LENNAR CORP /NEW/
Form 10-Q/A
August 08, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2006

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Common stock outstanding as of March 31, 2006:

Class A	127,425,287
Class B	32,840,686

Explanatory Paragraph

This Form 10-Q/A for the quarterly period ended February 28, 2006 is being filed for the purpose of restating Note 3 in our Notes to Condensed Consolidated Financial Statements, which includes expanded reportable segment footnote disclosure related to our homebuilding operations. The restatement does not affect our condensed consolidated financial condition at February 28, 2006 and November 30, 2005, or results of operations or cash flows for the three months ended February 28, 2006 and 2005. Conforming changes have been made to Management s Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q/A. See Note 3 in the Notes to Condensed Consolidated Financial Statements for further information relating to the restatement. This Form 10-Q/A has not been updated for events or information subsequent to the date of filing of the original Form 10-Q, except in connection with the foregoing.

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, 2006	November 30, 2005
ASSETS		
Homebuilding:		
Cash	$ 112,030	909,557
Restricted cash	26,255	22,681
Receivables, net	220,761	299,232
Inventories:		
Finished homes and construction in progress	5,129,924	4,625,563
Land under development	3,473,743	2,867,463
Consolidated inventory not owned	392,912	370,505
Total inventories	8,996,579	7,863,531
Investments in unconsolidated entities	1,381,765	1,282,686
Goodwill	201,977	195,156
Other assets	214,816	266,747
	11,154,183	10,839,590
Financial services	1,529,060	1,701,635
Total assets	$ 12,683,243	12,541,225
LIABILITIES AND STOCKHOLDERS EQUITY		
Homebuilding:		
Accounts payable	$ 798,121	876,830
Liabilities related to consolidated inventory not owned	304,326	306,445
Senior notes and other debts payable	3,125,172	2,592,772
Other liabilities	1,559,088	1,997,824
	5,786,707	5,773,871
Financial services	1,269,194	1,437,700
Total liabilities	7,055,901	7,211,571
Minority interest	72,542	78,243
Stockholders equity:		
Preferred stock		
Class A common stock of $0.10 par value per share, 131,623 shares issued at February 28, 2006	13,162	13,025
Class B common stock of $0.10 par value per share, 32,833 shares issued at February 28, 2006	3,283	3,278
Additional paid-in capital	1,546,906	1,486,988
Retained earnings	4,279,301	4,046,563
Deferred compensation plan; 414 Class A common shares and 41 Class B common shares at February 28, 2006	(3,817)	(4,047)

Deferred compensation liability	3,817	4,047
Treasury stock, at cost; 5,308 Class A common shares at February 28, 2006	(283,655)	(293,222)
Accumulated other comprehensive loss	(4,197)	(5,221)
Total stockholders equity	5,554,800	5,251,411
Total liabilities and stockholders equity	$ 12,683,243	12,541,225

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Condensed Consolidated Statements of Earnings

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended February 28, 2006	2005
Revenues:		
Homebuilding	$ 3,108,718	2,289,938
Financial services	131,941	115,793
Total revenues	3,240,659	2,405,731
Costs and expenses:		
Homebuilding	2,711,056	1,995,975
Financial services	121,316	99,507
Corporate general and administrative	51,891	37,160
Total costs and expenses	2,884,263	2,132,642
Equity in earnings from unconsolidated entities	38,190	16,139
Management fees and other income, net	19,433	21,654
Minority interest expense, net	4,413	1,237
Earnings from continuing operations before provision for income taxes	409,606	309,645
Provision for income taxes	151,554	116,891
Earnings from continuing operations	258,052	192,754
Discontinued operations:		
Earnings from discontinued operations before provision for income taxes		726
Provision for income taxes		274
Earnings from discontinued operations		452
Net earnings	$ 258,052	193,206
Basic earnings per share:		
Earnings from continuing operations	$ 1.64	1.25
Earnings from discontinued operations	0.00	0.00
Net earnings	$ 1.64	1.25
Diluted earnings per share:		
Earnings from continuing operations	$ 1.58	1.17
Earnings from discontinued operations	0.00	0.00
Net earnings	$ 1.58	1.17
Cash dividends per Class A common share	$ 0.16	0.1375

Cash dividends per Class B common share	$	0.16	0.1375

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Dollars in thousands)

