as a result of the conclusion of examinations with a number of state taxing authorities. The majority of these items were previously recorded as deferred tax liabilities and the settlement will not affect the Company s tax rate.

At February 28, 2009, the Company had $35.3 million accrued for interest and penalties, of which $1.8 million was recorded during the three months ended February 28, 2009 in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109,* ( FIN 48 ). At November 30, 2008, the Company had $33.5 million accrued for interest and penalties.

The IRS is currently examining the Company s federal income tax returns for fiscal years 2005 through 2008, and certain state taxing authorities are examining various fiscal years. The final outcome of these examinations is not yet determinable. The statute of limitations for the Company s major tax jurisdictions remains open for examination for fiscal years 2002 through 2008.

*Deferred Tax Assets*

SFAS 109, *Accounting for Income Taxes,* ( SFAS 109 ) requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance, if based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically based on the SFAS 109 more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, the Company s experience with loss carryforwards not expiring unused and tax planning alternatives.

During fiscal 2008, the Company established a full valuation allowance against its deferred tax assets totaling $730.8 million. Based upon an evaluation of all available evidence, during the first quarter of fiscal 2009, the Company recorded an additional valuation allowance of $57.7 million against the entire amount of deferred tax assets generated as a result of its net loss during that period. The Company s cumulative loss position over the evaluation period and the current uncertain and volatile market conditions were significant evidence supporting the need for a valuation allowance. As a result, as of February 28, 2009, the Company s deferred tax assets valuation allowance was $788.5 million. 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.

**(5) Loss Per Share**

Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period. As a result of the Company s net loss during the three months ended February 28, 2009 and February 29, 2008, the weighted average number of shares of common stock used for calculating basic and diluted loss per share are the same because the inclusion of securities or other contracts to issue common stock would be anti-dilutive. Basic and diluted loss per share were calculated as follows:

| | Three Months Ended | |
|---|---|---|
| *(In thousands, except per share amounts)* | February 28, 2009 | February 29, 2008 |
| Numerator for basic and diluted loss per share net loss | $ (155,929) | (88,216) |
| Denominator for basic and diluted loss per share weighted average shares | 158,621 | 158,204 |
| **Basic and diluted loss per share** | $ (0.98) | (0.56) |

Options to purchase 8.0 million and 5.5 million shares, respectively, of Class A and Class B common stock in total were outstanding and anti-dilutive for the three months ended February 28, 2009 and February 29, 2008.

**(6) Financial Services Segment**

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

| *(In thousands)* | February 28, 2009 | November 30, 2008 |
|---|---|---|
| **Assets**: | | |
| Cash and cash equivalents | $ 115,242 | 111,954 |
| Restricted cash | 30,669 | 21,977 |
| Receivables, net (1) | 167,514 | 133,641 |
| Loans held-for-sale (2) | 151,942 | 190,056 |
| Loans held-for-investment, net | 30,717 | 58,339 |
| Investments held-to-maturity | 17,354 | 19,139 |
| Goodwill | 34,046 | 34,046 |
| Other (3) | 37,790 | 38,826 |
| | $ 585,274 | 607,978 |
| **Liabilities**: | | |
| Notes and other debts payable | $ 230,337 | 225,783 |
| Other (4) | 193,711 | 191,050 |
| | $ 424,048 | 416,833 |

(1) Receivables, net primarily related to loans sold to investors for which the Company had not yet been paid as of February 28, 2009 and November 30, 2008, respectively.
(2) Loans held-for-sale relate to unsold loans as of February 28, 2009 and November 30, 2008, respectively, carried at fair value.
(3) Other assets include mortgage loan commitments of $2.1 million and $4.4 million, respectively, as of February 28, 2009 and November 30, 2008, carried at fair value. Other assets also include forward contracts of $2.1 million as of February 28, 2009, carried at fair value.
(4) Other liabilities include forward contracts of $6.5 million as of November 30, 2008, carried at fair value.

At February 28, 2009, the Financial Services segment had a $125 million syndicated warehouse repurchase facility that matured in April 2009, which was subsequently reduced to $75 million as part of a 30-day extension until May 2009, and a warehouse repurchase facility, which matures in June 2009 ($150 million). The Financial Services segment uses these facilities to finance its lending activities until the mortgage

loans are sold to investors and expects both facilities to be renewed or replaced with other facilities when they mature. If the facilities are not renewed, the borrowings under the lines of credit will be paid off by selling the mortgage loans held-for-sale to investors and by collecting on receivables on loans sold but not yet paid. Without the facilities, the Financial Services segment would have to use cash from operations and other funding sources to

finance its lending activities. Borrowings under the lines of credit were $180.3 million and $209.5 million, respectively, at February 28, 2009 and November 30, 2008 and were collateralized by mortgage loans and receivables on loans sold but not yet paid by investors with outstanding principal balances of $289.8 million and $286.7 million, respectively, at February 28, 2009 and November 30, 2008.

At February 28, 2009, the Financial Services segment also had an on going 60-day committed repurchase facility for $75 million. As of February 28, 2009 and November 30, 2008, the Financial Services segment had advances under this facility totaling $49.8 million and $5.2 million, respectively. At November 30, 2008, the Financial Services segment had advances under a different conduit funding agreement totaling $10.8 million, which was collateralized by mortgage loans.

**(7) Cash and Cash Equivalents**

Cash and cash equivalents as of February 28, 2009 and November 30, 2008 included $5.3 million and $9.8 million, respectively, of cash held in escrow for approximately three days.

**(8) Restricted Cash**

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

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

| *(Dollars in thousands)* | February 28, 2009 | November 30, 2008 |
|---|---|---|
| 7 5/8% senior notes due 2009 | $ 281,477 | 280,976 |
| 5.125% senior notes due 2010 | 299,877 | 299,877 |
| 5.95% senior notes due 2011 | 249,667 | 249,615 |
| 5.95% senior notes due 2013 | 346,851 | 346,851 |
| 5.50% senior notes due 2014 | 248,088 | 248,088 |
| 5.60% senior notes due 2015 | 501,522 | 501,618 |
| 6.50% senior notes due 2016 | 249,746 | 249,733 |
| Mortgage notes on land and other debt | 396,887 | 368,177 |
| | $ 2,574,115 | 2,544,935 |

The Company s senior unsecured revolving credit facility (the Credit Facility ) consists of a $1.1 billion revolving credit facility that matures in July 2011. As of February 28, 2009, the Company is required to use its cash in excess of $750 million, amounting to $350 million, before borrowing under the Credit Facility. The Company s borrowing availability as of February 28, 2009, subsequent to the required $350 million usage of cash, was $185 million. The $185 million borrowing availability could be increased if the $350 million is used to purchase qualified borrowing base assets as defined in the Credit Facility agreement.

The Credit Facility is guaranteed by substantially all of the Company s subsidiaries. Interest rates on outstanding borrowings are LIBOR-based, with margins determined based on changes in the Company s credit ratings, or an alternate base rate, as described in the Credit Facility agreement. At both February 28, 2009 and November 30, 2008, the Company had no outstanding balance under the Credit Facility. However, at February 28, 2009 and November 30, 2008, $234.7 million and $275.2 million, respectively, of the Company s total letters of credit outstanding discussed below, were collateralized against certain borrowings available under the Credit Facility.

The Company s performance letters of credit outstanding were $145.3 million and $167.5 million, respectively, at February 28, 2009 and November 30, 2008. The Company s financial letters of credit outstanding were $246.6 million and $278.5 million, respectively, at February 28, 2009 and November 30, 2008. Performance letters of credit are generally posted with regulatory bodies to guarantee the Company s performance of certain development and construction activities, and financial letters of credit are generally posted in lieu of cash deposits on option contracts. Additionally, at February 28, 2009, the Company had outstanding

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performance and surety bonds related to site improvements at various projects (including certain projects of the Company s joint ventures) of $978.1 million. Although significant development and construction activities have been completed related to these site improvements, these bonds are generally not released until all development and construction activities are completed. As of February 28, 2009, there were approximately $389.2 million, or 40%, of costs to complete related to these site improvements. The Company does not presently anticipate any draws upon these bonds, but if such draws occur, the Company does not believe they would have a material effect on its financial position, results of operations or cash flows.

At February 28, 2009, the Company believes it was in compliance with its debt covenants. Under the Credit Facility, the Company is required to maintain a leverage ratio of less than or equal to 55% at the end of each fiscal quarter during the Company s 2009 fiscal year and a leverage ratio of less than or equal to 52.5% for its 2010 fiscal year and through the maturity of the Company s credit facility in 2011. If the Company s adjusted consolidated tangible net worth, as calculated per the Credit Facility agreement, falls below $1.6 billion, the Company s Credit Facility would be reduced from $1.1 billion to $0.9 billion. In no event can the Company s adjusted consolidated tangible net worth, as calculated per the Credit Facility agreement, be less than $1.3 billion. As of February 28, 2009, the Company s adjusted consolidated tangible net worth and leverage ratio, as calculated per the Credit Facility agreement (which involve adjustments to GAAP financial measures, as described in Management s Discussion and Analysis of Financial Condition and Results of Operations) were $2.1 billion and 50%, respectively.

In addition to other requirements, the Credit Facility requires the Company to effect quarterly reductions of its maximum recourse exposure related to joint ventures in which the Company has investments by a total of $200 million by November 30, 2009, of which the Company has already reduced it by $164.4 million. The Company must also effect quarterly reductions during its 2010 fiscal year totaling $180 million and during the first six months of its 2011 fiscal year totaling $80 million. By May 31, 2011, the Company s maximum recourse exposure related to joint ventures in which it has investments cannot exceed $275 million.

If the joint ventures are unable to reduce their debt, where there is recourse to the Company, through the sale of inventory or other means, then the Company and its partners may be required to contribute capital to the joint ventures.

In March 2009, the Company paid in full, at maturity, its $281 million 7 5/8% senior notes due in 2009 for 100% of the outstanding principal amount, plus accrued and unpaid interest as of the maturity date.

**(10) Product Warranty**

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

| | Three Months Ended | |
|---|---|---|
| ***(In thousands)*** | **February 28, 2009** | **February 29, 2008** |
| Warranty reserve, beginning of period | $ 129,449 | 164,841 |
| Warranties issued during the period | 5,393 | 10,363 |
| Adjustments to pre-existing warranties from changes in estimates | 19,074 | 3,639 |
| Payments | (14,220) | (25,901) |
| Warranty reserve, end of period | $ 139,696 | 152,942 |

Adjustments to pre-existing warranties from changes in estimates for the three months ended February 28, 2009 primarily include an adjustment for warranty issues related to drywall purchased from China by various of the Company s subcontractors that

was identified during the quarter as being defective. The defective Chinese drywall was installed in certain of the homes the Company delivered primarily during its 2005 and 2006 fiscal years. The Company is currently engaged in the process of inspecting and identifying homes it delivered during its 2005 and 2006 fiscal years, in order to determine whether there are additional homes, not yet inspected, with defective Chinese drywall. The outcome of these inspections may require the Company to increase its warranty reserve in the future.

**(11) Stockholders Equity**

In June 2001, the Company s Board of Directors authorized a stock repurchase program to permit the purchase of up to 20 million shares of the Company s outstanding common stock. There were no share repurchases during the three months ended February 28, 2009. As of February 28, 2009, 6.2 million shares of common stock can be repurchased in the future under the program. Treasury stock increased by 0.1 million common shares during the three months ended February 28, 2009 in connection with activity related to the Company s equity compensation plans and forfeitures of restricted stock.

**(12) Share-Based Payment**

During the three months ended February 28, 2009 and February 29, 2008, compensation expense related to the Company s share-based payment awards was $7.7 million and $6.4 million, respectively, of which $3.0 million and $3.4 million, respectively, related to stock options and $4.7 million and $3.0 million, respectively, related to awards of restricted common stock ( nonvested shares ). During the three months ended February 28, 2009, the Company did not grant any stock options or nonvested shares. During the three months ended February 29, 2008, the Company granted 1.1 million nonvested shares.

**(13) Comprehensive Loss**

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

| | Three Months Ended | |
|---|---|---|
| ***(In thousands)*** | **February 28, 2009** | **February 29, 2008** |
| Net loss | $ (155,929) | (88,216) |
| Unrealized loss on Company s portion of unconsolidated entity s interest rate swap liability, net of tax | | (1,599) |
| Comprehensive loss | $ (155,929) | (89,815) |

**(14) Fair Value Disclosures**

SFAS No. 157, *Fair Value Measurements*, ( SFAS 157 ), provides a framework for measuring fair value, expands disclosures about fair value measurements and establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value summarized as follows:

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

Level 2 Fair value determined using significant other observable inputs.

Level 3 Fair value determined using significant unobservable inputs.

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

| Financial Instruments *(Dollars in thousands)* | Fair Value Hierarchy | Fair Value at February 28, 2009 |
|---|---|---|
| Loans held-for-sale (1) | Level 2 | $ 151,942 |
| Mortgage loan commitments | Level 2 | 2,100 |
| Forward contracts | Level 2 | 2,076 |

(1) The aggregate fair value of loans held-for-sale of $151.9 million exceeds its aggregate principal balance of $150.5 million by $1.4 million.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, ( SFAS 159 ) permits entities to measure various financial instruments and certain other items at fair value on a contract-by-contract basis. The Company elected the fair value option for its loans held-for-sale for mortgage loans originated subsequent to February 29, 2008, and as a result, the Company s loans held-for-sale as of February 28, 2009 are carried at fair value. Management believes carrying loans held-for-sale at fair value improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, the Company also applies Staff Accounting Bulletin ( SAB ) No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings*, ( SAB 109 ) to its rights to service a mortgage loan and recognizes revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in the Company s loans held-for-sale balance as of February 28, 2009. Fair value of the servicing rights is determined based on quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics.

