LENNAR CORP /NEW/
Form 10-Q
April 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 2013
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)	95-4337490 (I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý 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 ý 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 ý	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 ý

Common stock outstanding as of March 31, 2013:
Class A 161,082,667
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)

	February 28, 2013 (1)	November 30, 2012 (1)
ASSETS		
Lennar Homebuilding:		
Cash and cash equivalents	$1,112,728	1,146,867
Restricted cash	8,085	8,096
Receivables, net	58,175	53,745
Inventories:		
Finished homes and construction in progress	1,945,434	1,625,048
Land and land under development	3,341,069	3,119,804
Consolidated inventory not owned	325,473	326,861
Total inventories	5,611,976	5,071,713
Investments in unconsolidated entities	577,342	565,360
Other assets	973,565	956,070
	8,341,871	7,801,851
Rialto Investments:		
Cash and cash equivalents	64,188	105,310
Defeasance cash to retire notes payable	4,655	223,813
Loans receivable, net	406,207	436,535
Real estate owned, held-for-sale	178,678	134,161
Real estate owned, held-and-used, net	547,273	601,022
Investments in unconsolidated entities	106,609	108,140
Other assets	34,623	38,379
	1,342,233	1,647,360
Lennar Financial Services	748,165	912,995
Total assets	$10,432,269	10,362,206

(1) Under certain provisions of Accounting Standards Codification ("ASC") Topic 810, Consolidations, ("ASC 810") the Company is required to separately disclose on its condensed consolidated balance sheets the assets 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 February 28, 2013, total assets include $1,837.4 million related to consolidated VIEs of which $15.9 million is included in Lennar Homebuilding cash and cash equivalents, $6.0 million in Lennar Homebuilding receivables, net, $65.6 million in Lennar Homebuilding finished homes and construction in progress, $485.6 million in Lennar Homebuilding land and land under development, $65.9 million in Lennar Homebuilding consolidated inventory not owned, $44.5 million in Lennar Homebuilding investments in unconsolidated entities, $223.2 million in Lennar Homebuilding other assets, $63.3 million in Rialto Investments cash and cash equivalents, $4.7 million in Rialto Investments defeasance cash to retire notes payable, $318.5 million in Rialto Investments loans receivable, net, $115.3 million in Rialto Investments real estate owned, held-for-sale, $422.8 million in Rialto Investments real estate owned, held-and-used, net $0.6 million in Rialto Investments in unconsolidated entities and $5.5 million in Rialto Investments other assets.

As of November 30, 2012, total assets include $2,128.6 million related to consolidated VIEs of which $13.2 million is included in Lennar Homebuilding cash and cash equivalents, $6.0 million in Lennar Homebuilding receivables, net,

$57.4 million in Lennar Homebuilding finished homes and construction in progress, $482.6 million in Lennar Homebuilding land and land under development, $65.2 million in Lennar Homebuilding consolidated inventory not owned, $43.7 million in Lennar Homebuilding investments in unconsolidated entities, $224.1 million in Lennar Homebuilding other assets, $104.8 million in Rialto Investments cash and cash equivalents, $223.8 million in Rialto Investments defeasance cash to retire notes payable, $350.2 million in Rialto Investments loans receivable, net, $94.2 million in Rialto Investments real estate owned, held-for-sale, $454.9 million in Rialto Investments real estate owned, held-and-used, net, $0.7 million in Rialto Investments in unconsolidated entities and $7.8 million in Rialto Investments other assets.

See accompanying notes to condensed consolidated financial statements.

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

	February 28, 2013 (2)	November 30, 2012 (2)
LIABILITIES AND EQUITY		
Lennar Homebuilding:		
Accounts payable	$229,880	220,690
Liabilities related to consolidated inventory not owned	266,803	268,159
Senior notes and other debts payable	4,505,662	4,005,051
Other liabilities	600,569	635,524
	5,602,914	5,129,424
Rialto Investments:		
Notes payable and other liabilities	285,166	600,602
Lennar Financial Services	474,549	630,972
Total liabilities	6,362,629	6,360,998
Stockholders' equity:		
Preferred stock	—	—
Class A common stock of $0.10 par value; Authorized: February 28, 2013 and November 30, 2012 - 300,000,000 shares; Issued: February 28, 2013 - 172,726,088 shares and November 30, 2012 -172,397,149 shares	17,273	17,240
Class B common stock of $0.10 par value; Authorized: February 28, 2013 and November 30, 2012 - 90,000,000 shares; Issued: February 28, 2013 - 32,982,815 shares and November 30, 2012 - 32,982,815 shares	3,298	3,298
Additional paid-in capital	2,436,078	2,421,941
Retained earnings	1,654,930	1,605,131
Treasury stock, at cost; February 28, 2013 - 11,702,017 Class A common shares and 1,679,620 Class B common shares; November 30, 2012 - 12,152,816 Class A common shares and 1,679,620 Class B common shares	(615,698)	(632,846)
Total stockholders' equity	3,495,881	3,414,764
Noncontrolling interests	573,759	586,444
Total equity	4,069,640	4,001,208
Total liabilities and equity	$10,432,269	10,362,206