(unaudited)

	Three Months Ended February 28, 2006	2005
Cash flows from operating activities:		
Net earnings from continuing operations	$ 258,052	192,754
Adjustments to reconcile net earnings from continuing operations to net cash used in operating activities:		
Depreciation and amortization	11,753	14,672
Amortization of discount on debt	2,400	4,610
Equity in earnings from unconsolidated entities	(38,190)	(16,139)
Distributions of earnings from unconsolidated entities	43,502	31,419
Minority interests	4,413	1,237
Share-based compensation	8,146	769
Tax benefits from share-based awards	3,976	14,391
Deferred income tax provision	60,646	5,776
Changes in assets and liabilities, net of effect from acquisitions:		
Decrease in receivables	144,434	165,698
Increase in inventories	(1,117,227)	(530,550)
(Increase) decrease in other assets	3,817	(3,285)
Decrease in financial services loans held-for-sale	113,367	105,216
Decrease in accounts payable and other liabilities	(438,632)	(156,266)
Net earnings from discontinued operations		452
Adjustment to reconcile net earnings from discontinued operations to net cash used in operating activities		(164)
Net cash used in operating activities	(939,543)	(169,410)
Cash flows from investing activities:		
Increase in restricted cash	(3,574)	(1,516)
Net additions to operating properties and equipment	(4,958)	(5,902)
Contributions to unconsolidated entities	(234,429)	(204,003)
Distributions of capital from unconsolidated entities	81,864	92,902
Decrease in financial services loans held-for-investment	12,078	359
Purchases of investment securities	(23,556)	(7,174)
Proceeds from investment securities	12,800	6,993
Acquisitions, net of cash acquired	(23,034)	(84,230)
Net cash used in investing activities	(182,809)	(202,571)
Cash flows from financing activities:		
Net repayments under financial services debt	(174,562)	(273,493)
Net borrowings (repayments) under other debt	535,747	(54,604)
Net payments related to minority interests	(19,910)	(10,252)
Excess tax benefits from share-based awards	4,623	
Common stock:		
Issuances	22,825	23,808
Repurchases	(489)	(105,597)
Dividends	(25,314)	(21,340)
Net cash provided by (used in) financing activities	342,920	(441,478)

Net decrease in cash	(779,432)	(813,459)
Cash at beginning of period	1,059,343	1,415,815
Cash at end of period	$ 279,911	602,356

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(Dollars in thousands)

(unaudited)

	Three Months Ended February 28, 2006	2005
Summary of cash:		
Homebuilding	$ 112,030	495,998
Financial services	167,881	106,358
	$ 279,911	602,356
Supplemental disclosures of non-cash investing and financing activities:		
Conversion of 5.125% zero-coupon convertible senior subordinated notes to equity	$ 20,433	
Land distributions from unconsolidated entities	$ 18,604	23,854
Purchases of inventory financed by sellers	$ 15,508	12,025

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

(1) <u>Basis of Presentation</u>

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 significant 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, 2005 consolidated financial statements in the Company s Annual Report on Form 10-K/A 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 earnings for the three months ended February 28, 2006 is not necessarily indicative of the results to be expected for the full year.

Reclassifications

Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform with the 2006 presentation. These reclassifications had no impact on reported net earnings.

Use of Estimates

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

Share-Based Payment

Prior to December 1, 2005, the Company accounted for stock option awards granted under the Company s share-based payment plans in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* (APB 25) and related Interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation,* (SFAS 123). Share-based employee compensation expense was not recognized in the Company s consolidated statements of earnings prior to December 1, 2005, as all stock option awards granted under the plans had an exercise price equal to or greater than the market value of the common stock on the date of the grant. Effective December 1, 2005, the Company adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment,* (SFAS 123R) using the modified-prospective-transition method. Under this transition method, compensation expense recognized during the three months ended February 28, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of December 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted subsequent to December 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified-prospective-transition method, results for prior periods have not been restated. The adoption of SFAS 123R resulted in a charge to net earnings of $0.02 per share diluted for the three months ended February 28, 2006. See Note 13 for further detail on the impact of SFAS 123R to the Company s condensed consolidated financial statements.

(2) Discontinued Operations

In May 2005, the Company sold North America Exchange Company (NAEC), a subsidiary of Financial Services title company. NAEC s revenues for the three months ended February 28, 2005 were $1.6 million.