The Company s assets measured at fair value on a nonrecurring basis are those assets for which the Company has recorded valuation adjustments and write-offs during the current period. The assets measured at fair value on a nonrecurring basis are all within its Homebuilding operations and are summarized below:

| Non-financial Assets *(Dollars in thousands)* | Fair Value Hierarchy | Fair Value at February 28, 2009 | Total Losses (1) |
|---|---|---|---|
| Finished homes and construction in progress (2) | Level 3 | $ 110,140 | (40,465) |
| Land under development (3) | Level 3 | | (532) |
| Investments in unconsolidated entities (4) | Level 3 | (23,730) | (37,225) |

(1) Represents total losses recorded during the three months ended February 28, 2009.

(2) In accordance with SFAS 144, finished homes and construction in progress with a carrying value of $150.6 million were written down to their fair value of $110.1 million, resulting in an impairment charge of $40.5 million, which was included in homebuilding costs and expenses in the Company s statement of operations for three months ended February 28, 2009.

(3) In accordance with SFAS 144, land under development with a carrying value of $0.4 million was written down to their fair value of zero. In addition, during the three months ended February 28, 2009 land with a carrying value of $1.0 million was sold for $0.9 million. This resulted in total impairment charges for land under development of $0.5 million, which was included in homebuilding costs and expenses in the Company s statement of operations for the three months ended February 28, 2009.

(4) In accordance with APB 18, investments in unconsolidated entities with an aggregate carrying value of $13.5 million were written down to their fair value of ($23.7) million, which represents the Company s obligation for guarantees related to debt of certain unconsolidated entities recorded as a liability as of February 28, 2009. The impairment charge of $37.2 million was included in other income (expense), net in the Company s statement of operations for the three months ended February 28, 2009.

Finished homes and construction in progress and land under development are included within inventories. Inventories are stated at cost unless the inventory within a community is determined to be impaired, in which case the impaired inventory is written down to fair value. The Company reviews its inventory for impairment on a community by community basis during each reporting period by evaluating all of its communities. The inventory within each community is categorized as finished homes and construction in progress and land under development based on the development stage of the community. There were 462 and 630 active communities as of February 28, 2009 and February 29, 2008, respectively, each of which was reviewed for impairment. SFAS 144 requires that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write-down the carrying amount of such asset to its fair value.

The Company estimates the fair value of its communities using a discounted cash flow model. In determining the projected cash flows of a community, the Company primarily uses estimates related to market supply and demand, product type by community, homesite sizes, sales pace, sales prices, sales incentives, construction costs, sales and marketing expenses, the local economy, competitive conditions, labor costs, costs of materials and other factors for that particular community. Every homebuilding division evaluates the historical performance of each of its communities and the current trends in the market and economy impacting the community and its surrounding areas. These trends are analyzed for each of the estimates listed above. For example, since the start of the downturn, the Company has reduced its construction costs in many communities, and this reduction in construction costs, in addition to changes in product type, has impacted future estimated cash flows. Using all the trend information available, the division provides its best estimate of projected cash flows for each community. While many of the estimates are calculated based on trends, all estimates are subjective and change from market to market and from community to community as market and economic conditions change. The determination of fair value also requires discounting the estimated cash flows at a rate the Company determines to be commensurate with the inherent risks associated with the assets and related estimated cash flow streams. The discount rate used in determining each asset s fair value depends on the community s projected life and development stage. The Company generally uses a discount rate of approximately 20% depending on the perceived risks associated with a community s cash flow streams relative to its inventory.

The Company evaluates its investments in unconsolidated entities for impairment during each reporting period in accordance with APB 18. A series of operating losses of an investee or other factors including age of venture, intent and ability for the Company to retain its investment in the entity, financial condition and long-term prospects of the entity and relationships with the other partners and banks, may indicate that a decrease in the value of the Company s investment in the unconsolidated entity has occurred which is other-than-temporary. The amount of impairment recognized is the excess of the investment s carrying amount over its estimated fair value. If the Company determines that its investment in the unconsolidated entity, or a portion of this investment could not be recovered through disposition, the Company includes these losses in other income (expense), net. The evaluation of the Company s investment in an unconsolidated entity includes two critical assumptions: (1) projected future distributions from the unconsolidated entity and (2) discount rates applied to the future distributions. Inventory of the Company s unconsolidated entities is also reviewed for potential impairment in accordance with SFAS 144. The unconsolidated entities generally use a discount rate of approximately 20% in their SFAS 144 reviews for impairment, subject to the perceived risks associated with the community s cash flow stream relative to its inventory. If a valuation adjustment is recorded by an unconsolidated entity in accordance with SFAS 144, the Company s proportionate share is reflected in the Company s equity in loss from unconsolidated entities with a corresponding decrease to its investments in unconsolidated entities.

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

The Company follows FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* ( FIN 46R ), which requires the consolidation of certain entities in which an enterprise absorbs a majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity.

*Unconsolidated Entities*

At February 28, 2009, the Company had investments in and advances to unconsolidated entities established to acquire and develop land for sale to the Company in connection with its homebuilding operations, for sale to third parties or for the construction of homes for sale to third-party homebuyers. The Company evaluated all agreements under FIN 46R during the three months ended February 28, 2009 that were entered into or had reconsideration events, and as a result it consolidated entities that at February 28, 2009 had total combined assets and liabilities of $0.1 million and $0.6 million, respectively.

At February 28, 2009 and November 30, 2008, the Company s recorded investment in unconsolidated entities was $776.8 million and $766.8 million, respectively. The Company s estimated maximum exposure to loss with regard to unconsolidated entities is primarily its recorded investments in these entities and the exposure under the guarantees discussed in Note 3.

*Option Contracts*

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

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

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

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

When the Company does not intend to exercise an option, it writes off any unapplied deposit and pre-acquisition costs associated with the option contract. For the three months ended February 28, 2009 and February 29, 2008, the Company wrote-off $10.2 million and $16.9 million, respectively, of option deposits and pre-acquisition costs related to land under option that it does not intend to purchase.

The table below indicates the number of homesites owned and homesites to which the Company had access through option contracts with third parties ( optioned ) or unconsolidated joint ventures in which the Company has investments ( JVs ) (i.e., controlled homesites) at February 28, 2009 and February 29, 2008:

| | Controlled Homesites | | | Owned | Total |
|---|---|---|---|---|---|
| **February 28, 2009** | **Optioned** | **JVs** | **Total** | **Homesites** | **Homesites** |
| East | 7,716 | 3,690 | 11,406 | 25,199 | 36,605 |
| Central | 1,496 | 4,961 | 6,457 | 14,926 | 21,383 |
| West | 43 | 11,858 | 11,901 | 18,995 | 30,896 |
| Houston | 992 | 2,325 | 3,317 | 7,068 | 10,385 |
| Other | 502 | 677 | 1,179 | 7,979 | 9,158 |
| Total homesites | 10,749 | 23,511 | 34,260 | 74,167 | 108,427 |

| | Controlled Homesites | | | Owned | Total |
|---|---|---|---|---|---|
| **February 29, 2008** | **Optioned** | **JVs** | **Total** | **Homesites** | **Homesites** |
| East | 14,424 | 10,876 | 25,300 | 26,298 | 51,598 |
| Central | 2,327 | 9,103 | 11,430 | 13,910 | 25,340 |
| West | 1,296 | 27,781 | 29,077 | 15,580 | 44,657 |
| Houston | 2,070 | 3,685 | 5,755 | 7,329 | 13,084 |
| Other | 814 | 788 | 1,602 | 8,646 | 10,248 |
| Total homesites | 20,931 | 52,233 | 73,164 | 71,763 | 144,927 |

The Company evaluated all option contracts for land when entered into or upon a reconsideration event to determine whether it is the primary beneficiary of certain of these option contracts. Although the Company does not have legal title to the optioned land, under FIN 46R, the Company, if it is deemed to be the primary beneficiary, is required to consolidate the land under option at the purchase price of the optioned land. During the three months ended February 28, 2009, the effect of consolidation of these option contracts was an increase of $2.7 million to consolidated inventory not owned with a corresponding increase to liabilities related to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of February 28, 2009. This increase was offset by the Company exercising its options to acquire land under certain contracts previously consolidated resulting in a net decrease in consolidated inventory not owned of $40.0 million for the three months ended February 28, 2009. To reflect the purchase price of the inventory consolidated under FIN 46R, the Company reclassified an immaterial amount of related option deposits from land under development to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of February 28, 2009. The liabilities related to consolidated inventory not owned primarily represent the difference between the option exercise prices for the optioned land and the Company s cash deposits.

The Company s exposure to loss related to its option contracts with third parties and unconsolidated entities consisted of its non-refundable option deposits and pre-acquisition costs totaling $184.5 million and $191.2 million, respectively, at February 28, 2009 and November 30, 2008. Additionally, the Company had posted $69.1 million and $89.5 million, respectively, of letters of credit in lieu of cash deposits under certain option contracts as of February 28, 2009 and November 30, 2008.

**(16) New Accounting Pronouncements**

In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for the Company s financial assets and liabilities on December 1, 2007. The FASB deferred the provisions of SFAS 157 relating to nonfinancial assets and liabilities until the Company s fiscal year beginning December 1, 2008. SFAS 157 did not materially affect how the Company determines fair value, but has resulted in certain additional disclosures (see Note 14).

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

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

**(17) Supplemental Financial Information**

The Company s obligations to pay principal, premium, if any, and interest under its Credit Facility, 7/8% senior notes due 2009, 5.125% senior notes due 2010, 5.95% senior notes due 2011, 5.95% senior notes due 2013, 5.50% senior notes due 2014, 5.60% senior notes due 2015 and 6.50% senior notes due 2016 are guaranteed by substantially all of the Company s subsidiaries. The guarantees are full and unconditional and the guarantor subsidiaries are 100% directly or indirectly owned by Lennar Corporation. The guarantees are joint and several, subject to limitations as to each guarantor designed to eliminate constructive fraudulent conveyance concerns. The Company has determined that separate, full financial statements of the guarantors would not be material to investors and, accordingly, supplemental financial information for the guarantors is presented as follows:

**Condensed Consolidating Balance Sheet**

**February 28, 2009**

| *(In thousands)* | Lennar Corporation | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Homebuilding:** | | | | | |
| Cash and cash equivalents, restricted cash, receivables, net and income tax receivables | $ 1,032,069 | 167,065 | 12,875 | | 1,212,009 |
| Inventories | | 3,967,733 | 534,009 | | 4,501,742 |
| Investments in unconsolidated entities | | 760,733 | 16,079 | | 776,812 |
| Other assets | 29,091 | 59,544 | 5,639 | | 94,274 |
| Investments in subsidiaries | 4,156,569 | 522,063 | | (4,678,632) | |
| | 5,217,729 | 5,477,138 | 568,602 | (4,678,632) | 6,584,837 |
| **Financial services** | | 157,092 | 428,182 | | 585,274 |
| **Total assets** | $ 5,217,729 | 5,634,230 | 996,784 | (4,678,632) | 7,170,111 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| **Homebuilding:** | | | | | |
| Accounts payable and other liabilities | $ 238,798 | 718,534 | 25,370 | | 982,702 |
| Liabilities related to consolidated inventory not owned | | 557,599 | | | 557,599 |
| Senior notes and other debts payable | 2,177,228 | 167,340 | 229,547 | | 2,574,115 |
| Intercompany | 334,328 | (30,006) | (304,322) | | |
| | 2,750,354 | 1,413,467 | (49,405) | | 4,114,416 |
| **Financial services** | | 64,194 | 359,854 | | 424,048 |
| **Total liabilities** | 2,750,354 | 1,477,661 | 310,449 | | 4,538,464 |
| **Minority interest** | | | 164,272 | | 164,272 |
| **Stockholders equity** | 2,467,375 | 4,156,569 | 522,063 | (4,678,632) | 2,467,375 |
| **Total liabilities and stockholders equity** | $ 5,217,729 | 5,634,230 | 996,784 | (4,678,632) | 7,170,111 |

