

LENNAR CORP /NEW/
Form 10-Q
July 03, 2014

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 May 31, 2014
Commission File Number: 1-11749

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

Delaware
(State or other jurisdiction of
incorporation or organization)
700 Northwest 107th Avenue, Miami, Florida 33172
(Address of principal executive offices) (Zip Code)
(305) 559-4000
(Registrant's telephone number, including area code)

95-4337490
(I.R.S. Employer
Identification No.)

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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES 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 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

Common stock outstanding as of May 31, 2014:
Class A 173,130,581
Class B 31,303,195

Part I. Financial Information

Item 1. Financial Statements

Lennar Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(Dollars in thousands, except shares and per share amounts)

(unaudited)

	May 31, 2014 (1)	November 30, 2013 (1)
ASSETS		
Lennar Homebuilding:		
Cash and cash equivalents	\$627,615	695,424
Restricted cash	39,088	36,150
Receivables, net	83,180	51,935
Inventories:		
Finished homes and construction in progress	2,879,956	2,269,116
Land and land under development	4,453,089	3,871,773
Consolidated inventory not owned	62,068	460,159
Total inventories	7,395,113	6,601,048
Investments in unconsolidated entities	690,035	716,949
Other assets	653,678	748,629
	9,488,709	8,850,135
Rialto Investments:		
Cash and cash equivalents	244,675	201,496
Restricted cash	34,890	2,593
Receivables, net	125,746	111,833
Loans receivable, net	203,190	278,392
Loans held-for-sale	45,065	44,228
Real estate owned, held-for-sale	192,829	197,851
Real estate owned, held-and-used, net	379,069	428,989
Investments in unconsolidated entities	157,693	154,573
Other assets	90,259	59,358
	1,473,416	1,479,313
Lennar Financial Services	865,908	796,710
Lennar Multifamily	166,593	147,089
Total assets	\$11,994,626	11,273,247

Under certain provisions of Accounting Standards Codification (“ASC”) Topic 810, Consolidations, (“ASC 810”) the Company is required to separately disclose on its condensed consolidated balance sheets the assets owned by consolidated variable interest entities (“VIEs”) and liabilities of consolidated VIEs as to which neither Lennar Corporation, or any of its subsidiaries, has any obligations.

As of May 31, 2014, total assets include \$1,038.0 million related to consolidated VIEs of which \$12.7 million is included in Lennar Homebuilding cash and cash equivalents, \$18.0 million in Lennar Homebuilding restricted cash, \$0.2 million in Lennar Homebuilding receivables, net, \$0.2 million in Lennar Homebuilding finished homes and construction in progress, \$238.1 million in Lennar Homebuilding land and land under development, \$62.1 million in Lennar Homebuilding consolidated inventory not owned, \$13.0 million in Lennar Homebuilding investments in unconsolidated entities, \$86.3 million in Lennar Homebuilding other assets, \$36.6 million in Rialto Investments (“Rialto”) cash and cash equivalents, \$173.1 million in Rialto loans receivable, net, \$120.3 million in Rialto real estate owned, held-for-sale, \$270.0 million in Rialto real estate owned, held-and-used, net, \$0.7 million in Rialto investments in unconsolidated entities and \$6.7 million in Rialto other assets.

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As of November 30, 2013, total assets include \$1,195.3 million related to consolidated VIEs of which \$8.3 million is included in Lennar Homebuilding cash and cash equivalents, \$17.7 million in Lennar Homebuilding restricted cash, \$2.4 million in Lennar Homebuilding receivables, net, \$94.8 million in Lennar Homebuilding land and land under development, \$243.6 million in Lennar Homebuilding consolidated inventory not owned, \$14.7 million in Lennar Homebuilding investments in unconsolidated entities, \$86.8 million in Lennar Homebuilding other assets, \$44.8 million in Rialto cash and cash equivalents, \$244.0 million in Rialto loans receivable, net, \$122.0 million in Rialto real estate owned, held-for-sale, \$313.8 million in Rialto real estate owned, held-and-used, net, \$0.7 million in Rialto investments in unconsolidated entities and \$1.8 million in Rialto other assets.

See accompanying notes to condensed consolidated financial statements.

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Lennar Corporation and Subsidiaries
Condensed Consolidated Balance Sheets – (Continued)
(Dollars in thousands, except shares and per share amounts)
(unaudited)

	May 31, 2014 (2)	November 30, 2013 (2)
LIABILITIES AND EQUITY		
Lennar Homebuilding:		
Accounts payable	\$316,257	271,365
Liabilities related to consolidated inventory not owned	53,015	384,876
Senior notes and other debts payable	4,683,438	4,194,432
Other liabilities	722,702	712,931
	5,775,412	5,563,604
Rialto Investments	658,784	497,008
Lennar Financial Services	638,688	543,639
Lennar Multifamily	30,435	41,526
Total liabilities	7,103,319	6,645,777
Stockholders' equity:		
Preferred stock	—	—
Class A common stock of \$0.10 par value; Authorized: May 31, 2014 and November 30, 2013		
- 300,000,000 shares; Issued: May 31, 2014 - 173,138,745 shares and November 30, 2013	17,314	18,483
- 184,833,120 shares		
Class B common stock of \$0.10 par value; Authorized: May 31, 2014 and November 30, 2013		
- 90,000,000 shares; Issued: May 31, 2014 - 32,982,815 shares and November 30, 2013	3,298	3,298
- 32,982,815 shares		
Additional paid-in capital	2,199,138	2,721,246
Retained earnings	2,253,374	2,053,893
Treasury stock, at cost; May 31, 2014 - 8,164 Class A common stock and 1,679,620 Class B common stock; November 30, 2013 - 12,063,466 Class A common stock and 1,679,620 Class B common stock	(73,780)	(628,019)
Total stockholders' equity	4,399,344	4,168,901
Noncontrolling interests	491,963	458,569
Total equity	4,891,307	4,627,470
Total liabilities and equity	\$11,994,626	11,273,247

As of May 31, 2014, total liabilities include \$145.8 million related to consolidated VIEs as to which there was no recourse against the Company, of which \$2.2 million is included in Lennar Homebuilding accounts payable, \$53.0 (2) million in Lennar Homebuilding liabilities related to consolidated inventory not owned, \$61.7 million in Lennar Homebuilding senior notes and other debts payable, \$4.4 million in Lennar Homebuilding other liabilities and \$24.5 million in Rialto Investments notes payable and other liabilities.

As of November 30, 2013, total liabilities include \$294.8 million related to consolidated VIEs as to which there was no recourse against the Company, of which \$3.0 million is included in Lennar Homebuilding accounts payable, \$191.6 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, \$75.1 million in Lennar Homebuilding senior notes and other debts payable, \$4.9 million in Lennar Homebuilding other liabilities and \$20.2 million in Rialto Investments notes payable and other liabilities.

See accompanying notes to condensed consolidated financial statements.

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Lennar Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(Dollars in thousands, except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	May 31,		May 31,	
	2014	2013	2014	2013
Revenues:				
Lennar Homebuilding	\$1,634,785	1,269,844	2,866,170	2,138,288
Lennar Financial Services	111,016	119,096	187,968	214,976
Rialto Investments	54,393	25,684	101,348	51,306
Lennar Multifamily	18,551	12,257	26,354	12,554
Total revenues	1,818,745	1,426,881	3,181,840	2,417,124
Costs and expenses:				
Lennar Homebuilding	1,392,643	1,100,507	2,456,998	1,879,181
Lennar Financial Services	92,723	89,924	165,210	169,702
Rialto Investments	79,604	28,305	127,180	60,076
Lennar Multifamily	25,549	13,581	39,476	17,409
Corporate general and administrative	38,317	33,853	76,429	65,123
Total costs and expenses	1,628,836	1,266,170	2,865,293	2,191,491
Lennar Homebuilding equity in earnings unconsolidated entities	394	13,491	5,384	12,627
Lennar Homebuilding other income, net	2,262	2,075	5,151	9,872
Other interest expense	(10,287)	(25,109)	(22,978)	(51,140)
Rialto Investments equity in earnings from unconsolidated entities	17,939	4,505	23,293	10,678
Rialto Investments other income, net	3,595	6,646	2,366	7,973
Lennar Multifamily equity in loss from unconsolidated entities	(182)	(30)	(257)	(33)
Earnings before income taxes	203,630	162,289	329,506	215,610
Provision for income taxes	(81,013)	(19,491)	(126,924)	(15,854)
Net earnings (including net earnings (loss) attributable to noncontrolling interests)	\$122,617	142,798	202,582	199,756
Less: Net earnings (loss) attributable to noncontrolling interests	(15,102)	5,362	(13,254)	4,828
Net earnings attributable to Lennar	\$137,719	137,436	215,836	194,928
Basic earnings per share	\$0.67	0.71	1.06	1.01
Diluted earnings per share	\$0.61	0.61	0.95	0.88
Cash dividends per each Class A and Class B common share	\$0.04	0.04	0.08	0.08
Comprehensive earnings attributable to Lennar	\$137,719	137,436	215,836	194,928
Comprehensive earnings (loss) attributable to noncontrolling interests	\$(15,102)	5,362	(13,254)	4,828

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)
(unaudited)

	Six Months Ended	
	May 31,	
	2014	2013
Cash flows from operating activities:		
Net earnings (including net earnings (loss) attributable to noncontrolling interests)	\$202,582	199,756
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	16,645	13,739
Amortization of discount/premium on debt, net	10,577	11,268
Lennar Homebuilding equity in earnings from unconsolidated entities	(5,384	) (12,627
Distributions of earnings from Lennar Homebuilding unconsolidated entities	4,051	220
Rialto Investments equity in earnings from unconsolidated entities	(23,293	) (10,678
Distributions of earnings from Rialto Investments unconsolidated entities	—	197
Lennar Multifamily equity in loss from unconsolidated entities	257	33
Share based compensation expense	17,291	13,194
Tax benefit from share-based awards	282	8,435
Excess tax benefits from share-based awards	(282	) (8,240
Deferred income tax expense	99,683	6,174
Gains on retirement of Lennar Homebuilding debt	—	(1,000
Gain on retirement of Rialto Investments notes payable	(2,627) —
Unrealized and realized gains on Rialto Investments real estate owned	(16,635	) (25,483
Impairments of Rialto Investments loans receivable and REO	44,126	15,197
Valuation adjustments and write-offs of option deposits and pre-acquisition costs and other assets	2,357	5,118
Changes in assets and liabilities:		
Increase in restricted cash	(13,193	) (798
Decrease (increase) in receivables	(63,071	) 22,346
Increase in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs	(981,096	) (952,662
Increase in other assets	(24,262	) (31,872
Increase in Rialto Investments loans held-for-sale	(368) —
Decrease (increase) in Lennar Financial Services loans held-for-sale	(55,069	) 120,922
Increase in accounts payable and other liabilities	65,733	16,852
Net cash used in operating activities	(721,696	) (609,909
Cash flows from investing activities:		
Increase in restricted cash related to LOCs	(478) —
Net additions of operating properties and equipment	(8,212	) (2,979
Investments in and contributions to Lennar Homebuilding unconsolidated entities	(56,571	) (26,046
Distributions of capital from Lennar Homebuilding unconsolidated entities	74,766	113,646
Investments in and contributions to Rialto Investments unconsolidated entities	(18,206	) (33,636
Distributions of capital from Rialto Investments unconsolidated entities	30,086	37,106
Investments in and contributions to Lennar Multifamily unconsolidated entities	(14,110	) (7,022
Distributions of capital from Lennar Multifamily unconsolidated entities	42,377	9,243
Decrease in Rialto Investments defeasance cash to retire notes payable	—	185,910
Receipts of principal payments on Rialto Investments loans receivable	8,357	34,288
Proceeds from sales of Rialto Investments real estate owned	112,409	104,482