(3) Operating and Reporting Segments (as Restated)

Subsequent to the issuance of the Company s condensed consolidated financial statements for the quarterly period ended February 28, 2006, the Company expanded its disclosure of reportable segments in accordance with the provisions of SFAS 131. The Company had historically aggregated its homebuilding operating segments into a single, national reportable segment, but has restated its segment disclosure to include three homebuilding reportable segments, as identified above, for the three months ended February 28, 2006 and 2005. The restatement has no impact on the Company s condensed consolidated balance sheets as of February 28, 2006 and November 30, 2005, condensed consolidated statements of earnings and related earnings per share amounts for the three months ended February 28, 2006 and 2005 or condensed consolidated statements of cash flows for the three months ended February 28, 2006 and 2005.

The Company s operating segments are aggregated into reportable segments in accordance with SFAS 131, *Disclosures About Segments of an Enterprise and Related Information*, (SFAS 131) based primarily upon similar economic characteristics and product type. The Company s reportable segments consist of:

(1) Homebuilding East

(2) Homebuilding Central

(3) Homebuilding West

(4) Financial Services

Information about homebuilding activities in states that do not have economic characteristics that are similar to those in 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 sale and construction of single-family attached and detached homes, and to a lesser extent, condominiums, as well as the purchase, development and sale of residential land directly and through the Company s unconsolidated entities. The Company s reportable homebuilding segments, and all other homebuilding operations not required to be reported separately, have divisions located in the following states:

East: Florida, Maryland, New Jersey and Virginia

Central: Arizona, Colorado and Texas

West: California and Nevada

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

Operations of the Company s Financial Services segment includes mortgage financing, title insurance, closing services and insurance agency services for both buyers of the Company s homes and others. Substantially all of the loans it originates are sold in the secondary mortgage market on a servicing released basis; however, the Company remains liable for certain representations and warranties related to loan sales. The Financial Services segment also provides high-speed Internet and cable television services to residents of the Company s communities and others. The Company s Financial Services segment operates generally in the same markets as the Company s homebuilding segments, as well as other states.

Evaluation of segment performance is based primarily on operating earnings from continuing operations before provision for income taxes. Operating earnings for the Homebuilding segments consist of revenues generated from the sales of homes and land, equity in earnings from unconsolidated entities and management fees and other income, net, less the cost of homes and land sold, selling, general and administrative expenses and minority interest expense, net. Operating earnings for the Financial Services segment consist of revenues generated from mortgage financing, title insurance, closing services, insurance agency services and Internet and cable television services 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 2005 Annual Report on Form 10-K/A. 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)	Three Months Ended February 28, 2006	2005
Revenues:		
Homebuilding East	$ 901,783	581,724
Homebuilding Central	769,138	611,310
Homebuilding West	1,209,394	915,555
Homebuilding Other	228,403	181,349
Financial Services	131,941	115,793
Total revenues	$ 3,240,659	2,405,731
Operating earnings:		
Homebuilding East	$ 138,643	77,141
Homebuilding Central	70,343	49,976
Homebuilding West	242,348	193,845
Homebuilding Other	(462)	9,557
Financial Services	10,625	16,286
Corporate	(51,891)	(37,160)
Earnings from continuing operations before provision for income taxes	$ 409,606	309,645

(In thousands)	February 28, 2006	November 30, 2005
Assets:		
Homebuilding East	$ 3,799,133	3,454,318
Homebuilding Central	1,812,867	1,682,593
Homebuilding West	4,209,983	3,749,021
Homebuilding Other	1,147,700	1,131,146
Financial Services	1,529,060	1,701,635
Corporate and unallocated	184,500	822,512
Total assets	$ 12,683,243	12,541,225

(4) Investments in Unconsolidated Entities

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

(In thousands)	**February 28, 2006**	**November 30, 2005**
Assets:		
Cash	$ 325,114	334,530
Inventories	8,060,881	7,615,489
Other assets	871,419	875,741
	$ 9,257,414	8,825,760
Liabilities and equity:		
Accounts payable and other liabilities	$ 945,614	1,004,940
Notes and mortgages payable	4,705,510	4,486,271
Equity of:		
The Company	1,381,765	1,282,686
Others	2,224,525	2,051,863
	$ 9,257,414	8,825,760