**(17) Supplemental Financial Information (Continued)**

**Condensed Consolidating Balance Sheet**

**November 30, 2008**

| *(In thousands)* | Lennar Corporation | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Homebuilding:** | | | | | |
| Cash and cash equivalents, restricted cash, receivables, net and income tax receivables | $ 1,263,623 | 165,060 | 21,593 | | 1,450,276 |
| Inventories | | 3,975,084 | 525,006 | | 4,500,090 |
| Investments in unconsolidated entities | | 751,613 | 15,139 | | 766,752 |
| Other assets | 30,420 | 64,515 | 4,867 | | 99,802 |
| Investments in subsidiaries | 4,314,255 | 635,413 | | (4,949,668) | |
| | 5,608,298 | 5,591,685 | 566,605 | (4,949,668) | 6,816,920 |
| **Financial services** | | 8,332 | 599,646 | | 607,978 |
| **Total assets** | $ 5,608,298 | 5,600,017 | 1,166,251 | (4,949,668) | 7,424,898 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| **Homebuilding:** | | | | | |
| Accounts payable and other liabilities | $ 269,457 | 700,411 | 111,732 | | 1,081,600 |
| Liabilities related to consolidated inventory not owned | | 592,777 | | | 592,777 |
| Senior notes and other debts payable | 2,176,758 | 130,126 | 238,051 | | 2,544,935 |
| Intercompany | 539,076 | (140,463) | (398,613) | | |
| | 2,985,291 | 1,282,851 | (48,830) | | 4,219,312 |
| **Financial services** | | 2,911 | 413,922 | | 416,833 |
| **Total liabilities** | 2,985,291 | 1,285,762 | 365,092 | | 4,636,145 |
| **Minority interest** | | | 165,746 | | 165,746 |
| **Stockholders equity** | 2,623,007 | 4,314,255 | 635,413 | (4,949,668) | 2,623,007 |
| **Total liabilities and stockholders equity** | $ 5,608,298 | 5,600,017 | 1,166,251 | (4,949,668) | 7,424,898 |

**(17) Supplemental Financial Information (Continued)**

**Condensed Consolidating Statement of Operations**

**Three Months Ended February 28, 2009**

| *(In thousands)* | Lennar Corporation | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Homebuilding | $ | 518,623 | 10,411 | | 529,034 |
| Financial services | | 34,786 | 44,772 | (15,529) | 64,029 |
| Total revenues | | 553,409 | 55,183 | (15,529) | 593,063 |
| **Costs and expenses:** | | | | | |
| Homebuilding | | 605,202 | 14,480 | (13,123) | 606,559 |
| Financial services | | 31,423 | 33,119 | (1,005) | 63,537 |
| Corporate general and administrative | 26,283 | | | 1,748 | 28,031 |
| Total costs and expenses | 26,283 | 636,625 | 47,599 | (12,380) | 698,127 |
| Equity in loss from unconsolidated entities | | (2,917) | | | (2,917) |
| Other income (expense), net | (2,985) | (47,998) | | 3,149 | (47,834) |
| Minority interest income, net | | | 1,734 | | 1,734 |
| Loss before (provision) benefit for income taxes | (29,268) | (134,131) | 9,318 | | (154,081) |
| (Provision) benefit for income taxes | 3,140 | (1,610) | (3,378) | | (1,848) |
| Equity in (loss) earnings from subsidiaries | (129,801) | 5,940 | | 123,861 | |
| **Net (loss) earnings** | $ (155,929) | (129,801) | 5,940 | 123,861 | (155,929) |

**Condensed Consolidating Statement of Operations**

**Three Months Ended February 29, 2008**

| *(In thousands)* | Lennar Corporation | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Homebuilding | $ | 992,578 | 602 | 596 | 993,776 |
| Financial services | | 1,873 | 88,686 | (21,422) | 69,137 |
| Total revenues | | 994,451 | 89,288 | (20,826) | 1,062,913 |
| **Costs and expenses:** | | | | | |
| Homebuilding | | 1,061,761 | 1,170 | (4,382) | 1,058,549 |
| Financial services | | 1,087 | 92,034 | (14,292) | 78,829 |
| Corporate general and administrative | 34,822 | | | | 34,822 |
| Total costs and expenses | 34,822 | 1,062,848 | 93,204 | (18,674) | 1,172,200 |

| | | | | | |
|---|---|---|---|---|---|
| Equity in loss from unconsolidated entities | | (22,980) | | | (22,980) |
| Other income (expense), net | (2,152) | (21,793) | | 2,152 | (21,793) |
| Minority interest expense, net | | | (234) | | (234) |
| | | | | | |
| Loss before benefit for income taxes | (36,974) | (113,170) | (4,150) | | (154,294) |
| Benefit for income taxes | 15,830 | 48,471 | 1,777 | | 66,078 |
| Equity in loss from subsidiaries | (67,072) | (2,373) | | 69,445 | |
| | | | | | |
| **Net loss** | $ (88,216) | (67,072) | (2,373) | 69,445 | (88,216) |

**(17) Supplemental Financial Information (Continued)**

**Condensed Consolidating Statement of Cash Flows**

**Three Months Ended February 28, 2009**

| *(In thousands)* | Lennar Corporation | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | |
| Net earnings (loss) | $ (155,929) | (129,801) | 5,940 | 123,861 | (155,929) |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities | 226,078 | 221,136 | (87,229) | (123,861) | 236,124 |
| Net cash provided by (used in) operating activities | 70,149 | 91,335 | (81,289) | | 80,195 |
| **Cash flows from investing activities:** | | | | | |
| Increase in investments in unconsolidated entities, net | | (59,603) | | | (59,603) |
| Other | (25) | 2,054 | 855 | | 2,884 |
| Net cash provided by (used in) investing activities | (25) | (57,549) | 855 | | (56,719) |
| **Cash flows from financing activities:** | | | | | |
| Net borrowings (repayments) under financial services debt | | (24) | 4,578 | | 4,554 |
| Net borrowings (repayments) on other borrowings | | 4,770 | (10,760) | | (5,990) |
| Exercise of land option contracts from an unconsolidated land investment venture | | (3,768) | | | (3,768) |
| Net receipts related to minority interests | | | 510 | | 510 |
| Common stock: | | | | | |
| Repurchases | (686) | | | | (686) |
| Dividends | (6,412) | | | | (6,412) |
| Intercompany | (43,902) | (38,520) | 82,422 | | |
| Net cash provided by (used in) financing activities | (51,000) | (37,542) | 76,750 | | (11,792) |
| Net increase (decrease) in cash and cash equivalents | 19,124 | (3,756) | (3,684) | | 11,684 |
| Cash and cash equivalents at beginning of period | 1,007,594 | 125,437 | 70,391 | | 1,203,422 |
| Cash and cash equivalents at end of period | $ 1,026,718 | 121,681 | 66,707 | | 1,215,106 |

**(17) Supplemental Financial Information (Continued)**

**Condensed Consolidating Statement of Cash Flows**

**Three Months Ended February 29, 2008**

| *(In thousands)* | Lennar Corporation | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | |
| Net loss | $ (88,216) | (67,072) | (2,373) | 69,445 | (88,216) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities | 680,355 | 46,380 | 275,449 | (69,445) | 932,739 |
| Net cash provided by (used in) operating activities | 592,139 | (20,692) | 273,076 | | 844,523 |
| **Cash flows from investing activities:** | | | | | |
| Increase in investments in unconsolidated entities, net | | (128,371) | | | (128,371) |
| Other | (4) | (75) | (2,170) | | (2,249) |
| Net cash used in investing activities | (4) | (128,446) | (2,170) | | (130,620) |
| **Cash flows from financing activities:** | | | | | |
| Net repayments under financial services debt | | | (247,445) | | (247,445) |
| Net repayments on other borrowings | | (7,587) | (37,977) | | (45,564) |
| Exercise of land option contracts from an unconsolidated land investment venture | | (13,573) | | | (13,573) |
| Net payments related to minority interests | | | (530) | | (530) |
| Common stock: | | | | | |
| Issuances | 224 | | | | 224 |
| Repurchases | (344) | | | | (344) |
| Dividends | (25,725) | | | | (25,725) |
| Intercompany | (71,884) | 124,124 | (52,240) | | |
| Net cash provided by (used in) financing activities | (97,729) | 102,964 | (338,192) | | (332,957) |
| Net increase (decrease) in cash and cash equivalents | 494,406 | (46,174) | (67,286) | | 380,946 |
| Cash and cash equivalents at beginning of period | 497,384 | 139,733 | 158,077 | | 795,194 |
| Cash and cash equivalents at end of period | $ 991,790 | 93,559 | 90,791 | | 1,176,140 |

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included under Item 1 of this Report and our audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for our fiscal year ended November 30, 2008.

Some of the statements in this Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Quarterly Report on Form 10-Q, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include statements regarding our business, financial condition, results of operations, cash flows, strategies and prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption *Risk Factors* included in Item 1A of our Annual Report on Form 10-K for our fiscal year ended November 30, 2008. We do not undertake any obligation to update forward-looking statements, except as required by Federal securities laws.

**Outlook**

The housing market experienced further deterioration during our first quarter of fiscal 2009, driven primarily by mortgage foreclosures, which added inventories to an already oversupplied market, escalating levels of unemployment and a low level of consumer confidence. These conditions continued to drive pricing downward through the use of incentives and price reductions. Given dramatically declining home prices and historically low interest rates, the affordability of homeownership has significantly improved across the country; however, we do not know when the market will stabilize. Whether or not the affordability of housing continues to improve, there could be further deterioration in market conditions, which may lead to additional valuation adjustments in the future.

Our strategy has been to streamline our core homebuilding operations for a return to profitability and to position us for future opportunities. We have continued to make strategic operational changes in order to address the current homebuilding environment by focusing on S,G&A control, efficient low-cost floor plans and market tuned product. S,G&A control has resulted in the centralization of functions and reduction of homebuilding divisions in order to significantly lower overhead costs, while our focus on efficient low-cost floor plans and market tuned product has enabled us to reduce our construction cost per square foot and the number of floor plans we bring to market.

In addition, we continue to focus on managing our inventory levels through curtailing land purchases, reducing home starts and adjusting prices to sell and deliver completed homes. We also continue to diligently work on restructuring, repositioning and reducing our joint ventures, as well as reducing our net recourse indebtedness exposure with regard to joint ventures.

During fiscal 2009, we will continue to focus on homebuilding profitability and on cash generation. While we have not yet recognized the full impact of our strategic initiatives, we believe that our focus on such initiatives will return us to profitability once the market stabilizes.

**(1) Results of Operations**

**Overview**

We historically have experienced, and expect to continue to experience, variability in quarterly results. Our results of operations for the three months ended February 28, 2009 are not necessarily indicative of the results to be expected for the full year.

Our net loss was $155.9 million, or $0.98 per basic and diluted share, in the first quarter of 2009, compared to a net loss of $88.2 million, or $0.56 per basic and diluted share, in the first quarter of 2008. The net loss was attributable to challenging market conditions that have persisted during the first quarter of 2009 and have impacted all of our operations. Our gross margins decreased due to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets,* ( SFAS 144 ) valuation adjustments and higher sales incentives offered to homebuyers as a percentage of revenues from home sales during the three months ended February 28, 2009, compared to the same period last year.

Financial information relating to our operations was as follows:

| | Three Months Ended | |
|---|---|---|
| ***(In thousands)*** | **February 28, 2009** | **February 29, 2008** |
| **Homebuilding revenues:** | | |
| Sales of homes | $ 522,758 | 953,066 |
| Sales of land | 6,276 | 40,710 |
| Total homebuilding revenues | 529,034 | 993,776 |
| **Homebuilding costs and expenses:** | | |
| Cost of homes sold | 488,576 | 816,371 |
| Cost of land sold | 16,806 | 67,160 |
| Selling, general and administrative | 101,177 | 175,018 |
| Total homebuilding costs and expenses | 606,559 | 1,058,549 |
| Equity in loss from unconsolidated entities | (2,917) | (22,980) |
| Other income (expense), net | (47,834) | (21,793) |
| Minority interest income (expense), net | 1,734 | (234) |
| **Homebuilding operating loss** | $ (126,542) | (109,780) |
| Financial services revenues | $ 64,029 | 69,137 |
| Financial services costs and expenses | 63,537 | 78,829 |
| **Financial services operating earnings (loss)** | $ 492 | (9,692) |
| **Total operating loss** | $ (126,050) | (119,472) |
| Corporate general and administrative expenses | (28,031) | (34,822) |
| **Loss before (provision) benefit for income taxes** | $ (154,081) | (154,294) |

Revenues from home sales decreased 45% in the first quarter of 2009 to $522.8 million from $953.1 million in 2008. Revenues were lower primarily due to a 38% decrease in the number of home deliveries and a 12% decrease in the average sales price of homes delivered in 2009. New home deliveries, excluding unconsolidated entities, decreased to 2,136 homes in the first quarter of 2009 from 3,437 homes last year. In the first quarter of 2009, new home deliveries were lower in each of our homebuilding segments and Homebuilding Other, compared to 2008. The average sales price of homes delivered decreased to $244,000 in the first quarter of 2009 from $278,000 in the same period last year, primarily due to reduced pricing. Sales incentives offered to homebuyers were $50,500 per home delivered in the first quarter of 2009, compared to $48,000 per home delivered in the first quarter of 2008.

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Gross margins on home sales were $34.2 million, or 6.5%, in the first quarter of 2009, which included $40.8 million of SFAS 144 valuation adjustments, compared to gross margins on home sales of $136.7 million, or 14.3%, in the first quarter of 2008, which included $26.2 million of SFAS 144 valuation adjustments. Gross margins on home sales excluding SFAS 144 valuation adjustments were $75.0 million, or 14.3%, in the first quarter of 2009, compared to $162.9 million, or 17.1%, in 2008. Gross margin percentage on home sales, excluding SFAS 144 valuation adjustments, decreased compared to last year, primarily due to higher sales incentives offered to homebuyers as a percentage of revenues from home sales. Gross margins on home sales excluding SFAS 144 valuation adjustments is a non-GAAP financial measure. Management finds it to be an important and useful measure in evaluating our performance. We believe investors also will find it to be important and useful because it discloses our gross margins with regard to new homes we actually deliver in the periods presented. Certain of our competitors disclose this financial measure and we believe that disclosing this information is useful to us and the readers of our financial statements by enabling them to compare the gross margins of new homes we actually deliver during the periods presented with those of our competitors.