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Proceeds from sale of commercial mortgage-backed securities bond	9,171	—	
Purchases of commercial mortgage-backed securities bond	(8,705)	—
Improvements to Rialto Investments real estate owned	(6,194	)	(5,396)
Purchases of loans receivables	—		(5,450)
Purchases of Lennar Homebuilding investments available-for-sale	(21,274	)	(15,417)
Proceeds from sales of Lennar Homebuilding investments available-for-sale	44,579		—
Acquisition, net of cash acquired	(4,808)	—
Decrease (increase) in Lennar Financial Services loans held-for-investment, net	889		(248)
Purchases of Lennar Financial Services investment securities	(5,374	)	(13,460)
Proceeds from maturities of Lennar Financial Services investment securities	9,204		26,991
Net cash provided by investing activities	\$187,906		402,012

See accompanying notes to condensed consolidated financial statements.

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Lennar Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)
(unaudited)

	Six Months Ended	
	May 31,	
	2014	2013
Cash flows from financing activities:		
Net borrowings (repayments) under Lennar Financial Services debt	\$85,782	(123,253)
Net repayments under Rialto Investments warehouse repurchase facilities	(31,593)	—
Proceeds from Lennar Homebuilding senior notes	500,500	500,000
Proceeds from Rialto Investments senior notes	104,525	—
Proceeds from Rialto Investments structured notes	73,830	—
Redemption of senior notes	—	(63,001)
Debt issuance costs	(7,725)	(5,117)
Principal repayments on Rialto Investments notes payable	(5,870)	(314,597)
Proceeds from other borrowings	26,933	65,500
Principal payments on other borrowings	(157,177)	(105,630)
Exercise of land option contracts from an unconsolidated land investment venture	(1,540)	(19,857)
Receipts related to noncontrolling interests	11,933	575
Payments related to noncontrolling interests	(72,737)	(168,176)
Excess tax benefits from share-based awards	282	8,240
Common stock:		
Issuances	13,302	29,620
Repurchases	(566)	(83)
Dividends	(16,355)	(15,390)
Net cash provided by (used in) financing activities	523,524	(211,169)
Net decrease in cash and cash equivalents	(10,266)	(419,066)
Cash and cash equivalents at beginning of period	970,505	1,310,743
Cash and cash equivalents at end of period	\$960,239	891,677
Summary of cash and cash equivalents:		
Lennar Homebuilding	\$627,615	727,207
Lennar Financial Services	86,164	72,541
Rialto Investments	244,675	91,631
Lennar Multifamily	1,785	298
	\$960,239	891,677
Supplemental disclosures of non-cash investing and financing activities:		
Lennar Homebuilding and Lennar Multifamily:		
Non-cash contributions to Lennar Homebuilding unconsolidated entities	\$354	227,851
Inventory acquired in satisfaction of other assets including investments available-for-sale	\$4,774	—
Purchases of inventories and other assets financed by sellers	\$96,430	73,355
Non-cash reduction of equity due to purchase of noncontrolling interest	\$—	99,066
Non-cash purchase of noncontrolling interests	\$—	63,500
Non-cash contributions to Lennar Multifamily unconsolidated entities	\$59,107	14,070
Rialto Investments:		
Real estate owned acquired in satisfaction/partial satisfaction of loans receivable	\$37,270	27,784
Non-cash acquisition of Servicer Provider	\$8,317	—
Lennar Financial Services:		
Purchase of mortgage servicing rights financed by seller	\$5,927	—

Consolidation/deconsolidation of unconsolidated/consolidated entities, net:

Inventories	\$155,021	—
Investments in unconsolidated entities	\$(30,647)) —
Operating properties and equipment and other assets	\$(18,468)) —
Noncontrolling interests	\$(105,906)) —

See accompanying notes to condensed consolidated financial statements.

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Lennar Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

(1) Basis of Presentation

Basis of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Lennar Corporation and all subsidiaries, partnerships and other entities in which Lennar Corporation has a controlling interest and VIEs (see Note 16) in which Lennar Corporation is deemed to be the primary beneficiary (the "Company"). The Company's investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary, are accounted for by the equity method. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended November 30, 2013. 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 statements of operations for the three and six months ended May 31, 2014 are 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 2014 presentation. These reclassifications had no impact on the Company's results of operations. As a result of the Company's change in reportable segments in the Company's Form 10-K for the year ended November 30, 2013 to include Lennar Multifamily, the Company revised the presentation of certain prior year amounts in the condensed consolidated financial statements to conform with the 2014 presentation.

Use of Estimates

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

(2) Operating and Reporting Segments

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

- (1) Homebuilding East
- (2) Homebuilding Central
- (3) Homebuilding West
- (4) Homebuilding Southeast Florida
- (5) Homebuilding Houston
- (6) Lennar Financial Services
- (7) Rialto Investments
- (8) Lennar Multifamily

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.

Evaluation of segment performance is based primarily on operating earnings (loss) before income taxes. Operations of the Company's homebuilding segments primarily include the construction and sale of single-family attached and detached homes, as well as the purchase, development and sale of residential land directly and through the Company's unconsolidated entities. Operating earnings (loss) for the homebuilding segments consist of revenues generated from the sales of homes and land, equity in earnings (loss) from unconsolidated entities and other income (expense), net,

less the cost of homes sold and land sold, selling, general and administrative expenses and other interest expense of the segment.

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The Company's reportable homebuilding segments and all other homebuilding operations not required to be reported separately have operations located in:

East: Florida⁽¹⁾, Georgia, Maryland, New Jersey, North Carolina, South Carolina and Virginia

Central: Arizona, Colorado and Texas⁽²⁾

West: California and Nevada

Southeast Florida: Southeast Florida

Houston: Houston, Texas

Other: Illinois, Minnesota, Oregon, Tennessee and Washington

(1)Florida in the East reportable segment excludes Southeast Florida, which is its own reportable segment.

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

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

Operations of the Rialto Investments ("Rialto") segment include raising, investing and managing third party capital, originating and securitizing commercial mortgage loans, as well as investing its own capital in real estate related mortgage loans, properties and related securities. Rialto utilizes its vertically-integrated investment and operating platform to underwrite, diligence, acquire, manage, workout and add value to diverse portfolios of real estate loans, properties and securities, as well as providing strategic real estate capital. Rialto's operating earnings consist of revenues generated primarily from interest income associated with portfolios of real estate loans acquired in partnership with the FDIC and other portfolios of real estate loans and assets acquired, gains from securitization transactions and interest income from the new Rialto Mortgage Finance ("RMF") business, asset management, due diligence and underwriting fees derived from the segment's investments in the real estate investment funds managed by the Rialto segment, fees for sub-advisory services, other income (expense), net, consisting primarily of gains upon foreclosure of real estate owned ("REO") and gains on sale of REO, and equity in earnings (loss) from unconsolidated entities, less the costs incurred by the segment for managing portfolios, costs related to RMF, REO expenses and other general and administrative expenses.

Operations of the Lennar Multifamily segment include revenues generated from the sales of land, revenue from construction activities and management fees generated from joint ventures less the cost of sales of land, expenses related to construction activities, equity in loss from unconsolidated entities and general and administrative expenses. Each reportable segment follows the same accounting policies described in Note 1 – "Summary of Significant Accounting Policies" to the consolidated financial statements in the Company's Form 10-K for the year ended November 30, 2013. 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)	May 31, 2014			November 30, 2013	
Assets:					
Homebuilding East	\$2,125,930			1,890,138	
Homebuilding Central	1,146,071			963,815	
Homebuilding West	3,348,046			3,108,395	
Homebuilding Southeast Florida	776,051			757,125	
Homebuilding Houston	391,911			307,864	
Homebuilding Other	884,892			808,496	
Rialto Investments	1,473,416			1,479,313	
Lennar Financial Services	865,908			796,710	
Lennar Multifamily	166,593			147,089	
Corporate and unallocated	815,808			1,014,302	
Total assets	\$11,994,626			11,273,247	
		Three Months Ended			Six Months Ended
		May 31,			May 31,
(In thousands)		2014	2013	2014	2013
Revenues:					
Homebuilding East	\$536,748	421,829		927,256	710,721
Homebuilding Central	235,208	181,774		397,702	330,806
Homebuilding West	423,354	269,565		738,369	443,640
Homebuilding Southeast Florida	129,492	123,883		231,656	195,734
Homebuilding Houston	178,663	145,394		309,286	253,912
Homebuilding Other	131,320	127,399		261,901	203,475
Lennar Financial Services	111,016	119,096		187,968	214,976
Rialto Investments	54,393	25,684		101,348	51,306
Lennar Multifamily	18,551	12,257		26,354	12,554
Total revenues (1)	\$1,818,745	1,426,881		3,181,840	2,417,124
Operating earnings (loss):					
Homebuilding East	\$85,252	49,373		135,904	72,248
Homebuilding Central	24,074	12,836		34,734	26,793
Homebuilding West (2)	64,643	45,698		118,436	58,301
Homebuilding Southeast Florida (3)	26,748	28,764		47,306	38,172
Homebuilding Houston	24,685	15,026		46,356	24,532
Homebuilding Other (4)	9,109	8,097		13,993	10,420
Lennar Financial Services	18,293	29,172		22,758	45,274
Rialto Investments	(3,677)	) 8,530		(173)	) 9,881
Lennar Multifamily	(7,180)	) (1,354)		) (13,379)	) (4,888)
Total operating earnings	241,947	196,142		405,935	280,733
Corporate general and administrative expenses	38,317	33,853		76,429	65,123
Earnings before income taxes	\$203,630	162,289		329,506	215,610

Total revenues are net of sales incentives of \$100.9 million (\$20,300 per home delivered) and \$177.4 million (\$20,700 per home delivered) for the three and six months ended May 31, 2014, respectively, compared to \$89.9 million (\$20,200 per home delivered) and \$163.9 million (\$21,500 per home delivered) for the three and six months ended May 31, 2013, respectively.