In some instances, the Company and/or its partners have provided guarantees on debt of certain unconsolidated entities generally on a pro rata basis and to a lesser extent on a joint and several basis. At February 28, 2006, the Company had repayment guarantees of $133.7 million and limited maintenance guarantees of $614.1 million related to unconsolidated entity debt. As of February 28, 2006, the fair market value of the repayment guarantees was insignificant. When the Company and/or its partners provide guarantees, the unconsolidated entity generally receives more favorable terms from its lenders than would otherwise be available to it. The limited maintenance guarantees only apply if an unconsolidated entity defaults on its loan arrangements and 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 limited 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. At February 28, 2006, there were no assets held as collateral that, upon the occurrence of any triggering event or condition under a guarantee, the Company could obtain and liquidate to recover all or a portion of the amounts to be paid under a guarantee.

(5) Earnings Per Share

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

(Dollars in thousands, except per share amounts)	**Three Months Ended February 28, 2006**	**2005**
Numerator Basic earnings per share:		
Earnings from continuing operations	$ 258,052	192,754
Earnings from discontinued operations		452
Numerator for basic earnings per share net earnings	$ 258,052	193,206
Numerator Diluted earnings per share:		
Earnings from continuing operations	$ 258,052	192,754
Interest on 5.125% zero-coupon convertible senior subordinated notes due 2021, net of tax	1,188	2,199
Numerator for diluted earnings per share from continuing operations	259,240	194,953
Numerator for diluted earnings per share from discontinued operations		452
Numerator for diluted earnings per share net earnings	$ 259,240	195,405
Denominator:		
Denominator for basic earnings per share weighted average shares	157,826	155,144
Effect of dilutive securities:		
Employee stock options and restricted stock	2,371	2,744
5.125% zero-coupon convertible senior subordinated notes due 2021	4,357	8,969
Denominator for diluted earnings per share	164,554	166,857
Basic earnings per share:		
Earnings from continuing operations	$ 1.64	1.25
Earnings from discontinued operations	0.00	0.00
Net earnings	$ 1.64	1.25
Diluted earnings per share:		
Earnings from continuing operations	$ 1.58	1.17
Earnings from discontinued operations	0.00	0.00
Net earnings	$ 1.58	1.17

Options to purchase 1.6 million and 1.2 million shares of Class A common stock were outstanding and anti-dilutive at February 28, 2006 and 2005, respectively.

During the three months ended February 28, 2006, $45.0 million face value of 5.125% zero-coupon convertible senior subordinated notes due 2021 (the Convertible Notes) were converted to 0.6 million shares of the Company s Class A common stock. The weighted average of these shares is included in the calculation of basic earnings per share for the three months ended February 28, 2006. The calculation of diluted earnings per share included 4.4 million shares for the three months ended February 28, 2006, compared to 9.0 million shares for the three months ended February 28, 2005 related to the dilutive effect of non-converted Convertible Notes. In March 2006, the Company notified the holders of its Convertible Notes that it would

redeem all of the outstanding Convertible Notes on April 4, 2006. By April 4, 2006, substantially all of the Convertible Notes were converted by the noteholders into 4.2 million Class A common shares. Convertible Notes not converted by the noteholders by April 4, 2006 were not material and redeemed by the Company on that date.

(6) Financial Services

The assets and liabilities related to the Company s financial services operations were as follows:

(In thousands)	February 28, 2006	November 30, 2005
Assets:		
Cash	$ 167,881	149,786
Receivables, net	418,377	675,877
Loans held-for-sale, net	449,179	562,510
Loans held-for-investment, net	330,257	147,459
Investments held-to-maturity	43,124	32,146
Goodwill	57,988	57,988
Other	62,254	75,869
	$ 1,529,060	1,701,635
Liabilities:		
Notes and other debts payable	$ 1,095,220	1,269,782
Other	173,974	167,918
	$ 1,269,194	1,437,700

At February 28, 2006, the Financial Services segment had warehouse lines of credit totaling $1.1 billion to fund its mortgage loan activities. Borrowings under the facilities were $1.0 billion at February 28, 2006. The warehouse lines of credit mature in August 2006 ($500 million) and in April 2007 ($600 million), at which time the Company expects the facilities to be renewed. At February 28, 2006, Financial Services had advances under a conduit funding agreement with a major financial institution amounting to $22.2 million. Financial Services also had a $25 million revolving line of credit with a bank that matures in August 2006, at which time the Company expects the line of credit to be renewed. Borrowings under the line of credit were $23.8 million at February 28, 2006.