Homebuilding interest expense (included in cost of homes sold, cost of land sold and other income (expense), net) was $17.0 million in the first quarter of 2009, compared to $32.4 million in the same period last year. The decrease in interest expense was due to decreased deliveries during the first quarter of 2009, compared to the first quarter of 2008.

Our homebuilding debt to total capital ratio as of February 28, 2009 was 51.1%, compared to 49.2% and 38.2%, respectively, as of November 30, 2008 and February 29, 2008. Our net homebuilding debt to total capital ratio as of February 28, 2009 was 37.4%, compared to 35.7% and 24.5%, respectively, as of November 30, 2008 and February 29, 2008. Net homebuilding debt to total capital ratio consists of net homebuilding debt (homebuilding debt less homebuilding cash and cash equivalents) divided by total capital (net homebuilding debt plus stockholders equity).

Selling, general and administrative expenses were reduced by $73.8 million, or 42%, in the first quarter of 2009, compared to the same period last year, primarily due to reduction in associate headcount, variable selling expenses and fixed costs. As a percentage of revenues from home sales, selling, general and administrative expenses increased to 19.4% in the first quarter of 2009, from 18.4% in the first quarter of 2008, due to lower revenues.

Losses on land sales totaled $10.5 million in the first quarter of 2009, which included $0.2 million of SFAS 144 valuation adjustments and $10.2 million of write-offs of deposits and pre-acquisition costs related to approximately 1,100 homesites under option that we do not intend to purchase. In the first quarter of 2008, losses on land sales totaled $26.5 million, which included $15.5 million of SFAS 144 valuation adjustments and $16.9 million of write-offs of deposits and pre-acquisition costs related to approximately 2,600 homesites that were under option.

Equity in loss from unconsolidated entities was $2.9 million in the first quarter of 2009, compared to equity in loss from unconsolidated entities of $23.0 million in the first quarter of 2008, which included $18.9 million of SFAS 144 valuation adjustments related to assets of unconsolidated entities in which we have investments.

Other income (expense), net, totaled ($47.8) million in the first quarter of 2009, which included $37.2 million of APB 18 valuation adjustments to our investments in unconsolidated entities, compared to other income (expense), net, of ($21.8) million in the first quarter of 2008, which included $29.6 million of APB 18 valuation adjustments to our investments in unconsolidated entities.

Minority interest income (expense), net was $1.7 million and ($0.2) million, respectively, in the first quarter of 2009 and 2008.

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

Operating earnings for the Financial Services segment was $0.5 million in the first quarter of 2009, compared to an operating loss of $9.7 million in the first quarter of 2008. The improvement in the Financial Services segment was primarily due to lower fixed costs as a result of our focus on cost reductions in the segment s mortgage and title operations.

Corporate general and administrative expenses were reduced by $6.8 million, or 20%, in the first quarter of 2009, compared to the first quarter of 2008. As a percentage of total revenues, corporate general and administrative expenses increased to 4.7% in the first quarter of 2009, from 3.3% in the first quarter of 2008, due to lower revenues.

SFAS 109 requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance, if based on available evidence, it is more likely than not that such assets will not be realized. As a result of our net loss during the three months ended February 28, 2009, we generated deferred tax assets of $57.7 million and recorded a non-cash valuation allowance in accordance with SFAS 109 against the entire amount of deferred tax assets generated.

Our overall effective income tax rates were (1.2%) and 42.83%, respectively, for the three months ended February 28, 2009 and February 29, 2008. The decrease in the effective tax rate, compared with the same period during 2008, resulted primarily from the establishment of a deferred tax asset valuation allowance.

**Homebuilding Segments**

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

At February 28, 2009, our reportable homebuilding segments and Homebuilding Other consisted of homebuilding divisions located in:

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

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

**West:** California and Nevada

**Houston:** Houston, Texas

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

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

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

***Selected Financial and Operational Data***

| *(In thousands)* | Three Months Ended February 28, 2009 | February 29, 2008 |
|---|---|---|
| **Revenues:** | | |
| **East:** | | |
| Sales of homes | $ 178,372 | 307,580 |
| Sales of land | 2,326 | 4,439 |
| Total East | 180,698 | 312,019 |
| **Central:** | | |
| Sales of homes | 61,902 | 132,810 |
| Sales of land | 807 | 10,578 |
| Total Central | 62,709 | 143,388 |
| **West:** | | |
| Sales of homes | 140,490 | 312,859 |
| Sales of land | 736 | 16,941 |
| Total West | 141,226 | 329,800 |
| **Houston:** | | |
| Sales of homes | 78,621 | 109,657 |
| Sales of land | 2,407 | 1,824 |
| Total Houston | 81,028 | 111,481 |
| **Other:** | | |
| Sales of homes | 63,373 | 90,160 |
| Sales of land | | 6,928 |
| Total Other | 63,373 | 97,088 |
| **Total homebuilding revenues** | $ 529,034 | 993,776 |

| *(In thousands)* | Three Months Ended February 28, 2009 | February 29, 2008 |
|---|---|---|
| **Operating earnings (loss):** | | |
| **East:** | | |
| Sales of homes | $ (15,837) | (4,233) |
| Sales of land | (5,482) | (7,708) |
| Equity in loss from unconsolidated entities | (1,698) | (15,314) |
| Other income (expense), net | (9,275) | 3,730 |
| Minority interest income, net | 217 | 255 |
| Total East | (32,075) | (23,270) |
| **Central:** | | |
| Sales of homes | (16,991) | (9,581) |
| Sales of land | 118 | (10,045) |
| Equity in earnings (loss) from unconsolidated entities | (642) | 1,122 |
| Other income (expense), net | (9,131) | 1,473 |
| Minority interest income (expense), net | 44 | (327) |
| Total Central | (26,602) | (17,358) |
| **West:** | | |
| Sales of homes | (31,954) | (20,734) |
| Sales of land | (1,116) | (7,179) |
| Equity in earnings (loss) from unconsolidated entities | 244 | (7,834) |
| Other income (expense), net | (26,504) | (28,487) |
| Minority interest income (expense), net | 385 | (6) |
| Total West | (58,945) | (64,240) |
| **Houston:** | | |
| Sales of homes | 2,383 | 5,955 |
| Sales of land | (917) | 152 |
| Equity in loss from unconsolidated entities | (815) | (335) |
| Other income (expense), net | (436) | 38 |
| Total Houston | 215 | 5,810 |
| **Other:** | | |
| Sales of homes | (4,596) | (9,730) |
| Sales of land | (3,133) | (1,670) |
| Equity in loss from unconsolidated entities | (6) | (619) |
| Other income (expense), net | (2,488) | 1,453 |
| Minority interest income (expense), net | 1,088 | (156) |
| Total Other | (9,135) | (10,722) |
| **Total homebuilding operating loss** | $ (126,542) | (109,780) |

***Summary of Homebuilding Data***

**Deliveries:**

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Homes | | Dollar Value *(In thousands)* | | Average Sales Price | |
| | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 |
| East | 794 | 1,165 | $ 178,372 | 313,757 | $ 225,000 | 269,000 |
| Central | 315 | 604 | 61,902 | 132,809 | 197,000 | 220,000 |
| West | 409 | 924 | 148,116 | 366,523 | 362,000 | 397,000 |
| Houston | 405 | 575 | 78,620 | 109,657 | 194,000 | 191,000 |
| Other | 219 | 328 | 63,373 | 107,799 | 289,000 | 329,000 |
| Total | 2,142 | 3,596 | $ 530,383 | 1,030,545 | $ 248,000 | 287,000 |

Of the total homes delivered listed above, 6 homes with a dollar value of $7.6 million and an average sales price of $1,271,000 represent deliveries from unconsolidated entities for the three months ended February 28, 2009, compared to 159 deliveries with a dollar value of $77.5 million and an average sales price of $487,000 for the three months ended February 29, 2008.

**Sales Incentives (1):**

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Sales Incentives *(In thousands)* | | Average Sales Incentives Per Home Delivered | | Sales Incentives as a % of Revenue | |
| | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 |
| East | $ 42,257 | 62,302 | $ 53,200 | 54,500 | 19.2% | 16.8% |
| Central | 13,733 | 21,006 | 43,600 | 34,800 | 18.3% | 13.6% |
| West | 29,059 | 57,707 | 72,100 | 71,800 | 17.1% | 15.6% |
| Houston | 12,620 | 9,796 | 31,200 | 17,000 | 13.8% | 8.2% |
| Other | 10,242 | 14,119 | 46,800 | 45,400 | 13.9% | 13.6% |
| Total | $ 107,911 | 164,930 | $ 50,500 | 48,000 | 17.1% | 14.7% |

(1) Sales incentives relate to home deliveries during the period, excluding deliveries by unconsolidated entities.

**New Orders (2):**

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Homes | | Dollar Value *(In thousands)* | | Average Sales Price | |
| | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 |
| East | 716 | 942 | $ 155,281 | 231,002 | $ 217,000 | 245,000 |
| Central | 366 | 569 | 72,846 | 122,009 | 199,000 | 214,000 |
| West | 491 | 747 | 161,676 | 293,082 | 329,000 | 392,000 |
| Houston | 395 | 492 | 74,069 | 99,277 | 188,000 | 202,000 |
| Other | 222 | 295 | 59,464 | 83,387 | 268,000 | 283,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | 2,190 | 3,045 | $ 523,336 | 828,757 | $ 239,000 | 272,000 |

(2) New orders represent the number of new sales contracts executed with homebuyers, net of cancellations, during the three months ended February 28, 2009 and February 29, 2008.

Of the total new orders listed above, 8 homes with a dollar value of $4.9 million and an average sales price of $612,000 represent new orders from unconsolidated entities for the three months ended February 28, 2009, compared to 62 new orders with a dollar value of $39.3 million and an average sales price of $634,000 for the three months ended February 29, 2008.

**Backlog:**

| | Homes | | Dollar Value *(In thousands)* | | Average Sales Price | |
|---|---|---|---|---|---|---|
| | **February 28, 2009** | **February 29, 2008** | **February 28, 2009** | **February 29, 2008** | **February 28, 2009** | **February 29, 2008** |
| East | 711 | 1,568 | $ 180,785 | 492,862 | 254,000 | 314,000 |
| Central | 174 | 250 | 35,395 | 56,401 | 203,000 | 226,000 |
| West | 329 | 711 | 122,260 | 307,071 | 372,000 | 432,000 |
| Houston | 259 | 506 | 53,168 | 117,960 | 205,000 | 233,000 |
| Other | 174 | 363 | 58,513 | 178,045 | 336,000 | 490,000 |
| Total | 1,647 | 3,398 | $ 450,121 | 1,152,339 | 273,000 | 339,000 |

Of the total homes in backlog listed above, 9 homes with a backlog dollar value of $9.3 million and an average sales price of $1,038,000 represent the backlog from unconsolidated entities at February 28, 2009, compared with backlog from unconsolidated entities of 204 homes with a dollar value of $113.9 million and an average sales price of $558,000 at February 29, 2008.

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

| | Three Months Ended | |
|---|---|---|
| | **February 28, 2009** | **February 29, 2008** |
| East | 24% | 30% |
| Central | 18% | 20% |
| West | 16% | 27% |
| Houston | 23% | 27% |
| Other | 20% | 23% |
| Total | 21% | 26% |

***Homebuilding East:*** Homebuilding revenues decreased for the three months ended February 28, 2009, compared to the three months ended February 29, 2008, primarily due to a decrease in the number of home deliveries and average sales price of homes delivered in all of the states in this segment. Gross margins on home sales were $10.8 million, or 6.1%, in 2009, including SFAS 144 valuation adjustments of $13.5 million, compared to gross margins on home sales of $50.9 million, or 16.6%, in 2008, including $8.1 million of SFAS 144 valuation adjustments. Gross margins on home sales excluding SFAS 144 valuation adjustments were $24.3 million, or 13.6%, for the three months ended February 28, 2009, compared to $59.1 million, or 19.2%, for the three months ended February 29, 2008. Gross margin percentage on homes sales decreased compared to last year primarily due to higher sales incentives offered to homebuyers as a percentage of revenues from home sales (19.2% in 2009, compared to 16.8% in 2008).

Losses on land sales were $5.5 million for the three months ended February 28, 2009 (including $5.8 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and $0.1 million of SFAS 144 valuation adjustments), compared to losses on land sales of $7.7 million during the three months ended February 29, 2008 (including $7.1 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and $1.4 million of SFAS 144 valuation adjustments).

***Homebuilding Central:*** Homebuilding revenues decreased for the three months ended February 28, 2009, compared to the three months ended February 29, 2008, primarily due to a decrease in the number of home deliveries in all of the states in this segment and a decrease in the average sales price of homes delivered in Texas and Arizona. Gross margins on home sales were ($1.7) million, or (2.8%), in 2009, including SFAS 144 valuation adjustments of $8.1 million, compared to gross margins on home sales of $16.4 million, or 12.4%, in 2008, including $1.7 million of SFAS 144 valuation adjustments. Gross margins on home sales excluding SFAS 144 valuation adjustments were $6.4 million, or 10.3%, for the three months ended February 28, 2009, compared to $18.0 million, or 13.6%, for the three months ended February 29, 2008. Gross margin percentage on homes sales decreased compared to last year primarily due to higher sales incentives offered to homebuyers as a percentage of

revenues from home sales (18.3% in 2009, compared to 13.6% in 2008).

