



Fraud Discovery Institute Releases New Analyst Report: Lennar Has 72 Percent Chance Of Bankruptcy

FDI releases new 16-page report from Wall Street expert who coined the phrase, Voodoo Accounting, for Lennar Corporation

For Immediate Release

SAN DIEGO/EWORLDWIRE/Feb. 19, 2009 --- The Fraud Discovery Institute Inc. released late this afternoon a new 16-page report completed by Wall Street analyst Reggie Middleton. Mr. Middleton was the analyst who predicted in 2007 that Lennar Corporation (NYSE:LEN) was in serious financial trouble because of the way the company handled its off-balance sheet transactions.

The Fraud Discovery Institute Inc. retained Mr. Middleton to update his original research through February of 2009. His conclusions are devastating, and he has a specific track record of accurate predictions.

"Not only does Mr. Middleton conclude in his February 2009 report that Lennar has a 72 percent chance of bankruptcy within two years, but he also makes note of another critical fact that cannot be overlooked," said Barry Minkow, co-founder of the Fraud Discovery Institute Inc.

Mr. Minkow went on to say: "Lennar's inventory valuation impairment charges were less in 2008 than they were in 2007, which is simply untenable. How does a company in this extreme economy take a smaller impairment charge in the catastrophic real estate market of 2008?"

Lennar recorded asset impairments of \$2.445 billion in a difficult 2007. Yet in 2008, a much worse year for real estate and the economy as a whole, the asset impairment charge was only \$340.5 million. That's an 86 percent decrease from the 2007 charge, a year in which conditions were not nearly as bad as 2008.

Why is there such an unusual relationship between these numbers? Minkow says, "I can suggest at least one reason: To artificially stay within loan covenants."

The Fraud Discovery Institute Inc. also looked back to its original Top 10 Red Flags for Fraud at Lennar report and performed an update:

1. Red Flag One - Lennar profited handsomely from the LandSource deal despite denying it. This was confirmed in the 2008 10-K recently filed by the company.
2. Red Flag Two - The company had hopelessly inadequate legal disclosures. Following the release of the FDI report, Lennar made major changes in its legal disclosures in the 2008 10-K filing.
3. Red Flag Three - Lennar used Chinese drywall in homes it built. Despite an initial blanket denial of allegations after the original report, Lennar later accepted responsibility for the drywall, then blamed subcontractors.
4. Red Flag Four - Lennar COO Jonathan Jaffe's home was not worth \$10 million at the time he received a loan encumbering the house to the tune of over \$10 million. According to an appraisal review analysis done by an independent professional, the house was never worth \$10 million.
5. Red Flag Five - Voodoo accounting was used to hide debt to artificially comply with loan covenants. This is proven by the unreasonable level of 2008 inventory valuation impairments recorded, when compared to the much higher impairments in 2007, a year that was not nearly as bad for the real estate market.

"I used to think it would take at least until trial to objectively substantiate all 10 red flags from the initial report," said Minkow, "but at this rate, we may beat the tax filing deadline of April 15."

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