(1) For the six months ended May 31, 2014, operating earnings includes \$0.9 million of valuation adjustments to land the Company intends to sell or has sold to third parties.

(3)

For the three and six months ended May 31, 2013, operating earnings include \$2.7 million and \$3.8 million, respectively, of valuation adjustments to finished homes, CIP and land on which the Company intends to build homes.

(4)For the six months ended May 31, 2014, operating earnings includes \$1.1 million write-offs of option deposits and pre-acquisition costs.

(3) Lennar Homebuilding Investments in Unconsolidated Entities

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

Statements of Operations

(In thousands)	Three Months Ended		Six Months Ended	
	May 31, 2014	2013	May 31, 2014	2013
Revenues	\$32,111	179,790	175,805	261,014
Costs and expenses	65,098	127,737	210,737	209,359
Other income	—	—	—	13,361
Net earnings (loss) of unconsolidated entities	\$(32,987)	52,053	(34,932)	65,016
Lennar Homebuilding equity in earnings from unconsolidated entities (1)	\$394	13,491	5,384	12,627

For the six months ended May 31, 2014, Lennar Homebuilding equity in earnings from unconsolidated entities included \$4.7 million of equity in earnings primarily as a result of third party land sales by one unconsolidated (1) entity. For both the three and six months ended May 31, 2013, Lennar Homebuilding equity in earnings from unconsolidated entities included \$13.0 million of equity in earnings primarily as a result of sales of homesites to third parties by another unconsolidated entity.

Balance Sheets

(In thousands)	May 31, 2014	November 30, 2013
Assets:		
Cash and cash equivalents	\$205,140	184,521
Inventories	2,739,466	2,904,795
Other assets	154,541	147,410
	\$3,099,147	3,236,726
Liabilities and equity:		
Accounts payable and other liabilities	\$255,286	272,940
Debt	513,547	450,457
Equity	2,330,314	2,513,329
	\$3,099,147	3,236,726

As of May 31, 2014 and November 30, 2013, the Company's recorded investments in Lennar Homebuilding unconsolidated entities were \$690.0 million and \$716.9 million, respectively, while the underlying equity in Lennar Homebuilding unconsolidated entities partners' net assets as of May 31, 2014 and November 30, 2013 was \$768.2 million and \$829.5 million, respectively. The basis difference is primarily as a result of the Company buying an interest in a partner's equity in a Lennar Homebuilding unconsolidated entity at a discount to book value and contributing non-monetary assets to an unconsolidated entity with a higher fair value than book value.

In fiscal 2007, the Company sold a portfolio of land to a strategic land investment venture with Morgan Stanley Real Estate Fund II, L.P., an affiliate of Morgan Stanley & Co. ("MSR"), Inc., in which the Company has approximately a 20% ownership interest and 50% voting rights. Due to the nature of the Company's continuing involvement, the transaction did not qualify as a sale by the Company under GAAP; thus, the inventory remained on the Company's condensed consolidated balance sheet in consolidated inventory not owned. As of November 30, 2013, the portfolio of land (including land development costs) of \$241.8 million was also reflected as inventory in the summarized condensed financial information related to Lennar Homebuilding's unconsolidated entities above. During the three months ended May 31, 2014, the Company entered into a new agreement with the joint venture which required \$155.0 million of inventory assets to remain consolidated due to the existence of option contracts on substantially all of the homesites and were reclassified into land and land under development. The remaining \$70.3 million of inventory

assets no longer under option by the Company were deconsolidated.

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

The total debt of the Lennar Homebuilding unconsolidated entities in which the Company has investments, including Lennar's maximum recourse exposure, were as follows:

(In thousands)	May 31, 2014	November 30, 2013	
The Company's net recourse exposure	\$25,101	27,496	
Reimbursement agreements from partners	4,151	13,500	
The Company's maximum recourse exposure	\$29,252	40,996	
Non-recourse bank debt and other debt (partner's share of several recourse)	\$57,309	61,008	
Non-recourse land seller debt or other debt	4,035	20,454	
Non-recourse debt with completion guarantees	303,292	245,821	
Non-recourse debt without completion guarantees	119,659	82,178	
Non-recourse debt to the Company	484,295	409,461	
Total debt	\$513,547	450,457	
The Company's maximum recourse exposure as a % of total JV debt	6	% 9	%

In most instances in which the Company has guaranteed debt of a Lennar Homebuilding unconsolidated entity, the Company's partners have also guaranteed that debt and are required to contribute their share of the guarantee payments. Historically, the Company has had repayment guarantees and/or maintenance guarantees. In a repayment guarantee, the Company and its venture partners guarantee repayment of a portion or all of the debt in the event of default before the lender would have to exercise its rights against the collateral. In the event of default, if the Company's venture partner does not have adequate financial resources to meet its obligations under the reimbursement agreement, the Company may be liable for more than its proportionate share, up to its maximum recourse exposure, which is the full amount covered by the joint and several guarantee. As of both May 31, 2014 and November 30, 2013, the Company did not have any maintenance guarantees related to its Lennar Homebuilding unconsolidated entities. 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 repayment or maintenance guarantee, the payment would constitute a capital contribution or loan to the Lennar Homebuilding unconsolidated entity and increase the Company's investment in the unconsolidated entity and its share of any funds the unconsolidated entity distributes.

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

As of May 31, 2014, the fair values of the repayment guarantees and completion guarantees were not material. The Company believes that as of May 31, 2014, in the event it becomes legally obligated to perform under a guarantee of the obligation of a Lennar Homebuilding unconsolidated entity due to a triggering event under a guarantee, most of the time the collateral should be sufficient to repay at least a significant portion of the obligation or the Company and its partners would contribute additional capital into the venture. In certain instances, the Company has placed performance letters of credit and surety bonds with municipalities for its joint ventures (see Note 12).

(4) Stockholders' Equity

The following table reflects the changes in equity attributable to both Lennar Corporation and the noncontrolling interests of its consolidated subsidiaries in which it has less than a 100% ownership interest for both the six months ended May 31, 2014 and 2013:

(In thousands)	Total Equity	Stockholders' Equity					Retained Earnings	Noncontrolling Interests
		Class A Common Stock	Class B Common Stock	Additional Paid-Capital	Treasury Stock			
Balance at November 30, 2013	\$4,627,470	18,483	3,298	2,721,246	(628,019)	2,053,893	458,569	
Net earnings (including net loss attributable to noncontrolling interests)	202,582	—	—	—	—	215,836	(13,254)	
Employee stock and directors plans	13,429	4	—	1,378	12,047	—	—	
Retirement of treasury stock	—	(1,173)	—	(541,019)	542,192	—	—	
Tax benefit from employee stock plans and vesting of restricted stock	282	—	—	282	—	—	—	
Amortization of restricted stock	17,251	—	—	17,251	—	—	—	
Cash dividends	(16,355)	—	—	—	—	(16,355)	—	
Receipts related to noncontrolling interests	11,933	—	—	—	—	—	11,933	
Payments related to noncontrolling interests	(72,737)	—	—	—	—	—	(72,737)	
Non-cash consolidations, net Non-cash activity related to noncontrolling interests	107,022	—	—	—	—	—	107,022	
Balance at May 31, 2014	\$4,891,307	17,314	3,298	2,199,138	(73,780)	2,253,374	491,963	
(In thousands)	Total Equity	Stockholders' Equity					Retained Earnings	Noncontrolling Interests
		Class A Common Stock	Class B Common Stock	Additional Paid-Capital	Treasury Stock			
Balance at November 30, 2012	\$4,001,208	17,240	3,298	2,421,941	(632,846)	1,605,131	586,444	
Net earnings (including net loss attributable to noncontrolling interests)	199,756	—	—	—	—	194,928	4,828	
Employee stock and directors plans	30,134	102	—	12,967	17,065	—	—	
Tax benefit from employee stock plans and vesting of	8,435	—	—	8,435	—	—	—	

restricted stock							
Amortization of restricted stock	13,161	—	—	13,161	—	—	—
Cash dividends	(15,390)	—	—	—	—	(15,390)	—
Equity adjustments related to purchase of noncontrolling interests	38,636	—	—	(60,430)	—	—	99,066
Receipts related to noncontrolling interests	575	—	—	—	—	—	575
Payments related to noncontrolling interests	(168,176)	—	—	—	—	—	(168,176)
Non-cash purchase of noncontrolling interests	(63,500)	—	—	—	—	—	(63,500)
Balance at May 31, 2013	\$4,044,839	17,342	3,298	2,396,074	(615,781)	1,784,669	459,237

The Company has a stock repurchase program which permits the purchase of up to 20 million shares of its outstanding common stock. During both the three and six months ended May 31, 2014 and 2013, there were no repurchases of common stock under the stock repurchase program. As of May 31, 2014, 6.2 million shares of common stock could be repurchased in the future under the program.

During the three and six months ended May 31, 2014, treasury stock decreased by 11.7 million and 12.1 million, respectively, shares of Class A common stock primarily due to the retirement of 11.7 million shares of Class A common stock authorized by the Company's Board of Directors during the three months ended May 31, 2014. The retirement of Class A common stock resulted in a reclass between treasury stock and additional paid-in capital within stockholders' equity. During the three months ended May 31, 2013, treasury stock increased by an immaterial amount of Class A common stock. During the six months ended May 31, 2013, treasury stock decreased by approximately 0.5 million in shares of Class A common stock due to activity related to the Company's equity compensation plan.

(5) Income Taxes

During the three and six months ended May 31, 2014, the Company recorded a tax provision of \$81.0 million and \$126.9 million, respectively, primarily related to pre-tax earnings. During the three and six months ended May 31, 2013, the Company recorded a tax provision of \$19.5 million and \$15.9 million, respectively, which included a tax provision of \$60.8 million and \$82.3 million, respectively, primarily related to pre-tax earnings, partially offset by a reversal of the Company's valuation allowance of \$41.3 million and \$66.4 million, respectively. The effective tax rate for the three months ended May 31, 2014 and 2013 was 37.04% and 12.42%, respectively. The effective tax rate for the six months ended May 31, 2014 and 2013 was 37.03% and 7.52%, respectively. The difference in tax rate between the two periods is primarily the result of a valuation allowance reversal during the three and six months ended May 31, 2013.

In accordance with ASC 740, the Company evaluates its deferred tax assets quarterly to determine if adjustments to its valuation allowance are required. ASC 740 requires that companies assess whether a valuation allowance should be established based on the consideration of all available positive and negative evidence using a "more likely than not" standard with respect to whether deferred tax assets will be realized. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, actual earnings, forecasts of future profitability, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring unused and tax planning alternatives.