(7) Cash

Cash as of February 28, 2006 consisted of cash held in escrow for approximately three days. Cash as of November 30, 2005, included $193.6 million 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) Other Liabilities

(In thousands)	February 28, 2006	November 30, 2005
Accrued compensation	$ 371,681	396,614
Income taxes currently payable	86,761	463,588
Other	1,100,646	1,137,622
	$ 1,559,088	1,997,824

(10) Debt

In January 2006, the Company increased its unsecured credit facility (the Credit Facility) to $2.2 billion, by accessing the Credit Facility s accordion feature. In March 2006, the Company amended certain terms of the Credit Facility to provide that proceeds from the Credit Facility may be used to repay amounts outstanding under the commercial paper program, which is described below. The Credit Facility is guaranteed by substantially all of the Company s subsidiaries other than finance company subsidiaries (which include mortgage and title insurance subsidiaries). Interest rates on outstanding borrowings are LIBOR-based, with margins determined based on changes in the Company s leverage ratio and credit ratings, or an alternate base rate, as described in the credit agreement. At February 28, 2006, the Company had $500.0 million outstanding under the Credit Facility.

The Company has a structured letter of credit facility (the LC Facility) with a financial institution. The purpose of the LC Facility is to facilitate the issuance of up to $200 million of letters of credit on a senior unsecured basis. In connection with the LC Facility, the financial institution issued $200 million of their senior notes, which were linked to the Company s performance on the LC Facility. If there is an event of default under the LC Facility, including the Company s failure to reimburse a draw against an issued letter of credit, the financial institution would assign its claim against the Company, to the extent of the amount due and payable by the Company under the LC Facility, to its noteholders in lieu of their principal repayment on their performance-linked notes.

At February 28, 2006, the Company had letters of credit outstanding in the amount of $1.3 billion, which includes $196.3 million outstanding under the LC Facility. The majority of these letters of credit are posted with regulatory bodies to guarantee the Company s performance of certain development and construction activities or are posted in lieu of cash deposits on option contracts. Of the Company s total letters of credit outstanding, $348.9 million were collateralized against certain borrowings available under the Credit Facility.

In March 2006, the Company initiated a commercial paper program (the Program) under which the Company may, from time-to-time, issue short-term unsecured notes in an aggregate amount not to exceed $2.0 billion. Issuances under the Program will be guaranteed by all of the Company s wholly-owned subsidiaries that are also guarantors of its Credit Facility.

In March 2006, the Company notified the holders of its Convertible Notes that it would redeem all of the Convertible Notes on April 4, 2006. The redemption price was $468.10 per $1,000 principal amount at maturity, which represented the original issue price plus accrued original issue discount to the redemption date. The Convertible Notes were convertible at a rate of 14.2 shares of the Company s Class A common stock per $1,000 principal amount at maturity. As of February 28, 2006, the aggregate principal amount at maturity of the Convertible Notes outstanding was $299.0 million. By April 4, 2006, substantially all of the Convertible Notes were converted by the noteholders into 4.2 million shares Class A common shares. Convertible Notes not converted by the noteholders by April 4, 2006 were not material and redeemed by the Company on that date.

(11) 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. 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 February 28,	
(In thousands)	**2006**	**2005**
Warranty reserve, beginning of period	$ 144,916	116,826
Provision	39,589	33,007
Payments	(44,701)	(35,309)
Warranty reserve, end of period	$ 139,804	114,524

(12) 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. The Company did not repurchase any shares of its outstanding Class A common stock under the stock repurchase program during the three months ended February 28, 2006, compared to 1.9 million shares repurchased during the three months ended February 28, 2005 for an aggregate purchase price of $105.3 million, or $54.39 per share. As of February 28, 2006, 12.4 million common shares can be repurchased in the future under the program.