Gross profits land sales were $0.1 million for the three months ended February 28, 2009 (including $0.1 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and $0.1 million of SFAS 144 valuation adjustments), compared to losses on land sales of $10.0 million during the three months ended February 29, 2008 (including $4.1 million of write-offs of deposits and pre-acquisition costs related to land under development that we do not intend to purchase and $9.2 million of SFAS 144 valuation adjustments).

***Homebuilding West:*** Homebuilding revenues decreased for the three months ended February 28, 2009, compared to the three months ended February 29, 2008, primarily due to a decrease in the number of home deliveries and average sales price of homes delivered in all of the states in this segment. Gross margins on home sales were $6.9 million, or 4.9%, in 2009, including SFAS 144 valuation adjustments of $18.4 million, compared to gross margins on home sales of $42.2 million, or 13.5%, in 2008, including $9.9 million of SFAS 144 valuation adjustments. Gross margins on home sales excluding SFAS 144 valuation adjustments were $25.3 million, or 18.0%, for the three months ended February 28, 2009, compared to $52.1 million, or 16.7%, for the three months ended February 29, 2008. Gross margin percentage on homes sales decreased compared to last year primarily due to higher sales incentives offered to homebuyers as a percentage of revenues from home sales (17.1% in 2009, compared to 15.6% in 2008).

Losses on land sales were $1.1 million for the three months ended February 29, 2008 (including $0.5 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase), compared to losses on land sales of $7.2 million during the three months ended February 29, 2008 (including $3.4 million of write-offs of deposits and pre-acquisition costs related to land under development that we do not intend to purchase and $4.2 million of SFAS 144 valuation adjustments).

***Homebuilding Houston:*** Homebuilding revenues decreased for the three months ended February 28, 2009, compared to the three months ended February 29, 2008, primarily due to a decrease in the number of home deliveries. Gross margins on home sales were $12.2 million, or 15.6%, in 2009, including SFAS 144 valuation adjustments of $0.1 million, compared to gross margins on home sales of $19.8 million, or 18.1%, in 2008, including $0.1 million of SFAS 144 valuation adjustments. Gross margins on home sales excluding SFAS 144 valuation adjustments were $12.4 million, or 15.7%, for the three months ended February 28, 2009, compared to $20.0 million, or 18.2%, for the three months ended February 29, 2008. Gross margin percentage on homes sales decreased compared to last year primarily due to higher sales incentives offered to homebuyers as a percentage of revenues from home sales (13.8% in 2009, compared to 8.2% in 2008).

Losses on land sales were $0.9 million for the three months ended February 29, 2008 (including $0.7 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase), compared to gross profits on land sales of $0.2 million during the three months ended February 29, 2008 (including $0.3 million of write-offs of deposits and pre-acquisition costs related to land under development that we do not intend to purchase and $0.1 million of SFAS 144 valuation adjustments).

***Homebuilding Other:*** Homebuilding revenues decreased for the three months ended February 28, 2009, compared to the three months ended February 29, 2008, primarily due to a decrease in the number of home deliveries in all of the states in this segment, except for the Carolinas. Gross margins on home sales were $5.9 million, or 9.4%, in 2009, including SFAS 144 valuation adjustments of $0.7 million, compared to gross margins on home sales of $7.3 million, or 8.1%, in 2008, including $6.4 million of SFAS 144 valuation adjustments. Gross margins on home sales excluding SFAS 144 valuation adjustments were $6.6 million, or 10.4%, for the three months ended February 28, 2009, compared to $13.7 million, or 15.2%, for the same period last year. Gross margin percentage on homes sales decreased compared to last year primarily due to a change in product mix and higher sales incentives offered to homebuyers as a percentage of revenues from home sales (13.9% in 2009, compared to 13.6% in 2008).

Losses on land sales were $3.1 million for the three months ended February 28, 2009 (including $3.1 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase), compared to losses on land sales of $1.7 million during the three months ended February 29, 2008 (including $2.1 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase and $0.6 million of SFAS 144 valuation adjustments).

The SFAS 144 valuation adjustments and write-offs of deposits and pre-acquisition costs in our homebuilding segments and Homebuilding Other resulted primarily from challenging market conditions that persisted during the three months ended February 28, 2009. The SFAS 144 valuation adjustments were calculated based on assumptions of current market conditions and estimates made by our management, which may differ from actual results. Market changes may result in additional inventory impairment charges, as well as additional write-offs of option deposits and pre-acquisition costs in the future.

At February 28, 2009 and February 29, 2008, we owned 74,167 homesites and 71,763 homesites, respectively, and had access to an additional 34,260 homesites and 73,164 homesites, respectively, through either option contracts with third parties or agreements with unconsolidated entities in which we have investments. At November 30, 2008, we owned 74,681 homesites and had access to an additional 38,589 homesites through either option contracts with third parties or agreements with unconsolidated entities in which we have investments. At February 28, 2009, 2% of the homesites we owned were subject to home purchase contracts. At February 28, 2009 and February 29, 2008, our backlog of sales contracts was 1,647 homes ($450.1 million) and 3,398 homes ($1,152.3 million), respectively. The lower backlog was primarily attributable to challenging market conditions that have persisted during the last twelve months, which resulted in lower new orders in the three months ended February 28, 2009, compared to the three months ended February 29, 2008.

**Financial Services Segment**

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

| | Three Months Ended | |
|---|---|---|
| ***(Dollars in thousands)*** | **February 28, 2009** | **February 29, 2008** |
| Revenues | $ 64,029 | 69,137 |
| Costs and expenses | 63,537 | 78,829 |
| Operating earnings (loss) | $ 492 | (9,692) |
| Dollar value of mortgages originated | $ 969,000 | 979,000 |
| Number of mortgages originated | 4,200 | 4,200 |
| Mortgage capture rate of Lennar homebuyers | 85% | 80% |
| Number of title and closings service transactions | 27,100 | 25,500 |
| Number of title policies issued | 15,000 | 22,600 |

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

At both February 28, 2009 and February 29, 2008, we had cash and cash equivalents related to our homebuilding and financial services operations of $1.2 billion.

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

**Operating Cash Flow Activities**

In the three months ended February 28, 2009 and February 29, 2008, cash flows provided by operating activities amounted to $80.2 million and $844.5 million, respectively. During the three months ended February 28, 2009, cash flows provided by operating activities were positively impacted by the receipt of a tax refund of $251.0 million generated from losses incurred prior to fiscal 2009. This was partially offset by a decrease in accounts payable and other liabilities and an increase in inventories. Throughout the first quarter of fiscal 2009, we continued to focus our efforts on adjusting pricing to meet market conditions, as we pulled back production and curtailed land purchases where possible in order to keep our balance sheet well positioned for future opportunities. During the three months ended February 29, 2008, cash flows provided by operating activities were primarily a result of the receipt of a tax refund of $852 million generated by losses incurred prior to 2008.

**Investing Cash Flow Activities**

In the three months ended February 28, 2009 and February 29, 2008, cash flows used in investing activities totaled $56.7 million and $130.6 million, respectively. In the three months ended February 28, 2009, we contributed $61.6 million of cash to unconsolidated entities, compared to $172.1 million in the three months ended February 29, 2008. Our investing activities also included distributions of capital from unconsolidated entities during the three months ended February 28, 2009 and February 29, 2008 of $2.0 million and $43.8 million, respectively.

We are always looking at the possibility of acquiring homebuilders and other companies. However, at February 28, 2009, we had no agreements or understandings regarding any significant transactions.

**Financing Cash Flow Activities**

During the first quarter of 2009, our cash flows used in financing activities were primarily attributed to other borrowings and dividends paid. Homebuilding debt to total capital and net homebuilding debt to total capital are financial measures commonly used in the homebuilding industry and are presented to assist in understanding the leverage of our homebuilding operations. Management believes providing a measure of leverage of our homebuilding operations enables management and readers of our financial statements to better understand our financial position and performance. Homebuilding debt to total capital and net homebuilding debt to total capital are calculated as follows:

| *(Dollars in thousands)* | **February 28, 2009** | **November 30, 2008** | **February 29, 2008** |
|---|---|---|---|
| Homebuilding debt | $ 2,574,115 | 2,544,935 | 2,279,497 |
| Stockholders equity | 2,467,375 | 2,623,007 | 3,680,898 |
| Total capital | $ 5,041,490 | 5,167,942 | 5,960,395 |
| Homebuilding debt to total capital | 51.1% | 49.2% | 38.2% |
| Homebuilding debt | $ 2,574,115 | 2,544,935 | 2,279,497 |
| Less: Homebuilding cash and cash equivalents | 1,099,864 | 1,091,468 | 1,088,141 |
| Net homebuilding debt | $ 1,474,251 | 1,453,467 | 1,191,356 |
| Net homebuilding debt to total capital (1) | 37.4% | 35.7% | 24.5% |

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

At February 28, 2009, homebuilding debt to total capital and net homebuilding debt to total capital were higher compared to February 29, 2008 due to the increase in homebuilding debt as a result of an increase in mortgage notes on land and other debt, and

the decrease in stockholders equity primarily due to our cumulative net loss since February 29, 2008 as a result of inventory valuation adjustments, write-offs of option deposits and pre-acquisition costs, our share of SFAS 144 valuation adjustments related to assets of our unconsolidated entities, APB 18 valuation adjustments to investments in unconsolidated entities and a valuation allowance against our deferred tax assets, all of which are non-cash items.

Our average debt outstanding was $2.6 billion for the three months ended February 28, 2009, compared to $2.3 billion in the three months ended February 29, 2008. The average rate for interest incurred was 5.6% for the three months ended February 28, 2009, compared to 5.9% for the three months ended February 29, 2008. Interest incurred related to homebuilding debt for the three months ended February 28, 2009 was $38.5 million, compared to $38.1 million last year. The majority of our short-term financing needs, including financings for land acquisition and development activities and general operating needs, are met with cash generated from operations and funds available under our unsecured revolving credit facility (the Credit Facility ).

The Credit Facility consists of a $1.1 billion revolving credit facility maturing in July 2011. As of February 28, 2009, we are required to use our cash in excess of $750 million, amounting to $350 million, before borrowing under the Credit Facility. Our borrowing availability as of February 28, 2009, subsequent to the required $350 million usage of cash, was $185 million. The $185 million borrowing availability could be increased if the $350 million is used to purchase qualified borrowing base assets as defined by the Credit Facility agreement.

The Credit Facility is guaranteed by substantially all of our subsidiaries. Interest rates on outstanding borrowings are LIBOR-based, with margins determined based on changes in our credit ratings, or an alternate base rate, as described in the Credit Facility agreement. During the three months ended February 28, 2009, we did not have any borrowings under the Credit Facility. During the three months ended February 29, 2008, the average daily borrowings under the Credit Facility were $85.7 million. At February 28, 2009 and November 30, 2008, we had no outstanding balance under the Credit Facility. However, at February 28, 2009 and November 30, 2008, $234.7 million and $275.2 million, respectively, of our total letters of credit outstanding discussed below, were collateralized against certain borrowings available under the Credit Facility.

Our performance letters of credit outstanding were $145.3 million and $167.5 million, respectively, at February 28, 2009 and November 30, 2008. Our financial letters of credit outstanding were $246.6 million and $278.5 million, respectively, at February 28, 2009 and November 30, 2008. Performance letters of credit are generally posted with regulatory bodies to guarantee our performance of certain development and construction activities and financial letters of credit are generally posted in lieu of cash deposits on option contracts.

At February 28, 2009, we believe we were in compliance with our debt covenants. Under the Credit Facility, we are required to maintain a leverage ratio of less than or equal to 55% at the end of each fiscal quarter during our 2009 fiscal year and a leverage ratio of less than or equal to 52.5% for our 2010 fiscal year and through the maturity of our Credit Facility in 2011. If our adjusted consolidated tangible net worth, as calculated per our Credit Facility agreement, falls below $1.6 billion, our Credit Facility would be reduced from $1.1 billion to $0.9 billion. In no event can our adjusted consolidated tangible net worth, as calculated per our Credit Facility agreement, be less than $1.3 billion.