As of May 31, 2014 and November 30, 2013, the Company's deferred tax assets, net included in the condensed consolidated balance sheets were \$280.0 million and \$376.8 million, respectively. The net deferred tax assets included a valuation allowance of \$12.7 million as of both May 31, 2014 and November 30, 2013, primarily related to state net operating loss ("NOL") carryforwards that may expire due to short carryforward periods.

At May 31, 2014 and November 30, 2013, the Company had federal tax effected NOL carryforwards totaling \$2.4 million and \$88.1 million, respectively, that may be carried forward up to 20 years to offset future taxable income and begin to expire in 2025. At May 31, 2014 and November 30, 2013, the Company had state tax effected NOL carryforwards totaling \$129.6 million and \$143.6 million, respectively, that may be carried forward from 5 to 20 years, depending on the tax jurisdiction, with losses expiring between 2014 and 2033. At both May 31, 2014 and November 30, 2013, the Company had a valuation allowance of \$10.6 million against its state NOL carryforwards because the Company believes it is more likely than not that a portion of its state NOL carryforwards will not be realized due to the limited carryforward periods in certain states.

At both May 31, 2014 and November 30, 2013, the Company had \$10.5 million of gross unrecognized tax benefits. At May 31, 2014, the Company had \$27.3 million accrued for interest and penalties, of which \$8.5 million was recorded during the six months ended May 31, 2014. During both the three and six months ended May 31, 2014, the accrual for interest and penalties was reduced by \$0.3 million, primarily as a result of interest payments. At November 30, 2013, the Company had \$19.1 million accrued for interest and penalties.

(6) Earnings Per Share

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

All outstanding nonvested shares that contain non-forfeitable rights to dividends or dividend equivalents that participate in undistributed earnings with common stock are considered participating securities and are included in computing earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and participation rights in undistributed earnings. The Company's restricted common stock ("nonvested shares") are considered participating securities.

Basic and diluted earnings per share were calculated as follows:

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	May 31, 2014	2013	May 31, 2014	2013
Numerator:				
Net earnings attributable to Lennar	\$137,719	137,436	215,836	194,928
Less: distributed earnings allocated to nonvested shares	97	102	195	204
Less: undistributed earnings allocated to nonvested shares	1,541	1,747	2,388	2,405
Numerator for basic earnings per share	136,081	135,587	213,253	192,319
Plus: interest on 3.25% convertible senior notes due 2021 and 2.00% convertible senior notes due 2020 (1)	1,982	2,826	3,964	5,651
Plus: undistributed earnings allocated to convertible shares	1,541	1,747	2,388	2,405
Less: undistributed earnings reallocated to convertible shares	1,388	1,500	2,162	2,085
Numerator for diluted earnings per share	\$138,216	138,660	217,443	198,290
Denominator:				
Denominator for basic earnings per share - weighted average common shares outstanding	202,000	190,010	201,977	189,779
Effect of dilutive securities:				
Share-based payments	9	339	9	456
Convertible senior notes	26,001	36,306	25,835	36,101
Denominator for diluted earnings per share - weighted average common shares outstanding	228,010	226,655	227,821	226,336
Basic earnings per share	\$0.67	0.71	1.06	1.01
Diluted earnings per share	\$0.61	0.61	0.95	0.88

Interest on the 2.00% convertible senior notes due 2020 is included in the three and six months ended May 31, (1)2013 because the holders of the 2.00% convertible senior notes due 2020 converted the notes into shares of Class A common stock in November 30, 2013.

For both the three and six months ended May 31, 2014 and 2013, there were no options to purchase shares of Class A common stock that were outstanding and anti-dilutive.

(7)Lennar Financial Services Segment

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

(In thousands)	May 31, 2014	November 30, 2013
Assets:		
Cash and cash equivalents	\$86,164	73,066
Restricted cash	5,693	10,283
Receivables, net (1)	120,888	127,223
Loans held-for-sale (2)	467,786	414,231
Loans held-for-investment, net	26,787	26,356
Investments held-to-maturity	56,806	62,344
Goodwill	38,854	34,046
Other (3)	62,930	49,161
	\$865,908	796,710
Liabilities:		
Notes and other debts payable	\$465,875	374,166
Other (4)	172,813	169,473
	\$638,688	543,639

(1) Receivables, net primarily relate to loans sold to investors for which the Company had not yet been paid as of May 31, 2014 and November 30, 2013, respectively.

(2) Loans held-for-sale relate to unsold loans carried at fair value.

Other assets include mortgage loan commitments carried at fair value of \$15.0 million and \$7.3 million as of May 31, 2014 and November 30, 2013, respectively. Other assets also includes forward contracts carried at fair value of \$1.4 million as of November 30, 2013. In addition, other assets include mortgage servicing rights carried at fair value of \$18.2 million and \$11.5 million as of May 31, 2014 and November 30, 2013, respectively.

Other liabilities include \$73.2 million and \$74.5 million as of May 31, 2014 and November 30, 2013, respectively, of certain of the Company's self-insurance reserves related to general liability and workers' compensation. Other liabilities also include forward contracts carried at fair value of \$6.3 million as of May 31, 2014.

At May 31, 2014, the Lennar Financial Services segment warehouse facilities were as follows:

(In thousands)	Maximum Aggregate Commitment
364-day warehouse repurchase facility that matures November 2014	\$325,000
364-day warehouse repurchase facility that matures February 2015 (1)	300,000
364-day warehouse repurchase facility that matures February 2015	150,000
Totals	\$775,000

(1) Maximum aggregate commitment includes a \$100 million accordion feature that is usable 10 days prior to quarter-end through 20 days after quarter end.

In June 2014, the Lennar Financial Services segment entered into a new 364-day warehouse repurchase facility with a maximum aggregate commitment of \$150.0 million (including a \$50.0 million accordion feature that is usable 10 days prior to quarter-end through 20 days after quarter end) that matures in June 2015.

The Lennar Financial Services segment uses these facilities to finance its lending activities until the mortgage loans are sold to investors and expects the facilities to be renewed or replaced with other facilities when they mature. Borrowings under the facilities and their prior year predecessors were \$465.9 million and \$374.2 million at May 31, 2014 and November 30, 2013, respectively, and were collateralized by mortgage loans and receivables on loans sold to investors but not yet paid for with outstanding principal balances of \$486.6 million and \$452.5 million at May 31, 2014 and November 30, 2013, respectively. 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 Lennar Financial Services segment would have to use cash from operations

and other funding sources to finance its lending activities.

The Lennar Financial Services segment sells substantially all of the loans it originates within a short period in the secondary mortgage market, the majority of which are sold on a servicing released, non-recourse basis. After the loans are sold, the Company retains potential liability for possible claims by purchasers that it breached certain limited industry-standard representations and warranties in the loan sale agreements. During recent years there has been an increased industry-wide effort by purchasers to defray their losses in an unfavorable economic environment by purporting to have found inaccuracies related

to sellers' representations and warranties in particular loan sale agreements. The Company's mortgage operations have established reserves for possible losses associated with mortgage loans previously originated and sold to investors. The Company establishes reserves for such possible losses based upon, among other things, an analysis of repurchase requests received, an estimate of potential repurchase claims not yet received and actual past repurchases and losses through the disposition of affected loans, as well as previous settlements. While the Company believes that it has adequately reserved for known losses and projected repurchase requests, given the volatility in the mortgage industry and the uncertainty regarding the ultimate resolution of these claims, if either actual repurchases or the losses incurred resolving those repurchases exceed the Company's expectations, additional recourse expense may be incurred. Loan origination liabilities are included in Lennar Financial Services' liabilities in the Company's condensed consolidated balance sheets. The activity in the Company's loan origination liabilities was as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	May 31,		May 31,	
	2014	2013	2014	2013
Loan origination liabilities, beginning of period	\$9,585	7,606	9,311	7,250
Provision for losses during the period	449	360	742	773
Adjustments to pre-existing provisions for losses from changes in estimates	—	428	—	524
Payments/settlements	(260	) (137	) (279	) (290
Loan origination liabilities, end of period	\$9,774	8,257	9,774	8,257

For Lennar Financial Services loans held-for-investment, net, a loan is deemed impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income is not accrued or recognized on impaired loans unless payment is received. Impaired loans are written-off if and when the loan is no longer secured by collateral. The total unpaid principal balance of the impaired loans was as follows:

(In thousands)	May 31,	November 30,
	2014	2013
Impaired loans unpaid principal balance	\$7,635	7,897
Valuation allowance	(3,756	) (3,891
Investment in impaired loans	\$3,879	4,006

The average recorded investment in impaired loans totaled \$3.8 million and \$3.9 million for the three and six months ended May 31, 2014, respectively. The average recorded investment in impaired loans totaled \$3.6 million and \$3.3 million for the three and six months ended May 31, 2013, respectively.

In April 2014, the Lennar Financial Services segment acquired a Colorado-based mortgage company. At acquisition date the provisional fair value of the assets acquired were \$1.4 million and the provisional goodwill recorded was \$4.8 million.

(8) Rialto Investments Segment

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

(In thousands)	May 31, 2014	November 30, 2013
Assets:		
Cash and cash equivalents	\$244,675	201,496
Restricted cash (1)	34,890	2,593
Receivables, net (2)	125,746	111,833
Loans receivable, net	203,190	278,392
Loans held-for-sale (3)	45,065	44,228
Real estate owned - held-for-sale	192,829	197,851
Real estate owned - held-and-used, net	379,069	428,989
Investments in unconsolidated entities	157,693	154,573
Investments held-to-maturity	16,658	16,070
Other (4)	73,601	43,288
	\$1,473,416	1,479,313
Liabilities:		
Notes and other debts payable (5)	\$577,916	441,883
Other (6)	80,868	55,125
	\$658,784	497,008

(1) Restricted cash primarily consists of cash held in escrow by the Company's loan servicer provider on behalf of customers and lenders and is disbursed in accordance with agreements between the transacting parties.

(2) Receivables, net primarily relate to loans sold but not settled as of May 31, 2014 and November 30, 2013, respectively.

(3) Loans held-for-sale relate to unsold loans originated by RMF carried at fair value.

(4) Other assets include credit default swaps carried at fair value of \$1.2 million and \$0.8 million as of May 31, 2014 and November 30, 2013, respectively.

Notes and other debts payable include \$352.1 million and \$250.0 million related to the 7.00% Senior Notes due 2018 ("7.00% Senior Notes") as of May 31, 2014 and November 30, 2013, respectively, and also include \$44.4 million and \$76.0 million as of May 31, 2014 and November 30, 2013, respectively, related to the RMF warehouse repurchase financing agreements. As of May 31, 2014, notes and other debts payable also include \$73.8 million related to notes issued through a structured note offering.