At February 28, 2006, the Company had a shelf registration statement effective under the Securities Act of 1933, as amended, under which the Company could sell to the public up to $1.0 billion of debt securities, common stock, preferred stock or other securities. At February 28, 2006, the Company had another shelf registration statement effective under the Securities Act of 1933, as amended, under which the Company could issue up to $400 million of equity or debt securities in connection with acquisitions of companies or interests in companies, businesses or assets.

(13) Share-Based Payment

The Company has share-based awards outstanding under four different plans as follows:

The Lennar Corporation 2003 Stock Option and Restricted Stock Plan (the 2003 Plan) provides for the granting of Class A and Class B stock options and stock appreciation rights and awards of restricted common stock (nonvested shares) to key officers, employees and directors. The exercise prices of stock options and stock appreciation rights may not be less than the market value of the common stock on the date of the grant. No options granted under the 2003 Plan may be exercisable until at least six months after the date of the grant. Thereafter, exercises are permitted in installments determined when options are granted. Each stock option and stock appreciation right will expire on a date determined at the time of the grant, but not more than ten years after the date of the grant.

The Lennar Corporation 2000 Stock Option and Restricted Stock Plan (the 2000 Plan) provided for the granting of Class A stock options and stock appreciation rights and awards of nonvested shares to key officers, employees and directors. No options granted under the 2000 Plan may be exercisable until at least six months after the date of the grant. Thereafter, exercises are permitted in installments determined when options are granted. Each stock option and stock appreciation right will expire on a date determined at the time of the grant, but not more than ten years after the date of the grant.

The Lennar Corporation 1997 Stock Option Plan (the 1997 Plan) provided for the granting of Class A stock options and stock appreciation rights to key employees of the Company to purchase shares at prices not less than the market value of the common stock on the date of the grant. No options granted under the 1997 Plan may be exercisable until at least six months after the date of the grant. Thereafter, exercises are permitted in installments determined when options are granted. Each stock option and stock appreciation right granted will expire on a date determined at the time of the grant, but not more than ten years after the date of the grant.

The Lennar Corporation 1991 Stock Option Plan (the 1991 Plan) provided for the granting of Class A stock options to key employees of the Company to purchase shares at prices not less than market value of the common stock on the date of the grant. No options granted under the 1991 Plan may be exercisable until at least six months after the date of the grant. Thereafter, exercises are permitted in installments determined when options are granted. Each stock option granted will expire on a date determined at the time of the grant, but not more than ten years after the date of the grant.

Prior to December 1, 2005, the Company accounted for stock option awards granted under the plans in accordance with the recognition and measurement provisions of APB 25 and related Interpretations, as permitted by SFAS 123. Share-based employee compensation expense was not recognized in the Company s consolidated statements of earnings prior to December 1, 2005, as all stock option awards granted under the plans had an exercise price equal to or greater than the market value of the common stock on the date of the grant. Effective December 1, 2005, the Company adopted the provisions of SFAS 123R using the modified-prospective-transition method. Under this transition method, compensation expense recognized during the three months ended February 28, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of December 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted subsequent to December 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified-prospective-transition method, results for prior periods have not been restated.

As a result of adopting SFAS 123R, the charge to earnings from continuing operations before provision for income taxes and net earnings for the three months ended February 28, 2006 was $5.6 million and $3.9 million, respectively. The impact of adopting SFAS 123R on both basic and diluted earnings per share for the three months ended February 28, 2006 was $0.02 per share.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits related to deductions resulting from the exercise of stock options as operating activities in the consolidated statements of cash flows. SFAS 123R requires that cash flows resulting from tax benefits related to tax deductions in excess of the compensation expense recognized for those options (excess tax benefits) be classified as financing cash flows. As a result, the Company classified $4.6 million of excess tax benefits as financing cash inflows for the three months ended February 28, 2006.

The following table illustrates the effect on net earnings and earnings per share for the three months ended February 28, 2005, if the Company had applied the fair market value recognition provisions of SFAS 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure,* to options granted under the Company s share-based payment plans. For purposes of this pro forma disclosure, the value of the stock options is estimated using a Black-Scholes option-pricing model and amortized to expense over the options vesting periods.