(2) As of February 28, 2013, total liabilities include $435.3 million related to consolidated VIEs as to which there was no recourse against the Company, of which $10.1 million is included in Lennar Homebuilding accounts payable, $35.8 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, $186.7 million in Lennar Homebuilding senior notes and other debts payable, $14.5 million in Lennar Homebuilding other liabilities and $188.2 million in Rialto Investments notes payable and other liabilities.

As of November 30, 2012, total liabilities include $737.2 million related to consolidated VIEs as to which there was no recourse against the Company, of which $10.6 million is included in Lennar Homebuilding accounts payable, $35.9 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, $181.6 million in Lennar Homebuilding senior notes and other debts payable, $15.7 million in Lennar Homebuilding other liabilities and $493.4 million in Rialto Investments notes payable and other liabilities.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	February 28, 2013	February 29, 2012
Revenues:		
Lennar Homebuilding	$868,444	624,433
Lennar Financial Services	95,880	68,215
Rialto Investments	25,622	32,208
Total revenues	989,946	724,856
Costs and expenses:		
Lennar Homebuilding	778,674	584,745
Lennar Financial Services	79,778	59,965
Rialto Investments	31,771	33,370
Corporate general and administrative	31,270	26,842
Total costs and expenses	921,493	704,922
Lennar Homebuilding equity in earnings (loss) unconsolidated entities	(867)	1,083
Lennar Homebuilding other income, net	4,266	4,067
Other interest expense	(26,031)	(24,849)
Rialto Investments equity in earnings from unconsolidated entities	6,173	18,458
Rialto Investments other income (expense), net	1,327	(12,240)
Earnings before income taxes	53,321	6,453
Benefit for income taxes	3,637	1,524
Net earnings (including net loss attributable to noncontrolling interests)	$56,958	7,977
Less: Net loss attributable to noncontrolling interests (1)	(534)	(6,991)
Net earnings attributable to Lennar	$57,492	14,968
Basic earnings per share	$0.30	0.08
Diluted earnings per share	$0.26	0.08
Cash dividends per each Class A and Class B common share	$0.04	0.04
Comprehensive earnings attributable to Lennar	$57,492	14,968
Comprehensive loss attributable to noncontrolling interests	$(534)	(6,991)