Other liabilities include interest rate swaps and swap futures carried at fair value of \$0.4 million as of May 31, 2014 and credit default swaps carried at fair value of \$0.6 million and \$0.3 million as of May 31, 2014 and November 30, 2013, respectively.

Rialto's operating earnings were as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	May 31, 2014	2013	May 31, 2014	2013
Revenues	\$54,393	25,684	101,348	51,306
Costs and expenses (1)	79,604	28,305	127,180	60,076
Rialto Investments equity in earnings from unconsolidated entities	17,939	4,505	23,293	10,678
Rialto Investments other income, net	3,595	6,646	2,366	7,973
Operating earnings (loss) (2)	\$(3,677)	8,530	(173)	9,881

Costs and expenses for the three and six months ended May 31, 2014 include loan impairments of \$33.9 million and \$40.6 million, respectively, primarily associated with the segment's FDIC loans portfolio (before noncontrolling interests). For the three and six months ended May 31, 2013 costs and expenses include loan impairments of \$3.5 million and \$10.6 million, respectively, primarily associated with the segment's FDIC loans portfolio (before noncontrolling interests).

(2)

Operating loss for the three and six months ended May 31, 2014 include net loss attributable to noncontrolling interests of \$17.1 million and \$16.1 million, respectively. Operating earnings for the three and six months ended May 31, 2013 include net earnings attributable to noncontrolling interests of \$5.7 million and \$5.4 million, respectively.

The following is a detail of Rialto Investments other income, net for the periods indicated:

(In thousands)	Three Months Ended		Six Months Ended	
	May 31,		May 31,	
Realized gains on REO sales, net	\$14,234	2013	23,743	27,206
Unrealized losses on transfer of loans receivable to REO and impairments, net	(8,274)	(6,980)	(10,651)	(6,310)
REO and other expenses (1)	(12,411)	(10,348)	(30,950)	(22,904)
Rental and other income (1)	10,046	5,439	20,224	9,981
Rialto Investments other income, net	\$3,595	6,646	2,366	7,973

(1) For the six months ended May 31, 2014, a \$12.6 million allowance was reclassified from REO and other expenses to rental and other income, which did not impact Rialto Investments other income, net.

Loans Receivable

In February 2010, the Rialto segment acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs"), in partnership with the FDIC ("FDIC Portfolios"), which retained 60% equity interests in the LLCs, for approximately \$243 million (net of transaction costs and a \$22 million working capital reserve). If the LLCs exceed expectations and meet certain internal rate of return and distribution thresholds, the Company's equity interest in the LLCs could be reduced from 40% down to 30%, with a corresponding increase to the FDIC's equity interest from 60% up to 70%. As these thresholds have not been met, distributions will continue being shared 60%/40% with the FDIC. During the six months ended May 31, 2014, \$98.2 million was distributed by the LLCs, of which \$59.6 million was paid to the FDIC and \$38.6 million was paid to Rialto, the parent company.

The LLCs met the accounting definition of VIEs and since the Company was determined to be the primary beneficiary, the Company consolidated the LLCs. The Company was determined to be the primary beneficiary because it has the power to direct activities of the LLCs that most significantly impact the LLCs' performance through Rialto's management and servicer contracts. At May 31, 2014, these consolidated LLCs had total combined assets and liabilities of \$607.5 million and \$24.5 million, respectively. At November 30, 2013, these consolidated LLCs had total combined assets and liabilities of \$727.1 million and \$20.2 million, respectively.

In September 2010, the Rialto segment acquired approximately 400 distressed residential and commercial real estate loans ("Bank Portfolios") and over 300 REO properties from three financial institutions. The Company paid \$310 million for the distressed real estate and real estate related assets of which \$124 million was financed through a 5-year senior unsecured note provided by one of the selling institutions. As of both May 31, 2014 and November 30, 2013, there was \$90.9 million outstanding related to the 5-year senior unsecured note.

In May 2014, Rialto issued \$73.8 million principal amount of notes through a structured note offering (the "Structured Notes") collateralized by certain assets originally acquired in the Bank Portfolios transaction at a price of 100%, with an annual coupon rate of 2.85%. Proceeds from the offering, after payment of expenses and hold backs for a cash reserved, were \$69.1 million. The estimated final payment date of the Structured Notes is December 15, 2015.

The following table displays the loans receivable by aggregate collateral type:

(In thousands)	May 31,	November 30,
	2014	2013
Land	\$105,202	166,950
Single family homes	49,808	59,647
Commercial properties	32,501	38,060
Other	15,679	13,735
Loans receivable, net	\$203,190	278,392

With regard to loans accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, ("ASC 310-30"), the Rialto segment estimated the cash flows, at acquisition, it expected to collect on the FDIC Portfolios and Bank Portfolios. In accordance with ASC 310-30, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on the Company's condensed consolidated balance sheets. The excess of cash flows expected to be collected over the cost of the loans acquired is referred to as the accretable yield

and is recognized in interest income over the remaining life of the loans using the effective yield method. The Rialto segment periodically evaluates its estimate of cash flows expected to be collected on its FDIC Portfolios and Bank Portfolios. These evaluations require the continued use of key assumptions and estimates, similar to those used in the

initial estimate of fair value of the loans to allocate purchase price. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized as a provision for loan losses, resulting in an increase to the allowance for loan losses but can be reversed if conditions improve.

The outstanding balance and carrying value of loans accounted for under ASC 310-30 were as follows:

(In thousands)	May 31, 2014	November 30, 2013
Outstanding principal balance	\$496,641	586,901
Carrying value	\$197,992	270,075

The activity in the accretable yield for the FDIC Portfolios and Bank Portfolios during the six months ended May 31, 2014 and 2013 was as follows:

(In thousands)	May 31, 2014	2013
Accretable yield, beginning of period	\$73,144	112,899
Additions	6,431	40,879
Deletions	(22,078)	(22,463)
Accretions	(18,927)	(26,596)
Accretable yield, end of period	\$38,570	104,719

Additions primarily represent reclasses from nonaccretable yield to accretable yield on the portfolios. Deletions represent loan impairments, net of recoveries, and disposal of loans, which includes foreclosure of underlying collateral and result in the removal of the loans from the accretable yield portfolios.

When forecasted principal and interest cannot be reasonably estimated at the loan acquisition date, management classifies the loan as nonaccrual and accounts for these assets in accordance with ASC 310-10, Receivables (“ASC 310-10”). When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. In accordance with ASC 310-10, a loan is considered impaired when based on current information and events it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Although these loans met the definition of ASC 310-10, these loans were not considered impaired relative to the Company’s recorded investment at the time of acquisition since they were acquired at a substantial discount to their unpaid principal balance. A provision for loan losses is recognized when the recorded investment in the loan is in excess of its fair value. The fair value of the loan is determined by using either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral less estimated costs to sell. The following tables represent nonaccrual loans in the FDIC Portfolios and Bank Portfolios accounted for under ASC 310-10 aggregated by collateral type:

May 31, 2014

(In thousands)	Unpaid Principal Balance	Recorded Investment		Total Recorded Investment
		With Allowance	Without Allowance	
Land	\$5,218	—	2,106	2,106
Single family homes	9,166	502	1,983	2,485
Commercial properties	1,500	—	607	607
Loans receivable	\$15,884	502	4,696	5,198

November 30, 2013

(In thousands)	Unpaid Principal Balance	Recorded Investment		Total Recorded Investment
		With Allowance	Without Allowance	
Land	\$6,791	249	2,304	2,553
Single family homes	15,125	519	4,119	4,638

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Commercial properties	3,400	498	628	1,126
Loans receivable	\$25,316	1,266	7,051	8,317

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The average recorded investment in impaired loans totaled approximately \$7 million and \$37 million for the six months ended May 31, 2014 and 2013, respectively.

The loans receivable portfolios consist of loans acquired at a discount. Based on the nature of these loans, the portfolios are managed by assessing the risks related to the likelihood of collection of payments from borrowers and guarantors, as well as monitoring the value of the underlying collateral. The following are the risk categories for the loans receivable portfolios:

Accrual — Loans in which forecasted cash flows under the loan agreement, as it might be modified from time to time, can be reasonably estimated at the date of acquisition. The risk associated with loans in this category relates to the possible default by the borrower with respect to principal and interest payments and the possible decline in value of the underlying collateral and thus, both could cause a decline in the forecasted cash flows used to determine accretable yield income and the recognition of an impairment through an allowance for loan losses but can be reversed if conditions improve. The activity in the Company's allowance rollforward related to accrual loans was as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	May 31, 2014	2013	May 31, 2014	2013
Allowance on accrual loans, beginning of period	\$24,922	16,851	\$18,952	\$12,178
Provision for loan losses, net of recoveries	33,851	3,453	40,488	9,530
Charge-offs	(3,115)	(1,588)	(3,782)	(2,992)
Allowance on accrual loans, end of period	\$55,658	18,716	55,658	18,716

Nonaccrual — Loans in which forecasted principal and interest could not be reasonably estimated at the date of acquisition. The risk of nonaccrual loans relates to a decline in the value of the collateral securing the outstanding obligation and the recognition of an impairment through an allowance for loan losses if the recorded investment in the loan exceeds the fair value of the collateral less estimated cost to sell. The activity in the Company's allowance rollforward related to nonaccrual loans was as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	May 31, 2014	2013	May 31, 2014	2013
Allowance on nonaccrual loans, beginning of period	\$424	1,710	\$1,213	\$3,722
Provision for loan losses	15	67	94	1,080
Charge-offs	(153)	(5)	(1,021)	(3,030)
Allowance on nonaccrual loans, end of period	\$286	1,772	286	1,772

Accrual and nonaccrual loans receivable by risk categories were as follows:

May 31, 2014

(In thousands)	Accrual	Nonaccrual	Total
Land	\$103,096	2,106	105,202
Single family homes	47,323	2,485	49,808
Commercial properties	31,894	607	32,501
Other	15,679	—	15,679
Loans receivable	\$197,992	5,198	203,190

November 30, 2013

(In thousands)	Accrual	Nonaccrual	Total
Land	\$164,397	2,553	166,950
Single family homes	55,009	4,638	59,647
Commercial properties	36,934	1,126	38,060
Other	13,735	—	13,735
Loans receivable	\$270,075	8,317	278,392

In order to assess the risk associated with each risk category, the Rialto segment evaluates the forecasted cash flows and the value of the underlying collateral securing loans receivable on a quarterly basis or when an event occurs that suggests a decline in the collateral's fair value.