(In thousands, except per share amounts)		**Three Months Ended February 28, 2005**
Net earnings, as reported	$	193,206
Add: Total stock-based employee compensation expense included in reported net earnings, net of tax		478
Deduct: Total stock-based employee compensation expense determined under fair market value based method for all awards, net of tax		(3,497)
Pro forma net earnings	$	190,187
Earnings per share:		
Basic as reported	$	1.25
Basic pro forma	$	1.23
Diluted as reported	$	1.17
Diluted pro forma	$	1.15

Compensation expense related to the Company s share-based awards during the three months ended February 28, 2006 was $8.1 million, of which $5.6 million related to stock options resulting from the adoption of SFAS 123R and $2.5 million related to nonvested shares. During the three months ended February 28, 2005, compensation expense related to the Company s share-based awards was $0.8 million, which primarily related to nonvested shares. The total income tax benefit recognized in the condensed consolidated statement of earnings for share-based awards during the three months ended February 28, 2006 was $2.6 million, of which $1.7 million related to stock options resulting from the adoption of SFAS 123R and $1.0 million related to nonvested shares. During the three months ended February 28, 2005, the income tax benefit recognized in the condensed consolidated statement of earnings for share-based awards was $0.3 million, all of which related to nonvested shares.

Cash received from stock options exercised during the three months ended February 28, 2006 and 2005 was $22.8 million and $23.8 million, respectively. The tax deductions related to stock options exercised during the three months ended February 28, 2006 and 2005 totaled $8.1 million and $14.0 million, respectively.

The fair value of each of the Company s stock option awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company s stock option awards, which are subject to graded vesting, is expensed on a straight-line basis over the vesting life of the stock options. Expected volatility is based on an average of (1) historical volatility of the Company s stock and (2) implied volatility from traded options on the Company s stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award granted. The Company uses historical data to estimate stock option exercises and forfeitures within its valuation model. The expected term of stock option awards granted is derived from historical exercise experience under the Company s share- based payment plans and represents the period of time that stock option awards granted are expected to be outstanding.

The significant weighted average assumptions relating to the valuation of the Company s stock options for the three months ended February 28, 2006 and 2005 were as follows:

	2006	2005
Dividend yield	1.1%	1.0%
Volatility rate	31% - 34%	31% - 34%
Risk-free interest rate	4.1% - 4.4%	4.4% - 4.6%
Expected option life (years)	2.0 - 5.0	2.0 - 5.0

A summary of the Company s stock option activity for the three months ended February 28, 2006 was as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value *(In thousands)*
Outstanding at November 30, 2005	7,159,548	$ 35.92		
Grants	1,555,600	$ 62.70		
Forfeited or expired	(165,253)	$ 37.11		
Exercises	(786,998)	$ 29.08		
Outstanding at February 28, 2006	7,762,897	$ 41.97	3.3 years	$ 142,293
Vested and expected to vest in the future at February 28, 2006	6,953,897	$ 40.94	3.3 years	$ 134,588
Exercisable at February 28, 2006	2,363,818	$ 29.50	3.0 years	$ 71,052
Available for grant at February 28, 2006	3,958,322			

The weighted average grant date fair value of options granted during the three months ended February 28, 2006 and 2005 was $17.64 and $15.90, respectively. The total intrinsic value of options exercised during the three months ended February 28, 2006 and 2005 was $25.4 million and $38.6 million, respectively.

The fair value of nonvested shares is determined based on the average trading price of the Company s common stock on the grant date. The weighted average grant date fair value of nonvested shares granted during the three months ended February 28, 2006 was $63.06. There were no nonvested shares granted during the three months ended February 28, 2005. A summary of the Company s nonvested shares activity for the three months ended February 28, 2006 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at November 30, 2005	724,000	$ 61.65
Grants	5,000	$ 63.06
Vested		$
Forfeited	(20,000)	$ 63.32
Nonvested at February 28, 2006	709,000	$ 61.62

At February 28, 2006, there was $93.7 million of unrecognized compensation expense related to unvested share-based awards granted under the Company s share-based payment plans, of which $57.8 million relates to stock options and $35.9 million relates to nonvested shares. That expense is expected to be recognized over a weighted-average period of 3.5 years. There were no nonvested shares that vested during the three months ended February 28, 2006 and 2005. The tax deductions related to nonvested share activity during the three months ended February 28, 2006 and 2005, totaled $0.5 million and $0.4 million, respectively.