(1) Net loss attributable to noncontrolling interests for the three months ended February 28, 2013 and February 29, 2012 includes ($0.3) million and ($4.3) million, respectively, related to the FDIC's interest in the portfolio of real estate loans that the Company acquired in partnership with the FDIC.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended February 28, 2013	February 29, 2012
Cash flows from operating activities:		
Net earnings (including net loss attributable to noncontrolling interests)	$56,958	7,977
Adjustments to reconcile net earnings (including net loss attributable to noncontrolling interests) to net cash used in operating activities:		
Depreciation and amortization	6,333	7,630
Amortization of discount/premium on debt, net	5,540	5,371
Lennar Homebuilding equity in (earnings) loss from unconsolidated entities	867	(1,083)
Distributions of earnings from Lennar Homebuilding unconsolidated entities	53	126
Rialto Investments equity in earnings from unconsolidated entities	(6,173)	(18,458)
Distributions of earnings from Rialto Investments unconsolidated entities	107	757
Share based compensation expense	6,486	8,161
Tax benefit from share-based awards	3,164	—
Excess tax benefits from share-based awards	(3,013)	—
Deferred income tax benefit	(7,730)	—
Gains on retirement of Lennar Homebuilding other debts payable	(1,000)	(988)
Unrealized and realized gains on Rialto Investments real estate owned	(10,136)	(5,831)
Impairments of Rialto Investments loans receivable and REO	7,885	4,748
Valuation adjustments and write-offs of option deposits and pre-acquisition costs	1,713	2,326
Changes in assets and liabilities:		
Decrease in restricted cash	417	773
(Increase) decrease in receivables	(240)	101,672
Increase in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs	(514,597)	(172,159)
(Increase) decrease in other assets	5,559	(1,183)
Decrease in Lennar Financial Services loans-held-for-sale	167,423	30,866
Decrease in accounts payable and other liabilities	(41,108)	(103,149)
Net cash used in operating activities	(321,492)	(132,444)
Cash flows from investing activities:		
Net (additions) disposals of operating properties and equipment	(1,261)	1,140
Investments in and contributions to Lennar Homebuilding unconsolidated entities	(14,708)	(26,810)
Distributions of capital from Lennar Homebuilding unconsolidated entities	17,456	9,897
Investments in and contributions to Rialto Investments unconsolidated entities	—	(7,294)
Distributions of capital from Rialto Investments unconsolidated entities	7,680	81
Decrease in Rialto Investments defeasance cash to retire notes payable	219,158	108,163
Receipts of principal payments on Rialto Investments loans receivable	18,434	33,549
Proceeds from sales of Rialto Investments real estate owned	34,451	37,868
Improvements to Rialto Investments real estate owned	(1,716)	(3,963)
Purchase of loans receivable	(5,250)	—
Purchases of Lennar Homebuilding investments available-for-sale	(15,417)	(2,408)
Proceeds from sales of Lennar Homebuilding investments available-for-sale	—	6,436
Decrease in Lennar Financial Services loans held-for-investment, net	446	447
Purchases of Lennar Financial Services investment securities	(13,357)	(1,150)

Proceeds from maturities of Lennar Financial Services investment securities	14,130	750
Net cash provided by investing activities	$260,046	156,706

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	February 28, 2013	February 29, 2012
Cash flows from financing activities:		
Net repayments under Lennar Financial Services debt	$(146,061)	(150,684)
Proceeds from senior notes	450,000	50,000
Debt issuance costs of senior notes and convertible senior notes	(4,730)	(1,035)
Principal repayments on Rialto Investments notes payable	(304,123)	(170,026)
Proceeds from other borrowings	58,092	28,090
Principal payments on other borrowings	(63,926)	(20,267)
Exercise of land option contracts from an unconsolidated land investment venture	(1,270)	(4,628)
Receipts related to noncontrolling interests	434	391
Payments related to noncontrolling interests	(12,585)	—
Excess tax benefits from share-based awards	3,013	—
Common stock:		
Issuances	21,668	10,761
Dividends	(7,693)	(7,562)
Net cash used in financing activities	(7,181)	(264,960)
Net decrease in cash and cash equivalents	(68,627)	(240,698)
Cash and cash equivalents at beginning of period	1,310,743	1,163,604
Cash and cash equivalents at end of period	$1,242,116	922,906
Summary of cash and cash equivalents:		
Lennar Homebuilding	$1,112,728	792,165
Lennar Financial Services	65,200	56,555
Rialto Investments	64,188	74,186
	$1,242,116	922,906
Supplemental disclosures of non-cash investing and financing activities:		
Lennar Homebuilding:		
Non-cash contributions to unconsolidated entities	$16,734	1,314
Inventory acquired in satisfaction of other assets including investments available-for-sale	$—	90,385
Non-cash purchases of investments available-for-sale	$—	12,520
Purchases of inventories and other assets financed by sellers	$59,821	49,615
Rialto Investments:		
Real estate owned acquired in satisfaction/partial satisfaction of loans receivable	$15,321	41,588

See accompanying notes to condensed consolidated financial statements.

Lennar Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

(1) Basis of Presentation

Basis of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Lennar Corporation and all subsidiaries, partnerships and other entities in which Lennar Corporation has a controlling interest and VIEs (see Note 15) in which Lennar Corporation is deemed to be the primary beneficiary (the “Company”). The Company’s investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary, are accounted for by the equity method. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended November 30, 2012. 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 months ended February 28, 2013 are not necessarily indicative of the results to be expected for the full year.