Real Estate Owned

The acquisition of properties acquired through, or in lieu of, loan foreclosure are reported within the condensed consolidated balance sheets as REO held-and-used, net and REO held-for-sale. When a property is determined to be held-and-used, net, the asset is recorded at fair value and depreciated over its useful life using the straight line method. When certain criteria set forth in ASC 360, Property, Plant and Equipment, are met, the property is classified as held-for-sale. When a real estate asset is classified as held-for-sale, the property is recorded at the lower of its cost basis or fair value less estimated costs to sell. The fair value of REO held-for-sale are determined in part by placing reliance on third party appraisals of the properties and/or internally prepared analyses of recent offers or prices on comparable properties in the proximate vicinity.

The following tables represent the activity in REO:

(In thousands)	Three Months Ended May 31,		Six Months Ended May 31,	
	2014	2013	2014	2013
REO - held-for-sale, beginning of period	\$ 186,234	178,678	197,851	134,161
Additions	—	739	—	1,333
Improvements	1,130	1,501	2,723	2,517
Sales	(47,433)	(51,496)	(88,666)	(77,276)
Impairments and unrealized losses	(1,032)	(3,485)	(2,823)	(4,184)
Transfers from held-and-used, net (1)	53,930	78,448	83,744	147,834
REO - held-for-sale, end of period	\$ 192,829	204,385	192,829	204,385
(In thousands)	Three Months Ended May 31,		Six Months Ended May 31,	
	2014	2013	2014	2013
REO - held-and-used, net, beginning of period	\$ 405,675	547,273	428,989	601,022
Additions	26,093	8,536	34,127	24,728
Improvements	2,708	2,179	3,471	2,879
Impairments	(599)	(307)	(1,503)	(403)
Depreciation	(878)	(919)	(2,271)	(2,078)
Transfers to held-for-sale (1)	(53,930)	(78,448)	(83,744)	(147,834)
REO - held-and-used, net, end of period	\$ 379,069	478,314	379,069	478,314

During the three and six months ended May 31, 2014 and 2013, the Rialto segment transferred certain properties (1) from REO held-and-used, net to REO held-for-sale as a result of changes in the disposition strategy of the real estate assets.

For the three and six months ended May 31, 2014, the Company recorded net losses of \$7.0 million and \$7.1 million, respectively, from acquisitions of REO through foreclosure. For the three and six months ended May 31, 2013, the Company recorded net losses of \$3.2 million and \$1.7 million, respectively, from acquisitions of REO through foreclosure. These net losses are recorded in Rialto Investments other income, net.

Rialto Mortgage Finance

In July 2013, RMF was formed to originate and sell into securitizations five, seven and ten year commercial first mortgage loans, generally with principal amounts between \$2 million and \$75 million, which are secured by income producing properties. During the six months ended May 31, 2014, RMF originated loans with a total principal balance of \$692.2 million and sold \$691.5 million of loans into three separate securitizations. An additional \$125.7 million of these originated loans were sold but not settled into a securitization trust as of May 31, 2014, and thus were included in receivables, net. As of May 31, 2014 and November 30, 2013, RMF had two warehouse repurchase financing agreements that mature in fiscal year 2015 totaling \$500 million to help finance the loans it makes. Borrowings under these facilities were \$44.4 million and \$76.0 million as of May 31, 2014 and November 30, 2013, respectively.

In November 2013, the Rialto segment issued \$250 million aggregate principal amount of the 7.00% senior notes due 2018 ("7.00% Senior Notes"), at a price of 100% in a private placement. Proceeds from the offering, after payment of expenses, were approximately \$245 million. Rialto used a majority of the net proceeds of the sale of the 7.00% Senior Notes as working capital for RMF and used \$100 million to repay sums that had been advanced to RMF from Lennar

to enable it to begin originating and securitizing commercial mortgage loans. In March 2014, the Rialto segment issued an additional \$100 million of the 7.00% Senior Notes, at a price of 102.25% of their face value in a private offering with no registration rights. Proceeds from the offering, after payment of expenses, were approximately \$102 million. Rialto used the net proceeds of the offering to

provide additional working capital for RMF, and to make investments in the funds that Rialto manages, as well as for general corporate purposes. Interest on the 7.00% Senior Notes is due semi-annually beginning June 1, 2014. At May 31, 2014 and November 30, 2013, the carrying amount of the 7.00% Senior Notes was \$352.1 million and \$250.0 million, respectively. Under the indenture, Rialto is subject to certain covenants limiting, among other things, Rialto's ability to incur indebtedness, to make investments, to make distributions to, or enter into transactions with, Lennar or to create liens, subject to certain exceptions and qualifications. Rialto also has quarterly and annual reporting requirements, similar to an SEC registrant, to holders of the 7.00% Senior Notes. The Company believes it was in compliance with its debt covenants at May 31, 2014.

Investments

All of Rialto's investments in funds have the attributes of an investment company in accordance with ASC 946, Financial Services – Investment Companies, as amended by ASU 2013-08, Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, the attributes of which are different from the attributes that would cause a company to be an investment company for purposes of the Investment Company Act of 1940. As a result, the Company's investments' assets and liabilities are recorded at fair value with increases/decreases in fair value recorded in their respective statements of operations, the Company's share of which are recorded in the Rialto Investments equity in earnings from unconsolidated entities financial statement line item. The following table reflects Rialto's investments in funds that invest in and manage real estate related assets and other investments:

(Dollars in thousands)	Inception Year	Equity Commitments	Equity Commitments Called	Commitment Funds to fund by the Company	May 31, 2014	May 31, 2014	November 30, 2013
					Funds contributed by the Company	Investment	
Rialto Real Estate Fund, LP	2010	\$ 700,006	\$ 700,006	\$ 75,000	\$75,000	\$73,188	75,729
Rialto Real Estate Fund II, LP	2012	1,305,000	660,058	100,000	50,579	52,020	53,103
Rialto Mezzanine Partners Fund	2013	125,000	81,701	27,299	17,843	17,719	16,724
Other Investments						14,766	9,017
						\$157,693	154,573

Rialto's share of earnings (loss) from unconsolidated entities was as follows:

(In thousands)	Three Months Ended May 31, 2014	2013	Six Months Ended May 31, 2014	2013
Rialto Real Estate Fund, LP	\$7,174	4,769	12,233	11,142
Rialto Real Estate Fund II, LP	2,402	(454)	2,440	(454)
Rialto Mezzanine Partners Fund	493	—	782	—
Other investments	7,870	190	7,838	(10)
Rialto Investments equity in earnings from unconsolidated entities	\$17,939	4,505	23,293	10,678

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

Balance Sheets

(In thousands)	May 31, 2014	November 30, 2013
Assets:		
Cash and cash equivalents	\$262,145	332,968
Loans receivable	561,167	523,249
Real estate owned	318,846	285,565
Investment securities	455,634	149,350
Investments in partnerships	224,605	381,555
Other assets	37,231	191,624
	\$1,859,628	1,864,311
Liabilities and equity:		
Accounts payable and other liabilities	\$34,141	108,514
Notes payable	344,138	398,445
Partner loans	—	163,940
Equity	1,481,349	1,193,412
	\$1,859,628	1,864,311

Statements of Operations

(In thousands)	Three Months Ended		Six Months Ended	
	May 31, 2014	2013	May 31, 2014	2013
Revenues	\$33,177	65,956	64,604	119,299
Costs and expenses	23,304	65,595	49,413	124,709
Other income, net (1)	104,868	38,786	153,038	94,787
Net earnings of unconsolidated entities	\$114,741	39,147	168,229	89,377
Rialto Investments equity in earnings from unconsolidated entities	\$17,939	4,505	23,293	10,678

Other income, net, for the three and six months ended May 31, 2014 included Rialto Real Estate Fund, LP, Rialto Real Estate Fund II, LP and other investments realized and unrealized gains on investments. Other income, net, for (1) the three and six months ended May 31, 2013 included Rialto Real Estate Fund, LP and Rialto Real Estate Fund II, LP realized and unrealized gains on investments.

In 2010, the Rialto segment invested in approximately \$43 million of non-investment grade commercial mortgage-backed securities ("CMBS") for \$19.4 million, representing a 55% discount to par value. These securities bear interest at a coupon rate of 4% and have a stated and assumed final distribution date of November 2020 and a stated maturity date of October 2057. The Rialto segment reviews changes in estimated cash flows periodically, to determine if other-than-temporary impairment has occurred on its investment securities. Based on the Rialto segment's assessment, no impairment charges were recorded during both the three and six months ended May 31, 2014 and 2013. The carrying value of the investment securities at May 31, 2014 and November 30, 2013, was \$16.7 million and \$16.1 million, respectively. The Rialto segment classified these securities as held-to-maturity based on its intent and ability to hold the securities until maturity.

In January 2014, Rialto acquired 100% of the loan servicing business segment of a financial services company (the "Servicer Provider") in which a subsidiary of Rialto had an approximately 5% investment, in exchange for its investment interest. The Servicer Provider has a business segment that provides service and infrastructure to the residential home loan market, which provides loan servicing support for all of the Company's owned and managed portfolios and asset management services for Rialto's small balance loan program. At acquisition date, the provisional fair value of the assets acquired were \$20.8 million, the provisional goodwill recorded was \$5.1 million and the provisional fair value of the liabilities assumed were \$17.6 million. As of November 30, 2013, the carrying value of the Company's investment in the Servicer Provider was \$8.3 million.

(9) Lennar Multifamily Segment

The assets and liabilities related to the Lennar Multifamily segment were as follows:

(In thousands)	May 31, 2014	November 30, 2013
Assets:		
Cash and cash equivalents	\$ 1,785	519
Land under development	77,071	88,260
Consolidated inventory not owned	5,000	10,500
Investments in unconsolidated entities	77,534	46,301
Other assets	5,203	1,509
	\$ 166,593	147,089
Liabilities:		
Accounts payable and other liabilities	\$ 26,235	17,518
Notes payable	—	13,858
Liabilities related to consolidated inventory not owned	4,200	10,150
	\$ 30,435	41,526

Since 2012, the Company has become actively involved, primarily through unconsolidated entities, in the development of multifamily rental properties. The Lennar Multifamily segment focuses on developing a geographically diversified portfolio of institutional quality multifamily rental properties in select U.S. markets. Lennar Multifamily segment's unconsolidated entities in which the Company has investments usually finance their activities with a combination of partner equity and debt financing. In connection with many of the loans to Lennar Multifamily unconsolidated entities, the Company (or entities related to them) has been required to give guarantees of completion and cost over-runs to the lenders and partners. Those completion guarantees may require that the guarantors complete the construction of the improvements for which the financing was obtained. If the construction is to be done in phases, the guarantee generally is limited to completing only the phases as to which construction has already commenced and for which loan proceeds were used. Additionally, the Company guarantees the construction costs of the project. All construction cost over-runs would be paid by the Company. As of May 31, 2014, the fair value of the completion guarantees is immaterial. As of May 31, 2014 and November 30, 2013, Lennar Multifamily segment's unconsolidated entities had non-recourse debt with completion guarantees of \$105.5 million and \$51.6 million, respectively.