The following are additional disclosures regarding our computations of adjusted consolidated tangible net worth and leverage ratio as per our Credit Facility agreement (the Agreement ) as of February 28, 2009:

| *(Dollars in thousands)* | Required Level | Level Achieved as of February 28, 2009 | Cushion |
|---|---|---|---|
| Adjusted consolidated tangible net worth (1) | $ 1,544,877 | 2,131,877 | 587,000 |
| Leverage ratio (2) | 55% | 50% | 500 Basis Points |

The terms adjusted consolidated tangible net worth and leverage ratio used in the Agreement are specifically calculated per the Agreement and differ in specified ways from comparable GAAP or common usage terms. Our adjusted consolidated tangible net worth and leverage ratio, as well as our maximum recourse exposure from joint ventures were calculated for purposes of the Agreement as of February 28, 2009 as follows:

(1) The minimum adjusted consolidated tangible net worth and the adjusted consolidated tangible net worth as calculated per the Agreement are as follows:

**Minimum adjusted consolidated tangible net worth**

| *(In thousands)* | As of February 28, 2009 |
|---|---|
| Stated adjusted consolidated tangible net worth per the Agreement | $ 2,330,000 |
| Plus: 50% of cumulative positive consolidated net income in excess of aggregate amount paid to purchase or redeem equity securities | 3,416 |
| Less: Deferred tax asset valuation allowance | (788,539) |
| Minimum adjusted consolidated tangible net worth as calculated per the Agreement | $ 1,544,877 |

**Adjusted consolidated tangible net worth**

| *(In thousands)* | As of February 28, 2009 |
|---|---|
| Consolidated stockholders equity | $ 2,467,375 |
| Less: Intangible assets (a) | (36,081) |
| Consolidated tangible net worth as calculated per the Agreement | 2,431,294 |
| Less: Consolidated stockholders equity of mortgage banking subsidiaries (b) | (299,417) |
| Adjusted consolidated tangible net worth as calculated per the Agreement | $ 2,131,877 |

(a) Intangible assets include the Financial Services segment s title operations goodwill of $34.0 million and other intangible assets of $2.1 million included in other assets in our condensed consolidated balance sheet as of February 28, 2009.

(b) Consolidated stockholders equity of mortgage banking subsidiaries represents the stockholders equity of the Financial Services segment s mortgage operations which is included in stockholders equity in our condensed consolidated balance sheet as of February 28, 2009.

(2) The leverage ratio as calculated per the Agreement is as follows:

| *(In thousands)* | | As of February 28, 2009 |
|---|---|---|
| Senior notes and other debts payable | $ | 2,574,115 |
| Less: Indebtedness of our consolidated entities (a) | | (222,640) |
| Lennar s indebtedness as calculated per the Agreement | | 2,351,475 |
| Plus: Letters of credit (b) | | 247,424 |
| Plus: Lennar s maximum recourse exposure related to unconsolidated entities | | 473,955 |
| Plus: Lennar s maximum recourse exposure related to its consolidated entities (a) | | 96,676 |
| Consolidated indebtedness as calculated per the Agreement | | 3,169,530 |
| Less: 75% of unconsolidated and consolidated entities reimbursement obligations (c) | | (115,830) |
| Plus: 10% of unconsolidated and consolidated entities non-recourse indebtedness with completion guarantees (d) | | 79,628 |
| Less: the lesser of $500 million or unrestricted cash in excess of $15 million per the Agreement | | (500,000) |
| Numerator as calculated per the Agreement | $ | 2,633,328 |
| Denominator as calculated per the Agreement | $ | 5,265,205 |
| Leverage ratio (e) | | 50% |

(a) Indebtedness of our consolidated entities primarily includes $132.9 million of non-recourse debt of our consolidated entities and $96.7 million of recourse debt of our consolidated entities. These amounts are included in senior notes and other debts payable in our condensed consolidated balance sheet as of February 28, 2009. Indebtedness of our consolidated entities is offset by $6.7 million of corporate guarantees.

(b) Letters of credit include our financial letters of credit outstanding of $246.6 million disclosed in Note 9 of the Notes to our condensed consolidated financial statements as of February 28, 2009 and $0.8 million of letters of credit related to the Financial Services segment s title operations.

(c) Reimbursement obligations include $122.4 million related to our joint and several reimbursement agreements from partners of our unconsolidated entities and $32.0 million related to our joint and several reimbursement agreements from partners of our consolidated entities.

(d) Non-recourse debt with completion guarantees includes $784.8 million of our unconsolidated entities non-recourse debt with completion guarantees and $11.5 million of consolidated entities non-recourse debt with completion guarantees.

(e) Leverage ratio consists of the numerator as calculated per the Agreement divided by the denominator as calculated per the Agreement (consolidated indebtedness as calculated per the Agreement, less 75% of unconsolidated and consolidated entities reimbursement obligations, plus 10% of unconsolidated and consolidated entities non-recourse indebtedness with completion guarantees, plus adjusted consolidated tangible net worth as calculated per the Agreement).

Additionally, the Credit Facility requires us to effect quarterly reductions of our maximum recourse exposure related to joint ventures in which we have investments by a total of $200 million by November 30, 2009, of which we have already reduced it by $164.4 million. We must also effect quarterly reductions during fiscal 2010 totaling $180 million and during the first six months of our 2011 fiscal year totaling $80 million. By May 31, 2011, our maximum recourse exposure related to joint ventures in which we have investments cannot exceed $275 million.

If the joint ventures are unable to reduce their debt, where there is recourse to us, through the sale of inventory or other means, then we and our partners may be required to contribute capital to the joint ventures.

While we currently are in compliance with the debt covenants in the Agreement, if we had to record significant additional impairments in the future, they could cause us to fail to comply with the Agreement s debt covenants. In addition, if we default in the payment or performance of certain obligations relating to the debt of unconsolidated entities above a specified threshold amount, we would be in default under the Agreement. Either of those events would give the lenders the right to cause any amounts we owe under the Credit Facility, if any, to become immediately due. If we were unable to repay the borrowings when they became due, that could entitle holders of $2.2 billion of debt securities we have sold into the capital markets to cause the sums evidenced by those debt securities to become immediately due, which might require us to sell assets at prices well below the fair values, or the carrying values, of the assets.

In March 2009, we paid in full, at maturity, our $281 million 7 5/8% senior notes due in 2009 for 100% of the outstanding principal amount, plus accrued and unpaid interest as of the maturity date.

At February 28, 2009, our Financial Services segment had a $125 million syndicated warehouse repurchase facility that matured in April 2009, which was subsequently reduced to $75 million as part of a 30-day extension until May 2009, and a warehouse repurchase facility, which matures in June 2009 ($150 million). Our Financial Services segment uses these facilities to finance its lending activities until the mortgage loans are sold to investors and expects both facilities to be renewed or replaced with other facilities when they mature. If the facilities are not renewed, the borrowings under the lines of credit will be paid off by selling the mortgage loans held-for-sale to investors and by collecting on receivables on loans sold but not yet paid. Without the facilities, our Financial Services segment would have to use cash from operations and other funding sources to finance its lending activities. Borrowings under the lines of credit were $180.3 million and $209.5 million, respectively, at February 28, 2009 and November 30, 2008 and were collateralized by mortgage loans and receivables on loans sold but not yet paid by investors with outstanding principal balances of $289.8 million and $286.7 million, respectively, at February 28, 2009 and November 30, 2008.

At February 28, 2009, our Financial Services segment also had an on going 60-day committed repurchase facility for $75 million. As of February 28, 2009 and November 30, 2008, our Financial Services segment had advances under this facility totaling $49.8 million and $5.2 million, respectively. At November 30, 2008, our Financial Services segment had advances under a different conduit funding agreement totaling $10.8 million, which was collateralized by mortgage loans.

**Changes in Capital Structure**

In June 2001, our Board of Directors authorized a stock repurchase program to permit the purchase of up to 20 million shares of our outstanding common stock. During the three months ended February 28, 2009, there were no share repurchases of common stock under the stock repurchase program. As of February 28, 2009, 6.2 million shares of common stock can be repurchased in the future under the program. Treasury stock increased by 0.1 million common shares during the three months ended February 28, 2009 in connection with activity related to our compensation plans and forfeitures of restricted stock.

On February 13, 2009, we paid cash dividends of $0.04 per share for both our Class A and Class B common stock to holders of record at the close of business on February 3, 2009, as declared by our Board of Directors on January 13, 2009.

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

**Off-Balance Sheet Arrangements**

*Investments in Unconsolidated Entities*

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

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

**Statements of Operations and Selected Information**

| | Three Months Ended | |
|---|---|---|
| ***(Dollars in thousands)*** | **February 28, 2009** | **February 29, 2008** |
| Revenues | $ 65,783 | 397,559 |
| Costs and expenses | 115,198 | 497,022 |
| Net loss of unconsolidated entities | $ (49,415) | (99,463) |
| Our share of net loss (1) | $ (4,300) | (21,727) |
| Our share of net loss recognized (1) | $ (2,917) | (22,980) |
| Our cumulative share of net earnings deferred at February 28, 2009 and February 29, 2008, respectively | $ 22,098 | 36,881 |
| Our investments in unconsolidated entities | $ 776,812 | 915,222 |
| Equity of the unconsolidated entities | $ 2,628,570 | 2,948,225 |
| Our investment % in the unconsolidated entities | 30% | 31% |

(1) For the three months ended February 29, 2008, our share of net loss recognized from unconsolidated entities includes $18.9 million of our share of SFAS 144 valuation adjustments related to the assets of unconsolidated entities in which we have investments.

**Balance Sheets**

| ***(In thousands)*** | **February 28, 2009** | **November 30, 2008** |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 103,950 | 135,081 |
| Inventories | 7,053,539 | 7,115,360 |
| Other assets | 408,985 | 541,984 |

| | | |
|---|---|---|
| | $ 7,566,474 | 7,792,425 |
| **Liabilities and equity:** | | |
| Accounts payable and other liabilities | $ 959,485 | 1,042,002 |
| Debt | 3,978,419 | 4,062,058 |
| Equity of: | | |
| Lennar | 776,812 | 766,752 |
| Others | 1,851,758 | 1,921,613 |
| Total equity of unconsolidated entities | 2,628,570 | 2,688,365 |
| | $ 7,566,474 | 7,792,425 |
| Our equity in the unconsolidated entities | 30% | 29% |

In fiscal 2007, we sold a portfolio of land consisting of approximately 11,000 homesites in 32 communities located throughout the country to a strategic land investment venture with Morgan Stanley Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., in which we have a 20% ownership interest and 50% voting rights. Due to our continuing involvement, the transaction did not qualify as a sale by us under GAAP; thus, the inventory has remained on our consolidated balance sheet in consolidated inventory not owned. As of February 28, 2009 and November 30, 2008, the portfolio of land (including land development costs) of $545.9 million and $538.4 million, respectively, is reflected as inventory in the summarized condensed financial information related to unconsolidated entities in which we have investments.

In June 2008, LandSource Communities Development LLC ( LandSource ), an unconsolidated entity in which we have a 16% ownership interest, and a number of its subsidiaries commenced proceedings under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The bankruptcy filing could result in LandSource losing some or all of the properties it owns and termination of our management agreement with LandSource, claims against us and a substantial reduction (or total elimination) of our 16% ownership interest in LandSource, which had a carrying value of zero at February 28, 2009. Subsequent to February 28, 2009, we submitted a non-binding proposal to acquire an interest in LandSource and to purchase certain of LandSource s assets. Additionally, any outstanding claims between LandSource and us would be settled.

Debt to total capital of the unconsolidated entities in which we have investments was calculated as follows:

| *(Dollars in thousands)* | **February 28, 2009** | **November 30, 2008** |
|---|---|---|
| Debt | $ 3,978,419 | 4,062,058 |
| Equity | 2,628,570 | 2,688,365 |
| Total capital | $ 6,606,989 | 6,750,423 |
| Debt to total capital of our unconsolidated entities | 60.2% | 60.2% |
| Debt to total capital of our unconsolidated entities (excluding LandSource) | 49.5% | 49.8% |

At February 28, 2009, we had equity investments in 95 unconsolidated entities, compared to 116 unconsolidated entities at November 30, 2008. We are focused on continuing to reduce the number of unconsolidated entities in which we have investments. Our investments in unconsolidated entities by type of venture were as follows:

| *(In thousands)* | **February 28, 2009** | **November 30, 2008** |
|---|---|---|
| Land development | $ 634,653 | 633,652 |
| Homebuilding | 142,159 | 133,100 |
| Total investments | $ 776,812 | 766,752 |

During the first quarter of 2009, as homebuilding market conditions remained challenged, we recorded $37.2 million of APB 18 valuation adjustments to our investments in unconsolidated entities for the three months ended February 28, 2009, compared to $29.6 million for the three months ended February 29, 2008. During the three months ended February 29, 2008, we recorded $18.9 million of our share of SFAS 144 valuation adjustments related to assets of unconsolidated entities in which we have investments. We will continue to monitor our investments and the recoverability of assets owned by the joint ventures.

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

| *(In thousands)* | February 28, 2009 | November 30, 2008 |
|---|---|---|
| Several recourse debt repayment | $ 74,840 | 78,547 |
| Several recourse debt maintenance | 144,439 | 167,941 |
| Joint and several recourse debt repayment | 151,047 | 138,169 |
| Joint and several recourse debt maintenance | 94,709 | 123,051 |
| Land seller debt and other debt recourse exposure | 8,920 | 12,170 |
| Lennar s maximum recourse exposure | 473,955 | 519,878 |
| Less: joint and several reimbursement agreements with our partners | (122,413) | (127,428) |
| Our net recourse exposure | $ 351,542 | 392,450 |

During the three months ended February 28, 2009, we reduced our maximum recourse exposure related to unconsolidated entities by $45.9 million, of which $18.8 million was paid by us and $27.1 million related to joint ventures selling inventory, dissolutions of joint ventures and renegotiation of joint venture debt agreements. In addition, during the three months ended February 28, 2009, we recorded a $23.7 million obligation for guarantees related to debt of certain of our unconsolidated entities. The $23.7 million is recorded as a liability as of February 28, 2009.

Indebtedness of an unconsolidated entity is secured by its own assets. Some unconsolidated entities own multiple properties and other assets. There is no cross collateralization of debt to different unconsolidated entities. We also do not use our investment in one unconsolidated entity as collateral for the debt in another unconsolidated entity or commingle funds among our unconsolidated entities.