Rialto Management Fees Revenue

The Rialto Investments segment provides services to a variety of legal entities and investment vehicles such as funds, joint ventures, co-invests, and other private equity structures to manage their respective investments. As a result, Rialto earns and receives management fees, underwriting fees, due diligence fees and liquidation fees on asset resolutions. The management fees and other forms of compensation to Rialto vary on a deal by deal basis and can increase after meeting certain investment hurdles. Management fees related to the Rialto Investments segment are included in Rialto Investments revenue and are recorded when contract terms are met, fees are determinable and collectability is reasonably assured. We believe the way we record Rialto Investments' management fees revenue is a significant accounting policy because it is a significant portion of Rialto Investments segment's revenues and will continue to grow in the future as the segment manages more assets.

Reclassifications

Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform with the 2013 presentation. These reclassifications had no impact on the Company’s results of operations.

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

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.

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

Operations of the Rialto Investments (“Rialto”) segment include sourcing, underwriting, pricing, managing and ultimately monetizing real estate and real estate related assets, as well as providing similar services to others in markets across the country. Rialto’s operating earnings consists of revenues generated primarily from accretable interest income associated with portfolios of real estate loans acquired in partnership with the FDIC and other portfolios of real estate loans and assets acquired, asset management, due diligence and underwriting fees derived from the segment's Real Estate Investment Fund, LP (the “Fund I”), fees for sub-advisory services, other income (expense), net, consisting primarily of net gains upon foreclosure of real estate owned (“REO”) and net gains on sale of REO, and equity in earnings (loss) from unconsolidated entities, less the costs incurred by the segment for managing portfolios, REO expenses and other general administrative expenses.

Each reportable segment follows the same accounting policies described in Note 1 – “Summary of Significant Accounting Policies” to the consolidated financial statements in the Company’s 2012 Annual Report on Form 10-K.

Operational results of each segment are not necessarily indicative of the results that would have occurred had the segment been an independent, stand-alone entity during the periods presented.

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

(In thousands)	February 28, 2013	November 30, 2012
Assets:		
Homebuilding East	$1,640,261	1,565,439
Homebuilding Central	820,877	729,300
Homebuilding West	2,601,065	2,396,515
Homebuilding Southeast Florida	678,094	603,360
Homebuilding Houston	312,404	273,605
Homebuilding Other (1)	805,786	724,461
Rialto Investments (2)	1,342,233	1,647,360
Lennar Financial Services	748,165	912,995
Corporate and unallocated	1,483,384	1,509,171
Total assets	$10,432,269	10,362,206

(1) Includes assets related to the Company's multifamily business of $63.2 million and $29.1 million, respectively, as of February 28, 2013 and November 30, 2012.

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

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
Revenues:		
Homebuilding East	$288,892	244,833
Homebuilding Central	149,032	85,713
Homebuilding West	174,075	123,085
Homebuilding Southeast Florida	71,851	49,789
Homebuilding Houston	108,518	84,834
Homebuilding Other	76,076	36,179
Lennar Financial Services	95,880	68,215
Rialto Investments	25,622	32,208
Total revenues (1)	$989,946	724,856
Operating earnings (loss):		
Homebuilding East	$22,875	13,947
Homebuilding Central	13,957	1,064
Homebuilding West	12,603	(7,573)
Homebuilding Southeast Florida	9,408	6,634
Homebuilding Houston	9,506	4,516
Homebuilding Other	(1,211)	1,401
Lennar Financial Services	16,102	8,250
Rialto Investments	1,351	5,056
Total operating earnings	84,591	33,295
Corporate general and administrative expenses	31,270	26,842
Earnings before income taxes	$53,321	6,453

(1) Total revenues are net of sales incentives of $74.0 million ($23,300 per home delivered) for the three months ended February 28, 2013, compared to $84.5 million ($34,200 per home delivered) for the three months ended February 29, 2012.

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

	Three Months Ended	
	February 28,	February 29,
(In thousands)	2013	2012
Valuation adjustments to finished homes, CIP and land on which the Company intends to build homes:		
East	$49	217
Central	37	153
West	98	530
Southeast Florida	1,050	328
Houston	—	61
Other	21	736
Total	1,255	2,025
Valuation adjustments to land the Company intends to sell or has sold to third parties:		
East	83	—
Central	2	—
West	158	—
Total	243	—
Write-offs of option deposits and pre-acquisition costs:		
East	171	7
Central	26	49
West	18	232
Other	—	2
Total	215	290
Valuation adjustments to investments of unconsolidated entities:		
East	—	11
Total	—	11
Total valuation adjustments and write-offs of option deposits and pre-acquisition costs	$1,713	2,326

During the three months ended February 28, 2013, the Company recorded lower valuation adjustments than during the three months ended February 29, 2012. Changes in market conditions and other specific developments may cause the Company to re-evaluate its strategy regarding certain assets that could result in further valuation adjustments and/or additional write-offs of option deposits and pre-acquisition costs due to abandonment of those options contracts.