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

Balance Sheets

(In thousands)	May 31, 2014	November 30, 2013
Assets:		
Cash and cash equivalents	\$ 15,171	5,800
Operating properties and equipment	431,604	236,528
Other assets	10,870	3,460
	\$ 457,645	245,788
Liabilities and equity:		
Accounts payable and other liabilities	\$ 51,942	11,147
Notes payable	105,535	51,604
Equity	300,168	183,037
	\$ 457,645	245,788

Statements of Operations

(In thousands)	Three Months Ended		Six Months Ended	
	May 31, 2014	2013	May 31, 2014	2013
Revenues	\$960	—	2,411	—
Costs and expenses	1,581	248	3,175	263
Net loss of unconsolidated entities	\$(621)	(248)	(764)	(263)
Lennar Multifamily equity in loss from unconsolidated entities	\$(182)	(30)	(257)	(33)

(10)Lennar Homebuilding Cash and Cash Equivalents

Cash and cash equivalents as of May 31, 2014 and November 30, 2013 included \$210.6 million and \$172.3 million, respectively, of cash held in escrow for approximately three days.

(11)Lennar Homebuilding 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, as well as funds on deposit to secure and support performance obligations.

(12)Lennar Homebuilding Senior Notes and Other Debts Payable

(Dollars in thousands)	May 31, 2014	November 30, 2013
5.50% senior notes due 2014	\$249,820	249,640
5.60% senior notes due 2015	500,400	500,527
6.50% senior notes due 2016	249,904	249,886
12.25% senior notes due 2017	395,780	395,312
4.75% senior notes due 2017	399,250	399,250
6.95% senior notes due 2018	248,323	248,167
4.125% senior notes due 2018	274,995	274,995
4.50% senior notes due 2019	500,500	—
2.75% convertible senior notes due 2020	423,597	416,041
3.25% convertible senior notes due 2021	400,000	400,000
4.750% senior notes due 2022	571,223	571,012
Mortgages notes on land and other debt	469,646	489,602
	\$4,683,438	4,194,432

At May 31, 2014, the Company had a \$950 million unsecured revolving credit facility (the "Credit Facility") with certain financial institutions that matures in June 2017, \$200 million of letter of credit facilities with a financial institution and a \$140 million letter of credit facility with a different financial institution. The proceeds available under the Credit Facility, which are subject to specified conditions for borrowing, may be used for working capital and general corporate purposes. The Credit Facility agreement also provides that up to \$500 million in commitments may be used for letters of credit. The Company believes it was in compliance with its debt covenants at May 31, 2014. In June 2014, the Company amended its Credit Facility increasing the aggregated principal amount from \$950 million to \$1.5 billion, which includes a \$263 million accordion feature, subject to additional commitments. The Credit Facility's maturity date was extended to June 2018.

The Company's performance letters of credit outstanding were \$225.4 million and \$160.6 million, respectively, at May 31, 2014 and November 30, 2013. The Company's financial letters of credit outstanding were \$212.6 million and \$212.8 million, respectively, at May 31, 2014 and November 30, 2013. Performance letters of credit are generally posted with regulatory bodies to guarantee the Company's performance of certain development and construction activities. Financial letters of credit are generally posted in lieu of cash deposits on option contracts, for insurance risks, credit enhancements and as other collateral. Additionally, at May 31, 2014, the Company had outstanding

performance and surety bonds related to site

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improvements at various projects (including certain projects in the Company's joint ventures) of \$817.8 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 May 31, 2014, there were approximately \$395.9 million, or 48%, of anticipated future costs to complete related to these site improvements. The Company does not presently anticipate any draws upon these bonds or letters of credit, but if any such draws occur, the Company does not believe they would have a material effect on its financial position, results of operations or cash flows.

In February 2014, the Company originally issued \$400 million aggregate principal amount of 4.50% senior notes due 2019 (the "4.50% Senior Notes") at a price of 100%. The Company issued an additional \$100 million aggregate principal amount of its 4.50% Senior Notes at a price of 100.5%. Proceeds from the offerings, after payment of expenses, were \$495.7 million. The Company used the net proceeds from the sales of the 4.50% Senior Notes for working capital and general corporate purposes. Interest on the 4.50% Senior Notes is due semi-annually beginning June 15, 2014. The 4.50% Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries. At May 31, 2014, the carrying amount of the 4.50% Senior Notes was \$500.5 million.

At both May 31, 2014 and November 30, 2013, the carrying and principal amount of the 3.25% convertible senior notes due 2021 (the "3.25% Convertible Senior Notes") was \$400.0 million. The 3.25% Convertible Senior Notes are convertible into shares of Class A common stock at any time prior to maturity or redemption at the initial conversion rate of 42.5555 shares of Class A common stock per \$1,000 principal amount of the 3.25% Convertible Senior Notes or 17,022,200 shares of Class A common stock if all the 3.25% Convertible Senior Notes are converted, which is equivalent to an initial conversion price of approximately \$23.50 per share of Class A common stock, subject to anti-dilution adjustments. The shares are included in the calculation of diluted earnings per share. The 3.25% Convertible Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries.

When the 2.75% convertible senior notes due 2020 (the "2.75% Convertible Senior Notes") are converted, the 2.75% Convertible Senior Notes are convertible into cash, shares of Class A common stock or a combination of both, at the Company's election. However, it is the Company's intent to settle the face value of the 2.75% Convertible Senior Notes in cash. Shares are included in the calculation of diluted earnings per share because even though it is the Company's intent to settle the face value of the 2.75% Convertible Senior Notes in cash, the Company's volume weighted average stock price exceeded the conversion price. The Company's volume weighted average stock price for the three months ended May 31, 2014 and 2013 was \$39.92 and \$41.03, respectively, which exceeded the conversion price, thus 9.0 million shares and 9.3 million shares, respectively, were included in the calculation of diluted earnings per share. The Company's volume weighted average stock price for the six months ended May 31, 2014 and 2013 was \$39.32 and \$40.32, respectively, which exceeded the conversion price, thus 8.8 million and 9.1 million shares, respectively, were included in the calculation of diluted earnings per share. Holders may convert the 2.75% Convertible Senior Notes at the initial conversion rate of 45.1794 shares of Class A common stock per \$1,000 principal amount or 20,150,012 Class A common stock if all the 2.75% Convertible Senior Notes are converted, which is equivalent to an initial conversion price of approximately \$22.13 per share of Class A common stock. The 2.75% Convertible Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries.

Certain provisions under ASC 470, Debt, require the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability and equity components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. The Company has applied these provisions to its 2.75% Convertible Senior Notes. At both May 31, 2014 and November 30, 2013, the principal amount of the 2.75% Convertible Senior Notes was \$446.0 million. At May 31, 2014 and November 30, 2013, the carrying amount of the equity component included in stockholders' equity was \$22.4 million and \$30.0 million, respectively, and the net carrying amount of the 2.75% Convertible Senior Notes included in Lennar Homebuilding senior notes and other debts payable was \$423.6 million and \$416.0 million, respectively.

Although the guarantees by substantially all of the Company's 100% owned homebuilding subsidiaries are full, unconditional and joint and several while they are in effect, (i) a subsidiary will cease to be a guarantor at any time when it is not directly or indirectly guaranteeing at least \$75 million of debt of Lennar Corporation (the parent company), and (ii) a subsidiary will be released from its guarantee and any other obligations it may have regarding the senior notes if all or substantially all its assets, or all of its capital stock, are sold or otherwise disposed of.

(13)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:

(In thousands)	Three Months Ended May 31,		Six Months Ended May 31,	
	2014	2013	2014	2013
Warranty reserve, beginning of period	\$101,097	85,208	102,580	84,188
Warranties issued during the period	14,580	12,122	24,972	20,881
Adjustments to pre-existing warranties from changes in estimates (1)	3,456	4,960	5,576	7,909
Payments	(13,434)	(12,048)	(27,429)	(22,736)
Warranty reserve, end of period	\$105,699	90,242	105,699	90,242

(1) The adjustments to pre-existing warranties from changes in estimates during the three and six months ended May 31, 2014 and 2013 primarily relate to specific claims received in certain of our homebuilding communities.

(14)Share-Based Payments

During both the three and six months ended May 31, 2014, the Company granted an immaterial number of stock options and nonvested shares. During both the three and six months ended May 31, 2013, the Company granted an immaterial number of stock options and 0.1 million nonvested shares. Compensation expense related to the Company's share-based payment awards was as follows:

(In thousands)	Three Months Ended May 31,		Six Months Ended May 31,	
	2014	2013	2014	2013
Stock options	\$38	33	40	33
Nonvested shares	8,512	6,675	17,251	13,161
Total compensation expense for share-based awards	\$8,550	6,708	17,291	13,194

(15) Financial Instruments

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at May 31, 2014 and November 30, 2013, using available market information and what the Company believes to be appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The table excludes cash and cash equivalents, restricted cash, receivables, net and accounts payable, all of which had fair values approximating their carrying amounts due to the short maturities of these instruments.

(In thousands)	Fair Value Hierarchy	May 31, 2014		November 30, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
ASSETS					
Rialto Investments:					
Loans receivable, net	Level 3	\$203,190	204,601	278,392	305,810
Investments held-to-maturity	Level 3	\$16,658	16,532	16,070	15,952
Lennar Financial Services:					
Loans held-for-investment, net	Level 3	\$26,787	26,879	26,356	26,095
Investments held-to-maturity	Level 2	\$56,806	57,016	62,344	62,580
LIABILITIES					
Lennar Homebuilding senior notes and other debts payable	Level 2	\$4,683,438	5,624,954	4,194,432	4,971,500
Rialto Investments notes and other debts payable	Level 2	\$577,916	583,677	441,883	438,373
Lennar Financial Services notes and other debts payable	Level 2	\$465,875	465,875	374,166	374,166
Lennar Multifamily notes payable	Level 2	\$—	—	13,858	13,858

The following methods and assumptions are used by the Company in estimating fair values:

Lennar Homebuilding and Lennar Multifamily—For senior notes and other debts payable, the fair value of fixed-rate borrowings is based on quoted market prices and the fair value of variable-rate borrowings is based on expected future cash flows calculated using current market forward rates.

Rialto Investments—The fair values for loans receivable, net is based on discounted cash flows, or the fair value of the collateral less estimated cost to sell. The fair value for investments held-to-maturity is based on discounted cash flows. For notes and other debts payable, the fair value is calculated based on discounted cash flows using the Company's weighted average borrowing rate and for the warehouse repurchase financing agreements fair values approximate their carrying value due to their short maturities.