In connection with a loan to an unconsolidated entity, we and our partners often guarantee to a lender either jointly and severally or on a several basis, any, or all of the following: (i) the completion of the development, in whole or in part, (ii) indemnification of the lender from environmental issues, (iii) indemnification of the lender from bad boy acts of the unconsolidated entity (or full recourse liability in the event of unauthorized transfer or bankruptcy) and (iv) that the loan to value and/or loan to cost will not exceed a certain percentage (maintenance or remargining guarantee) or that a percentage of the outstanding loan will be repaid (repayment guarantee).

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

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

| *(In thousands)* | February 28, 2009 | November 30, 2008 |
|---|---|---|
| Assets | $ 2,244,818 | 2,846,819 |
| Liabilities | 1,244,814 | 1,565,148 |
| Equity | 1,000,004 | 1,281,671 |

In addition, in most instances in which we have guaranteed debt of an unconsolidated entity, our partners have also guaranteed that debt and are required to contribute their shares of the guarantee payment. Some of our guarantees are repayment and maintenance guarantees. In a repayment guarantee, we and our venture partners guarantee repayment of a portion or all of the debt in the event of a default before the lender would have to exercise its rights against the collateral. In the event of default, if our venture partner does not have adequate financial resources to meet their obligations under the reimbursement agreement, we may be liable for more than our proportionate share, up to our 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 we are required to make a payment under a maintenance guarantee to bring the value of the collateral above the specified percentage of the loan balance, the payment would constitute a capital contribution or loan to the unconsolidated entity and increase our share of any funds the unconsolidated entity distributes.

In many of the loans to unconsolidated entities, we and our 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, very often the guarantee is to complete only the phases as to which construction has already commenced and for which loan proceeds were used. Under many of the completion guarantees, the guarantors are permitted, under certain circumstances, to use undisbursed loan proceeds to satisfy the completion of obligations, and in many of those cases, the guarantors only pay interest on those funds, with no repayment of the principal of such funds required. During the three months ended February 28, 2009, we made payments of $5.6 million under completion guarantees.

During the three months ended February 28, 2009, amounts paid under our repayment guarantees were $18.8 million. During the three months ended February 28, 2009, there were no payments under our maintenance guarantees. In accordance with FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, as of February 28, 2009, the fair values of the maintenance guarantees, repayment guarantees and completion guarantees were not material. We believe that as of February 28, 2009, in the event we become legally obligated to perform under a guarantee of the obligations of an unconsolidated entity due to a triggering event under a guarantee, most of the time the collateral should be sufficient to repay at least a significant portion of the obligation or we and our partners would contribute additional capital into the venture.

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

| ***(In thousands)*** | **February 28, 2009** | **November 30, 2008** |
|---|---|---|
| Lennar s net recourse exposure | $ 351,542 | 392,450 |
| Reimbursement agreements from partners | 122,413 | 127,428 |
| Lennar s maximum recourse exposure | $ 473,955 | 519,878 |
| Partner several recourse | $ 243,366 | 285,519 |
| Non-recourse land seller debt and other debt | 84,660 | 90,519 |
| Non-recourse bank debt with completion guarantees excluding LandSource | 784,779 | 820,435 |
| Non-recourse bank debt without completion guarantees excluding LandSource | 1,040,494 | 994,580 |
| Non-recourse bank debt without completion guarantees LandSource | 1,351,165 | 1,351,127 |
| Non-recourse debt to Lennar | 3,504,464 | 3,542,180 |
| Total debt | $ 3,978,419 | 4,062,058 |
| Lennar s maximum recourse exposure as a % of total JV debt | 12% | 13% |

Some of the unconsolidated entities debt arrangements contain certain financial covenants. As market conditions remained challenged during the three months ended February 28, 2009, we continued to closely monitor these covenants and the unconsolidated entities ability to comply with them. Our Credit Facility requires us to report defaults arising under indebtedness with respect to our joint ventures. As of February 28, 2009, we had one such joint venture which had an outstanding debt balance of $22.7 million.

In view of current credit market conditions, it is not uncommon for lenders to real estate developers, including joint ventures in which we have interests, to assert non-monetary defaults (such as failures to meet construction completion deadlines or declines in the market value of collateral below required amounts) or technical monetary defaults against the real estate developers. In most instances, those asserted defaults are resolved

by modifications of loan terms, additional equity investments or other concessions by the borrowers. In addition, in some instances, real estate developers, including joint ventures in which we have interests, are forced to request temporary waivers of covenants in loan documents or modifications of loan terms,

which are often, but not always, obtained. However, in some instances developers, including joint ventures in which we have interests, are not able to meet their monetary obligations to lenders, and are thus declared in default. Because we sometimes guarantee all or portions of the obligations to lenders of joint ventures in which we have interests, when these joint ventures default on their obligations, lenders may or may not have claims against us. Normally, we do not make payments with regard to guarantees of joint venture obligations while the joint ventures are contesting assertions regarding sums due to their lenders. When it is finally determined that a joint venture is obligated to make a payment that we have guaranteed and the joint venture will not be able to make that payment, we accrue the amounts probable to be paid by us as a liability. Although we generally fulfill our guarantee obligations within a reasonable time after we determine that we are obligated with regard to them, at any point in time it is likely that we will have some balance of unpaid guarantee liability. At February 28, 2009, the liability for unpaid guarantees of joint venture indebtedness reflected on our financial statements totaled $23.7 million.

The following table summarizes the principal maturities of our unconsolidated entities ( JVs ) debt as per current debt arrangements as of February 28, 2009 and does not represent estimates of future cash payments that will be made to reduce debt balances:

| | | | Principal Maturities of Unconsolidated JVs by Period | | | | |
|---|---|---|---|---|---|---|---|
| *(In thousands)* | Total JV Assets (1) | Total JV Debt | 2009 | 2010 | 2011 | Thereafter | Other Debt (2) |
| Net recourse debt to Lennar | $ | 351,542 | 205,691 | 75,667 | 12,140 | 49,124 | 8,920 |
| Reimbursement agreements | | 122,413 | 8,862 | 25,228 | 50,878 | 37,445 | |
| Gross recourse debt to Lennar | $ 2,244,818 | 473,955 | 214,553 | 100,895 | 63,018 | 86,569 | 8,920 |
| Debt without recourse to Lennar excluding LandSource | 3,035,256 | 2,139,885 | 528,157 | 698,416 | 813,832 | 23,393 | 76,087 |
| Debt without recourse to Lennar LandSource | 1,737,132 | 1,364,579 | 1,107,165 | | | 244,000 | 13,414 |
| Total | $ 7,017,206 | 3,978,419 | 1,849,875 | 799,311 | 876,850 | 353,962 | 98,421 |

(1) Excludes unconsolidated joint venture assets where the joint venture has no debt.
(2) Represents land seller debt and other debt.

The following table is a breakdown of the assets, debt and equity of the unconsolidated joint ventures by partner type, in addition to LandSource, as of February 28, 2009:

| *(Dollars in thousands)* | Total JV Assets | Gross Recourse Debt to Lennar | Reimbursement Agreements | Net Recourse Debt to Lennar | Total Debt Without Recourse to Lennar | Total JV Debt | Total JV Equity | JV Debt to Total Capital Ratio | Remaining Homes/ Homesites in JV |
|---|---|---|---|---|---|---|---|---|---|
| **Partner Type:** | | | | | | | | | |
| LandSource | $ 1,737,132 | | | | 1,351,165 | 1,351,165 | (40,774) | 103% | 32,076 |
| Land Owners/Developers | 870,945 | 103,066 | | 103,066 | 228,085 | 331,151 | 392,400 | 46% | 35,915 |
| Other Builders | 887,787 | 127,709 | 8,862 | 118,847 | 270,219 | 397,928 | 404,710 | 50% | 15,644 |
| Financial | 3,442,969 | 87,568 | 50,878 | 36,690 | 1,429,259 | 1,516,827 | 1,551,317 | 49% | 37,596 |
| Strategic | 627,641 | 146,692 | 62,673 | 84,019 | 136,235 | 282,927 | 320,917 | 47% | 13,727 |
| Total | $ 7,566,474 | 465,035 | 122,413 | 342,622 | 3,414,963 | 3,879,998 | 2,628,570 | 60% | 134,958 |
| Land seller debt and other debt | $ | 8,920 | | 8,920 | 89,501 | 98,421 | | | |
| Total JV debt | $ | 473,955 | 122,413 | 351,542 | 3,504,464 | 3,978,419 | | | |

The table below indicates the assets, debt and equity of our 10 largest unconsolidated joint venture investments, in addition to LandSource, as of February 28, 2009:

| *(Dollars in thousands)* | Lennar s Investment | Total JV Assets | Gross Recourse Debt to Lennar | Reimbursement Agreements | Net Recourse Debt to Lennar | Total Debt Without Recourse to Lennar | Total JV Debt | Total JV Equity | JV Debt to Total Capital Ratio |
|---|---|---|---|---|---|---|---|---|---|
| **Land development JVs (1):** | | | | | | | | | |
| Platinum Triangle Partners | $ 95,587 | 270,782 | 74,889 | 37,445 | 37,444 | | 74,889 | 188,689 | 28% |
| Asante LH | 85,122 | 187,461 | | | | | | 170,734 | |
| Heritage Fields El Toro | 83,043 | 1,429,677 | | | | 544,242 | 544,242 | 664,503 | 45% |
| Runkle Canyon | 36,467 | 74,167 | | | | | | 72,616 | |
| MS Rialto Residential Holdings | 21,322 | 552,740 | | | | 203,841 | 203,841 | 316,937 | 39% |
| Ballpark Village | 19,808 | 96,888 | | | | 58,910 | 58,910 | 37,335 | 61% |
| USH/SVA Star Valley | 18,642 | 45,318 | 4,052 | | 4,052 | 4,051 | 8,103 | 37,213 | 18% |
| **Homebuilding JVs (1):** | | | | | | | | | |
| Bellevue Towers Investors | 29,897 | 423,072 | | | | 309,481 | 309,481 | 88,316 | 78% |
| Lennar Intergulf (Central Park) | 25,100 | 184,232 | 50,456 | 25,228 | 25,228 | 75,685 | 126,141 | 49,556 | 72% |
| Lennar Intergulf (Pacific) | 20,659 | 94,707 | 15,000 | | 15,000 | 34,678 | 49,678 | 40,372 | 55% |
| 10 largest JV investments | 435,647 | 3,359,044 | 144,397 | 62,673 | 81,724 | 1,230,888 | 1,375,285 | 1,666,271 | 45% |
| LandSource | | 1,737,132 | | | | 1,351,165 | 1,351,165 | (40,774) | 103% |
| Other JVs | 341,165 | 2,470,298 | 320,638 | 59,740 | 260,898 | 832,910 | 1,153,548 | 1,003,073 | 53% |
| Total | $ 776,812 | 7,566,474 | 465,035 | 122,413 | 342,622 | 3,414,963 | 3,879,998 | 2,628,570 | 60% |
| Land seller debt and other debt | $ | | 8,920 | | 8,920 | 89,501 | 98,421 | | |
| Total JV debt | $ | | 473,955 | 122,413 | 351,542 | 3,504,464 | 3,978,419 | | |

(1) All of the joint ventures presented in the table above operate in our Homebuilding West segment except for Asante LH and USH/SVA Star Valley, which operate in our Homebuilding Central segment and MS Rialto Residential Holdings which operates in all of our homebuilding segments and Homebuilding Other.

The table below indicates the percentage of assets, debt and equity of our 10 largest unconsolidated joint venture investments, in addition to LandSource, as of February 28, 2009:

| | % of Total JV Assets | % of Gross Recourse Debt to Lennar | % of Net Recourse Debt to Lennar | % of Total Debt Without Recourse to Lennar | % of Total JV Equity |
|---|---|---|---|---|---|
| 10 largest JVs | 44% | 31% | 24% | 36% | 64% |
| LandSource | 23% | | | 40% | -2% |
| Other | 33% | 69% | 76% | 24% | 38% |

| | | | | | |
|---|---|---|---|---|---|
| Total | 100% | 100% | 100% | 100% | 100% |

*Option Contracts*

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

When we intend not to exercise an option, we write-off any deposit and pre-acquisition costs associated with the option contract. For the three months ended February 28, 2009 and February 29, 2008, we wrote-off $10.2 million and $16.9 million, respectively, of option deposits and pre-acquisition costs related to 1,100 homesites and 2,600 homesites, respectively, under option that we do not intend to purchase.