(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

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
Revenues	$81,224	82,644
Costs and expenses	81,637	83,422
Other income	13,361	—
Net earnings (loss) of unconsolidated entities	$12,948	(778)
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	$(867)	1,083

Balance Sheets

(In thousands)	February 28, 2013	November 30, 2012
Assets:		
Cash and cash equivalents	$167,418	157,340
Inventories	2,802,210	2,792,064
Other assets	183,024	250,940
	$3,152,652	3,200,344
Liabilities and equity:		
Accounts payable and other liabilities	$255,369	310,496
Debt	718,154	759,803
Equity	2,179,129	2,130,045
	$3,152,652	3,200,344

As of February 28, 2013 and November 30, 2012, the Company's recorded investments in Lennar Homebuilding unconsolidated entities were $577.3 million and $565.4 million, respectively, while the underlying equity in Lennar Homebuilding unconsolidated entities partners' net assets as of February 28, 2013 and November 30, 2012 was $690.6 million, and $681.6 million, respectively, primarily as a result of the Company buying its interest in a partner's equity in a Lennar Homebuilding unconsolidated entity at a discount to 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., 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 has remained on the Company's condensed consolidated balance sheet in consolidated inventory not owned. As of February 28, 2013 and November 30, 2012, the portfolio of land (including land development costs) of $255.8 million and $264.9 million, respectively, is also reflected as inventory in the summarized condensed financial information related to Lennar Homebuilding's unconsolidated entities.

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

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

(In thousands)	February 28, 2013	November 30, 2012
Several recourse debt - repayment	$40,773	48,020
Joint and several recourse debt - repayment	15,000	18,695
The Company’s maximum recourse exposure	55,773	66,715
Less: joint and several reimbursement agreements with the Company’s partners	(13,500)	(16,826)
The Company’s net recourse exposure	$42,273	49,889

During the three months ended February 28, 2013, the Company’s maximum recourse exposure related to indebtedness of Lennar Homebuilding unconsolidated entities decreased by $10.9 million primarily related to the joint ventures selling assets and other transactions.

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

(In thousands)	February 28, 2013	November 30, 2012
Assets	$1,811,292	1,843,163
Liabilities	$732,346	765,295
Equity	$1,078,946	1,077,868

In addition, in most instances in which the Company has guaranteed debt of a Lennar Homebuilding unconsolidated entity, the Company’s partners have also guaranteed that debt and are required to contribute their share of the guarantee payments. 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. The maintenance guarantees only apply if the value of the collateral (generally land and improvements) is less than a specified percentage of the loan balance. If the Company is required to make a payment under a maintenance guarantee to bring the value of the collateral above the specified percentage of the loan balance, the payment would constitute a capital contribution or loan to the Lennar Homebuilding unconsolidated entity and increase the Company’s investment in the unconsolidated entity and its share of any funds the unconsolidated entity distributes. As of both February 28, 2013 and November 30, 2012, the Company does not have any maintenance guarantees related to its Lennar Homebuilding unconsolidated entities.

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

During the three months ended February 28, 2013, there were no loan paydowns by Lennar relating to recourse debt. During the three months ended February 29, 2012, there were other loan paydowns of $3.4 million. During both the three months ended February 28, 2013 and February 29, 2012, there were no payments under completion guarantees. As of February 28, 2013, the fair values of the repayment guarantees and completion guarantees were not material.

The Company believes that as of February 28, 2013, in the event it becomes legally obligated to perform under a guarantee of the obligation of a Lennar Homebuilding unconsolidated entity due to a triggering event under a guarantee, most of the time the collateral should be sufficient to repay at least a significant portion of the obligation or the Company and its partners would contribute additional capital into the venture. In certain instances, the Company has placed performance letters of credit and surety bonds with municipalities for its joint ventures (see Note 11).