Lennar Financial Services—The fair values above are based on quoted market prices, if available. The fair values for instruments that do not have quoted market prices are estimated by the Company on the basis of discounted cash flows or other financial information.

Fair Value Measurements:

GAAP 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 summarized below:

Financial Instruments	Fair Value Hierarchy	Fair Value at May 31, 2014	Fair Value at November 30, 2013
(In thousands)			
Lennar Financial Services:			
Loans held-for-sale (1)	Level 2	\$467,786	414,231
Mortgage loan commitments	Level 2	\$15,033	7,335
Forward contracts	Level 2	\$(6,315)	1,444
Mortgage servicing rights	Level 3	\$18,242	11,455
Lennar Homebuilding:			
Investments available-for-sale	Level 3	\$20,416	40,032
Rialto Investments Financial Assets:			
Loans held-for-sale (2)	Level 3	\$45,065	44,228
Credit default swaps	Level 2	\$1,219	788
Rialto Investments Financial Liabilities:			
Interest rate swaps and swap futures	Level 1	\$425	31
Credit default swaps	Level 2	\$646	318

The aggregate fair value of Lennar Financial Services loans held-for-sale of \$467.8 million at May 31, 2014 exceeds their aggregate principal balance of \$445.4 million by \$22.4 million. The aggregate fair value of loans (1) held-for-sale of \$414.2 million at November 30, 2013 exceeds their aggregate principal balance of \$399.0 million by \$15.3 million.

The aggregate fair value of Rialto Investments loans held-for-sale of \$45.1 million at May 31, 2014 exceeds their (2) aggregate principal balance of \$44.4 million by \$0.7 million. The aggregate fair value of loans held-for-sale of \$44.2 million at November 30, 2013 exceeds their aggregate principal balance of \$44.0 million by \$0.2 million.

The estimated fair values of the Company's financial instruments have been determined by using available market information and what the Company believes to be appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The following methods and assumptions are used by the Company in estimating fair values:

Lennar Financial Services loans held-for-sale— Fair value is based on independent quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics. 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 recognizes the fair value of its rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in Lennar Financial Services' loans held-for-sale as of May 31, 2014 and November 30, 2013. Fair value of servicing rights is determined based on actual sales of servicing rights on loans with similar characteristics.

Lennar Financial Services mortgage loan commitments— Fair value of commitments to originate loans is based upon the difference between the current value of similar loans and the price at which the Lennar Financial Services segment has committed to originate the loans. The fair value of commitments to sell loan contracts is the estimated amount that the Lennar Financial Services segment would receive or pay to terminate the commitments at the reporting date based on market prices for similar financial instruments. In addition, the Company recognizes the fair value of its rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of servicing rights is determined based on actual sales of servicing rights on loans with similar characteristics. The fair value of the mortgage loan commitments and related servicing rights is included in Lennar Financial Services' other assets as of May 31, 2014 and November 30, 2013.

Lennar Financial Services forward contracts— Fair value is based on quoted market prices for similar financial instruments.

Lennar Financial Services mortgage servicing rights — Lennar Financial Services records mortgage servicing rights when it sells loans on a servicing-retained basis, at the time of securitization or through the acquisition or assumption of the right to service a financial asset. The fair value of the mortgage servicing rights is calculated using third party valuations. The key assumptions, which are generally unobservable inputs, used in the valuation of the mortgage servicing rights include

mortgage prepayment rates, discount rates and delinquency rates. As of May 31, 2014, the key assumptions used in determining the fair value include a 12.3% mortgage prepayment rate, a 4.5% delinquency rate and a 12.0% discount rate.

Lennar Homebuilding investments available-for-sale— The fair value of these investments is based on third party valuations and/or estimated by the Company on the basis of discounted cash flows.

Rialto Investments loans held-for-sale— The fair value of loans held-for-sale is calculated from model-based techniques that use discounted cash flow assumptions and the Company's own estimates of CMBS spreads, market interest rate movements and the underlying loan credit quality. Loan values are calculated by allocating the change in value of an assumed CMBS capital structure to each loan. The value of an assumed CMBS capital structure is calculated, generally, by discounting the cash flows associated with each CMBS class at market interest rates and at the Company's own estimate of CMBS spreads. The Company estimates CMBS spreads by observing the pricing of recent CMBS offerings, secondary CMBS markets, changes in the CMBX index, and general capital and commercial real estate market conditions. Considerations in estimating CMBS spreads include comparing the Company's current loan portfolio with comparable CMBS offerings containing loans with similar duration, credit quality and collateral composition. These methods use unobservable inputs in estimating a discount rate that is used to assign a value to each loan. While the cash payments on the loans are contractual, the discount rate used and assumptions regarding the relative size of each class in the CMBS capital structure can significantly impact the valuation. Therefore, the estimates used could differ materially from the fair value determined when the loans are sold to a securitization trust.

Rialto Investments interest rate swaps and swap futures— The fair value of interest rate swaps and swap futures (derivatives) is based on quoted market prices for identical investments traded in active markets.

Rialto Investments credit default swaps— The fair value of credit default swaps (derivatives) is based on quoted market prices for similar investments traded in active markets.

Gains (losses) of Lennar Financial Services financial instruments measured at fair value from initial measurement and subsequent changes in fair value are recognized in the Lennar Financial Services segment's operating earnings. Gains (losses) of Rialto financial instruments measured at fair value are recognized in the Rialto segment's operating earnings. Gains (losses) related to the Lennar Homebuilding investments available-for-sale during the six months ended May 31, 2014 and 2013 were deferred as a result of the Company's continuing involvement in the underlying real estate collateral, thus no gains (losses) were recognized during the six months ended May 31, 2014 and 2013. The changes in fair values for Level 1 and Level 2 financial instruments measured on a recurring basis that are included in operating earnings are shown, by financial instrument and financial statement line item below:

(In thousands)	Three Months Ended May 31,		Six Months Ended May 31,	
	2014	2013	2014	2013
Changes in fair value included in Lennar Financial Services revenues:				
Loans held-for-sale	\$8,392	(6,624)	7,152	(17,404)
Mortgage loan commitments	\$4,904	(6,189)	7,698	(6,894)
Forward contracts	\$(2,038)	17,549	(7,759)	17,991
Changes in fair value included in Rialto Investments revenues:				
Financial Assets:				
Credit default swaps	\$(369)	—	431	—
Financial Liabilities:				
Interest rate swaps and swap futures	\$42	—	(394)	—
Credit default swaps	\$500	—	(328)	—

Interest income on Lennar Financial Services loans held-for-sale and Rialto Investments loans held-for-sale measured at fair value is calculated based on the interest rate of the loan and recorded as revenues in the Lennar Financial Services' statement of operations and Rialto Investments' statement of operations, respectively.

The Lennar Financial Services segment uses mandatory mortgage-backed securities ("MBS") forward commitments, option contracts and investor commitments to hedge its 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 the Company's counterparties to investment banks, federally regulated bank affiliates and other investors meeting the Company's credit standards. The segment's 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

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contracts. At May 31, 2014, the segment had open commitments amounting to \$666.0 million to sell MBS with varying settlement dates through August 2014.

The following table represents a reconciliation of the beginning and ending balance for the Financial Services Level 3 recurring fair value measurements (mortgage servicing rights) included in the Lennar Financial Services segment's other assets:

	Three Months Ended		Six Months Ended	
	May 31,		May 31,	
	2014	2013	2014	2013
Mortgage servicing rights, beginning of period	\$11,955	5,399	11,455	4,749
Purchases and retention of mortgage servicing rights (1)	6,808	623	7,968	1,273
Changes in fair value (2)	(521)	1,285	(1,181)	1,285
Mortgage servicing rights, end of period	\$18,242	7,307	18,242	7,307

(1) For both the three and six months ended May 31, 2014, purchases and retention of mortgage servicing rights include the \$5.9 million acquisition of a portfolio of mortgage servicing rights.

(2) Amount represents changes in fair value included in Lennar Financial Services revenues.

The following table represents a reconciliation of the beginning and ending balance for the Lennar Homebuilding Level 3 recurring fair value measurements (investments available-for-sale) included in the Lennar Homebuilding segment's other assets:

(In thousands)	Three Months Ended		Six Months Ended	
	May 31,		May 31,	
	2014	2013	2014	2013
Investments available-for-sale, beginning of period	\$59,880	31,818	40,032	19,591
Purchases and other (1)	5,280	—	21,274	12,227
Sales	(44,579)	—	(44,579)	—
Changes in fair value (2)	222	1,520	5,150	1,520
Settlements (3)	(387)	—	(1,461)	—
Investments available-for-sale, end of period	\$20,416	33,338	20,416	33,338

(1) Represents investments in community development district bonds that mature at various dates between 2037 and 2039.

(2) The changes in fair value were not included in other comprehensive income because the changes in fair value were deferred as a result of the Company's continuing involvement in the underlying real estate collateral.

The investments available-for-sale that were settled during the three and six months ended May 31, 2014 related to (3) investments in community development district bonds, which were in default by the borrower and regarding which the Company redeemed the bonds.

The following table represents a reconciliation of the beginning and ending balance for Rialto Investments Level 3 recurring fair value measurements (loans held-for-sale):

(In thousands)	Three	Six Months
	Months	Ended
	Ended	Ended
	May 31,	May 31,
	2014	2014
Rialto Investments loans held-for-sale, beginning of period	\$86,857	44,228
Loan originations	396,648	692,156
Origination loans sold, including those not settled	(438,498)	(691,536)
Interest and principal paydowns	370	(24)
Changes in fair value (1)	(312)	241
Rialto Investments loans held-for-sale, end of period	\$45,065	45,065

(1) Amount represents changes in fair value included in Rialto Investments revenues.

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 and Rialto Investments real estate owned assets. The fair values included in the tables below represent only those assets whose carrying value were adjusted to fair value during the respective periods disclosed. The assets measured at fair value on a nonrecurring basis are summarized below:

Non-financial assets	Fair Value Hierarchy	Fair Value Three Months Ended May 31, 2014	Total Losses (1)
(In thousands)			
Rialto Investments:			
REO - held-for-sale (2)	Level 3	\$ 10,007	(1,032)
REO - held-and-used, net (3)	Level 3	\$ 27,998	(7,242)

(1) Represents losses from acquisitions of real estate through foreclosure including REO impairments recorded during the three months ended May 31, 2014.

REO held-for-sale, assets are initially recorded at fair value less estimated costs to sell at the time of transfer. Upon transfer, the REO held-for-sale, had a carrying value of \$6.6 million and a fair value of \$6.2 million. The fair value (2) of REO held-for-sale, is based upon the appraised value at the time of transfer or management's best estimate. The losses upon transfer of REO held-for-sale, were \$0.4 million. As part of management's periodic valuations of its REO held-for-sale, during the