The table below indicates the number of homesites owned and homesites to which we had access through option contracts with third parties ( optioned ) or unconsolidated joint ventures (i.e., controlled homesites) for each of our homebuilding segments and Homebuilding Other at February 28, 2009 and February 29, 2008:

| | Controlled Homesites | | | Owned | Total |
|---|---|---|---|---|---|
| **February 28, 2009** | **Optioned** | **JVs** | **Total** | **Homesites** | **Homesites** |
| East | 7,716 | 3,690 | 11,406 | 25,199 | 36,605 |
| Central | 1,496 | 4,961 | 6,457 | 14,926 | 21,383 |
| West | 43 | 11,858 | 11,901 | 18,995 | 30,896 |
| Houston | 992 | 2,325 | 3,317 | 7,068 | 10,385 |
| Other | 502 | 677 | 1,179 | 7,979 | 9,158 |
| Total homesites | 10,749 | 23,511 | 34,260 | 74,167 | 108,427 |

| | Controlled Homesites | | | Owned | Total |
|---|---|---|---|---|---|
| **February 29, 2008** | **Optioned** | **JVs** | **Total** | **Homesites** | **Homesites** |
| East | 14,424 | 10,876 | 25,300 | 26,298 | 51,598 |
| Central | 2,327 | 9,103 | 11,430 | 13,910 | 25,340 |
| West | 1,296 | 27,781 | 29,077 | 15,580 | 44,657 |
| Houston | 2,070 | 3,685 | 5,755 | 7,329 | 13,084 |
| Other | 814 | 788 | 1,602 | 8,646 | 10,248 |
| Total homesites | 20,931 | 52,233 | 73,164 | 71,763 | 144,927 |

We evaluated all option contracts for land when entered into or upon a reconsideration event to determine whether we are the primary beneficiary of certain of these option contracts. Although we do not have legal title to the optioned land, under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* ( FIN 46R ), if we are deemed to be the primary beneficiary, we are required to consolidate the land under option at the purchase price of the optioned land. During the three months ended February 28, 2009, the effect of consolidation of these option contracts was an increase of $2.7 million to consolidated inventory not owned with a corresponding increase to liabilities related to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of February 28, 2009. This increase was offset by our exercise of options to acquire land under certain contracts previously consolidated resulting in a net decrease in consolidated inventory not owned of $40.0 million. To reflect the purchase price of the inventory consolidated under FIN 46R, we reclassified an immaterial amount of related option deposits from land under development to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of February 28, 2009. The liabilities related to consolidated inventory not owned primarily represent the difference between the option exercise prices for the optioned land and our cash deposits.

Our exposure to loss related to our option contracts with third parties and unconsolidated entities consisted of our non-refundable option deposits and pre-acquisitions costs totaling $184.5 million and $191.2 million, respectively, at February 28, 2009 and November 30, 2008. Additionally, we had posted $69.1 million and $89.5 million, respectively, of letters of credit in lieu of cash deposits under certain option contracts as of February 28, 2009 and November 30, 2008.

**Contractual Obligations and Commercial Commitments**

Our contractual obligations and commercial commitments have not changed materially from those reported in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended November 30, 2008.

We are subject to the usual obligations associated with entering into contracts (including option contracts) for the purchase, development and sale of real estate in the routine conduct of our business. Option contracts for the purchase of land generally enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our option. This reduces our financial risk associated with land holdings. At February 28, 2009, we had access to 34,260 homesites through option contracts with third parties and unconsolidated entities in which we have investments. At February 28, 2009, we had $69.1 million of letters of credit posted in lieu of cash deposits under certain option contracts.

At February 28, 2009, we had letters of credit outstanding in the amount of $391.9 million (which included the $69.1 million of letters of credit discussed above). These letters of credit are generally posted either with regulatory bodies to guarantee our performance of certain development and construction activities or in lieu of cash deposits on option contracts. Additionally, at February 28, 2009, we had outstanding performance and surety bonds related to site improvements at various projects (including certain projects in our joint ventures) of $978.1 million. Although significant development and construction activities have been completed related to these site improvements, these bonds are generally not released until all of the development and construction activities are completed. As of February 28, 2009, there were approximately $389.2 million, or 40%, of costs to complete related to these site improvements. We do not presently anticipate any draws upon these bonds, but if any such draws occur, we do not believe they would have a material effect on our financial position, results of operations or cash flows.

Our Financial Services segment had a pipeline of loan applications in process of $1.1 billion at February 28, 2009. Loans in process for which interest rates were committed to the borrowers and builder commitments for loan programs totaled approximately $264.7 million as of February 28, 2009. Substantially all of these commitments were for periods of 60 days or less. Since a portion of these commitments is expected to expire without being exercised by the borrowers or because borrowers may not meet certain criteria at the time of closing, the total commitments do not necessarily represent future cash requirements.

Our Financial Services segment uses mandatory mortgage-backed securities ( MBS ) forward commitments, option contracts and investor commitments to hedge our mortgage-related interest rate exposure. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments, option contracts and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments and option contracts. At February 28, 2009, we had open commitments amounting to $260.0 million to sell MBS with varying settlement dates through April 2009.

**(3) New Accounting Pronouncements**

See Note 16 of our condensed consolidated financial statements included under Item 1 of this Report for a discussion of new accounting pronouncements applicable to our Company.

**(4) Critical Accounting Policies**

We believe that there have been no significant changes to our critical accounting policies during the three months ended February 28, 2009, as compared to those we disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended November 30, 2008. Even though our critical accounting policies have not changed in any significant way during 2009, the following provides additional disclosures about the Company s valuation process related to inventories and investments in unconsolidated entities.

*Inventories*

Inventories are stated at cost unless the inventory within a community is determined to be impaired, in which case the impaired inventory is written down to fair value. Inventory costs include land, land development and home construction costs, real estate taxes, deposits on land purchase contracts and interest related to development and construction. We review our inventory for impairment on a community by community basis during each reporting period by evaluating all of our communities. The inventory within each community is categorized as finished homes and construction in progress or land under development based on the development stage of the community. There were 462 active communites and 630 active communities as of February 28, 2009 and February 29, 2008, respectively. SFAS 144 requires that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

In conducting our review for indicators of impairment on a community level, we evaluate, among other things, the margins on homes that have been delivered, margins on homes under sales contracts in backlog, projected margins on homes with regard to future home sales over the life of the community, projected margins with regard to future land sales, and the fair value of the land itself. We pay particular attention to communities in which inventory is moving at a slower than anticipated absorption pace and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. While all of our segments have been severely impacted by the downturn in the housing market, our Central and West homebuilding segments have been most significantly impacted as evidenced by the decrease in revenues of 56% and 57%, respectively, for the three months ended February 28, 2009, compared to the three months ended February 29, 2008. From this review we identify communities whose carrying values exceed their undiscounted cash flows.

We estimate the fair value of our communities using a discounted cash flow model. These projected cash flows for each community are significantly impacted by estimates related to market supply and demand, product type by community, homesite sizes, sales pace, sales prices, sales incentives, construction costs, sales and marketing expenses, the local economy, competitive conditions, labor costs, costs of materials and other factors for that particular community. Every division evaluates the historical performance of each of its communities as well as the current trends in the market and economy impacting the community and its surrounding areas. These trends are analyzed for each of the estimates listed above. For example, since the start of the downturn, the Company has found ways to reduce its construction costs in many communities, and this reduction in construction costs in addition to change in product type in many communities has impacted future estimated cash flows. Using all the trend information available, we calculate the best estimate of projected cash flows for each community. While many of the estimates are calculated based on historical and projected trends, all estimates are subjective and change from market to market and community to community as market and economic conditions change. The determination of fair value also requires discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. The discount rate used in determining each asset s fair value depends on the community s projected life and development stage. We generally use a discount rate of approximately 20%, subject to the perceived risks associated with the community s cash flow streams relative to its inventory. For example, construction in progress inventory which is closer to completion will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development.

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

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

We believe that the accounting related to inventory valuation and impairment is a critical accounting policy because: (1) assumptions inherent in the valuation of our inventory are highly subjective and susceptible to change and (2) the impact of recognizing impairments on our inventory has been and could continue to be material to our consolidated financial statements. Our evaluation of inventory impairment, as discussed above, includes many assumptions. The critical assumptions include the timing of the home sales within a community, management s projections of selling prices and costs and the discount rate applied to the estimate of the fair value of the homesites within a community on the balance sheet date. Our assumptions on the timing of home sales are critical because the homebuilding industry has historically been cyclical and sensitive to changes in economic conditions such as interest rates, credit availability, unemployment levels and consumer sentiment. Changes in these economic conditions could materially affect the projected sales price, costs to develop the homesites and/or absorption rate in a community. Our assumptions on discount rates are critical because the selection of a discount rate affects the estimated fair value of the homesites within a community. A higher discount rate reduces the estimated fair value of the homesites within the community, while a lower discount rate increases the estimated fair value of the homesites within a community. Because of changes in economic and market conditions and assumptions and estimates required of management in valuing inventory during changing market conditions, actual results could differ materially from management s assumptions and may require material inventory impairment charges to be recorded in the future.

During the three months ended February 28, 2009 and February 29, 2008. we recorded $51.2 million and $58.5 million, respectively, of inventory adjustments, which included $40.8 million and $26.2 million, respectively, of valuation adjustments to finished homes, construction in progress and land on which we intend to build homes in 49 communities and 31 communities, respectively, during the three months ended February 28, 2009 and February 29, 2008. The inventory adjustments also included $0.2 million and $15.5 million, respectively, during the three months ended February 28, 2009 and February 29, 2008, of SFAS 144 valuation adjustments to land we intend to sell or have sold to third parties and $10.2 million and $16.9 million, respectively, during the three months ended February 28, 2009 and February 29, 2008, of write-offs of deposits and pre-acquisition costs related to 1,100 homesites and 2,600 homesites, respectively. The SFAS 144 valuation adjustments were estimated based on market conditions and assumptions made by management at the time the valuation adjustments were recorded, which may differ materially from actual results if market conditions or our assumptions change. See Note 2 of the notes to our condensed consolidated financial statements included in Item 1 of this document for details related to valuation adjustments and write-offs by reportable segment and homebuilding other.

*Investments in Unconsolidated Entities*

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

Most of the unconsolidated entities through which we acquire and develop land are accounted for by the equity method of accounting because we are not the primary beneficiary, as defined under FIN 46R, and we have a significant, but less than controlling, interest in the entities. We record our investments in these entities in our consolidated balance sheets as Investments in Unconsolidated Entities and our pro-rata share of the entities earnings or losses in our consolidated statements of operations as Equity in Earnings (Loss) from Unconsolidated Entities, as described in Note 3 of the notes to our condensed consolidated financial statements included in Item 1 of this document. Advances to these entities are included in the investment balance.

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

As of February 28, 2009, we believe that the equity method of accounting is appropriate for our investments in unconsolidated entities where we are not the primary beneficiary and we do not have a controlling interest, but rather share control with our partners. At February 28, 2009, the unconsolidated entities in which we had investments had total assets of $7.6 billion and total liabilities of $4.9 billion.

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

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

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

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

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

During the three months ended February 28, 2009 and February 29, 2008, we recorded $37.2 million and $48.6 million, respectively, of valuation adjustments to our investments in unconsolidated entities, which included $18.9 million for the three months ended February 29, 2008 of our share of SFAS 144 valuation adjustments related to assets of our unconsolidated entities and $37.2 million and $29.6 million, respectively, during the three months ended February 28, 2009 and February 29, 2008 of valuation adjustments to our investments in unconsolidated entities in accordance with APB 18. These valuation adjustments were calculated based on market conditions and assumptions made by management at the time the valuation adjustments were recorded, which may differ materially from actual results if market conditions or our assumptions change.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

Our Annual Report on Form 10-K for the year ended November 30, 2008 contains information about market risks under Item 7A. Quantitative and Qualitative Disclosures About Market Risk. There have been no material changes in our exposure to market risks during the three months ended February 28, 2009.

**Item 4. Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer participated in an evaluation by our management of the effectiveness of our disclosure controls and procedures as of the end of our fiscal quarter that ended on February 28, 2009. Based on their participation in that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of February 28, 2009 to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

Our CEO and CFO also participated in an evaluation by our management of any changes in our internal control over financial reporting that occurred during the quarter ended February 28, 2009. That evaluation did not identify any changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings.**

On March 30, 2009, the Court in *Staehr, Derivatively on Behalf of Lennar Corporation v. Stuart A. Miller, et al*., Case No. 08-20990-CIV, in the United States District Court for the Southern District of Florida, Miami Division, issued an order requiring the plaintiff to replead her complaint to avoid confusion regarding the theories upon which the plaintiff predicates her claims, and denied the motions to dismiss and another pending motion as moot. The Court directed that the plaintiff file a second amended complaint by April 20, 2009 and that the defendants file their motion to dismiss that complaint by May 4, 2009.

**Item 1A. Not applicable.**

**Items 2 5. Not applicable.**

**Item 6. Exhibits.**

31.1. Rule 13a-14(a) certification by Stuart A. Miller, President and Chief Executive Officer.

31.2. Rule 13a-14(a) certification by Bruce E. Gross, Vice President and Chief Financial Officer.

32. Section 1350 certifications by Stuart A. Miller, President and Chief Executive Officer, and Bruce E. Gross, Vice President and Chief Financial Officer.

SIGNATURES

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

**Lennar Corporation**
(Registrant)

Date: April 9, 2009

/s/ Bruce E. Gross
Bruce E. Gross
Vice President and

Chief Financial Officer

Date: April 9, 2009

/s/ David M. Collins
David M. Collins
Controller

**Exhibit Index**

| Exhibit No. | Description |
|---|---|
| 31.1. | Rule 13a-14(a) certification by Stuart A. Miller, President and Chief Executive Officer. |
| 31.2. | Rule 13a-14(a) certification by Bruce E. Gross, Vice President and Chief Financial Officer. |
| 32. | Section 1350 certifications by Stuart A. Miller, President and Chief Executive Officer, and Bruce E. Gross, Vice President and Chief Financial Officer. |