(14) Comprehensive Income

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

	Three Months Ended February 28,	
(Dollars in thousands)	**2006**	**2005**
Net earnings	$ 258,052	193,206
Unrealized gains arising during period on interest rate swaps, net of 37.00% and 37.75% tax effect, respectively, in 2006 and 2005	1,020	3,234
Unrealized gains arising during period on available-for-sale investment securities, net of 37.00% and 37.75% tax effect, respectively, in 2006 and 2005	4	66
Comprehensive income	$ 259,076	196,506

(15) Consolidation of Variable Interest Entities

The Company follows Financial Accounting Standards Board (FASB) Interpretation No. 46(R) (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, 2006, 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, 2006, the Company consolidated entities under FIN 46R that at February 28, 2006 had total combined assets and liabilities of $181.8 million and $6.7 million, respectively.

At February 28, 2006, the Company s recorded investment in unconsolidated entities was $1.4 billion. The Company s estimated maximum exposure to loss with regard to unconsolidated entities was its recorded investments in these entities in addition to the exposure under the guarantees discussed in Note 4.

Option Contracts

The Company evaluated all option contracts for land and determined it was the primary beneficiary of certain of these option contracts. Although the Company does not have legal title to the optioned land, under FIN 46R, the Company, if it is deemed to be the primary beneficiary, is required to consolidate the land under option at the purchase price of the optioned land. During the three months ended February 28, 2006, the effect of the consolidation of these option contracts was an increase of $164.9 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, 2006. This increase was offset primarily by the Company exercising its options to acquire land under certain contracts previously consolidated under FIN 46R, resulting in a net increase in consolidated inventory not owned of $22.4 million. To reflect the purchase price of the inventory consolidated under FIN 46R, the Company reclassified $47.8 million of related option deposits from land under development to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of February 28, 2006. The liabilities related to consolidated inventory not owned represent the difference between the purchase price of the optioned land and the Company s cash deposits.

At February 28, 2006, the Company s exposure to loss related to its option contracts with third parties and unconsolidated entities represented its non-refundable option deposits and advanced costs totaling $816.4 million. Additionally, the Company posts letters of credit in lieu of cash deposits under certain option contracts.

(16) <u>New Accounting Pronouncements</u>

In December 2004, the FASB issued Staff Position 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004* (FSP 109-1). The American Jobs Creation Act, which was signed into law in October 2004, provides a tax deduction on qualified domestic production activities. When fully phased-in, the deduction will be up to 9% of the lesser of qualified production activities income or taxable income. Based on the guidance provided by FSP 109-1, this deduction should be accounted for as a special deduction under SFAS No. 109, *Accounting for Income Taxes*, and will reduce tax expense in the period or periods that the amounts are deductible on the tax return. FSP 109-1 was effective December 21, 2004. The tax benefit resulting from the new deduction was effective beginning in the Company s first quarter of fiscal year 2006 and is reflected in the effective income tax rate of 37.00% for the three months ended February 28, 2006, reduced from 37.75% for the three months ended February 28, 2005. The Company is continuing to evaluate the impact of this law on its future financial statements and currently estimates the fiscal 2006 reduction in its federal income tax rate from fiscal 2005 to be approximately 75 basis points.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections-a replacement of APB Opinion No. 20 and FASB Statement No. 3* (SFAS 154). SFAS 154, which replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, changes the requirements for the accounting and reporting of a change in an accounting principle. The statement requires retrospective application of changes in an accounting principle to prior periods financial statements unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (the Company s fiscal year beginning December 1, 2006). The adoption of SFAS 154 is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

(17) Supplemental Financial Information

The Company s obligations to pay principal, premium, if any, and interest under the Credit Facility, senior floating-rate notes due 2007, senior floating-rate notes due 2009, 7 $^{5}/8$% senior notes due 2009, 5.125% senior notes due 2010, 5.95% senior notes due 2013, 5.50% senior notes due 2014 and 5.60% senior notes due 2015 are guaranteed by substantially all of the Company s subsidiaries other than finance company subsidiaries. The guarantees are full and unconditional and the guarantor subsidiaries are 100% directly or indirectly owned by Lennar Corporation. The 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, 2006

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
Homebuilding:					
Cash, restricted cash and receivables, net	$ 4,213	332,269	22,564		359,046
Inventories		8,768,090	228,489		8,996,579
Investments in unconsolidated entities		1,381,765			1,381,765
Goodwill		201,977			