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

(In thousands)	February 28, 2013	November 30, 2012
The Company’s net recourse exposure	$42,273	49,889
Reimbursement agreements from partners	13,500	16,826
The Company’s maximum recourse exposure	$55,773	66,715
Non-recourse bank debt and other debt (partner’s share of several recourse)	$93,066	114,900
Non-recourse land seller debt or other debt	18,488	26,340
Non-recourse debt with completion guarantees	464,044	458,418
Non-recourse debt without completion guarantees	86,783	93,430
Non-recourse debt to the Company	662,381	693,088
Total debt	$718,154	759,803
The Company’s maximum recourse exposure as a % of total JV debt	8 %	9 %

(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 three months ended February 28, 2013 and February 29, 2012:

		Stockholders’ Equity					
(In thousands)	Total Equity	Class A Common Stock	Class B Common Stock	Additional Paid in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests
Balance at November 30, 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)	56,958	—	—	—	—	57,492	(534)
Employee stock and directors plans	21,668	33	—	4,487	17,148	—	—
Tax benefit from employee stock plans and vesting of restricted stock	3,164	—	—	3,164	—	—	—
Amortization of restricted stock	6,486	—	—	6,486	—	—	—
Cash dividends	(7,693)	—	—	—	—	(7,693)	—
Receipts related to noncontrolling interests	434	—	—	—	—	—	434
Payments related to noncontrolling interests	(12,585)	—	—	—	—	—	(12,585)
Balance at February 28, 2013	$4,069,640	17,273	3,298	2,436,078	(615,698)	1,654,930	573,759

Stockholders’ Equity

(In thousands)	Total Equity	Class A Common Stock	Class B Common Stock	Additional Paid in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests
Balance at November 30, 2011	$3,303,525	16,910	3,298	2,341,079	(621,220)	956,401	607,057
Net earnings (including net loss attributable to noncontrolling interests)	7,977	—	—	—	—	14,968	(6,991)
Employee stock and directors plans	11,646	46	—	6,078	5,522	—	—
Amortization of restricted stock	7,276	—	—	7,276	—	—	—
Cash dividends	(7,562)	—	—	—	—	(7,562)	—
Receipts related to noncontrolling interests	391	—	—	—	—	—	391
Balance at February 29, 2012	$3,323,253	16,956	3,298	2,354,433	(615,698)	963,807	600,457

The Company has a stock repurchase program which permits the purchase of up to 20 million shares of its outstanding common stock. During the three months ended February 28, 2013 and February 29, 2012, there were no repurchases of

common stock under the stock repurchase program. As of February 28, 2013, 6.2 million shares of common stock can be repurchased in the future under the program.
During three months ended February 28, 2013 and February 29, 2012, treasury stock decreased by 0.5 million and 0.3 million, respectively, in Class A common shares due to activity related to the Company's equity compensation plan.
(5) Income Taxes
A reduction of the carrying amounts of deferred tax assets by a valuation allowance is required, if based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed each reporting period by the Company based on the more-likely-than-not realization threshold criterion. In the assessment of the need for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, 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.
During the year ended November 30, 2012, the Company concluded that it was more likely than not that the majority of its deferred tax assets would be utilized. This conclusion was based on a detailed evaluation of all relevant evidence, both positive and negative as detailed in the Company's Form 10-K for the year ended November 30, 2012. Accordingly, the Company reversed a majority of its valuation allowance against its deferred tax assets. As of November 30, 2012, the Company had a valuation allowance of $88.8 million, primarily related to state net operating loss ("NOL") carryforwards.
During the three months ended February 28, 2013, the Company concluded that it was more likely than not that a portion of its state NOL carryforwards related to which a valuation allowance had been established would be utilized. This conclusion was based on additional positive evidence including actual and forecasted profitability. Accordingly, during the three months ended February 28, 2013, the Company reversed $25.1 million of its valuation allowance against its state NOL carryforwards. This reversal was partially offset by a tax provision of $21.5 million primarily related to pre-tax earnings during the three months ended February 28, 2013. Therefore, the Company had a $3.6 million net benefit for income taxes during the three months ended February 28, 2013. During the three months ended February 29, 2012, the Company recorded a tax benefit of $1.5 million, primarily related to a refund claim for certain losses carried back to a prior year. Based on an analysis utilizing objectively verifiable evidence, it was not more likely than not that certain state NOL carryforwards would be utilized due to an inability to carry back these losses in most states and short carryforward periods that exist in certain states. As a result, as of February 28, 2013, the Company had a valuation allowance of $63.7 million against its deferred tax assets, primarily related to state NOL carryforwards. In future periods, some or all of the remaining allowance could be reversed if additional sufficient positive evidence is present indicating that it is more likely than not that a portion or all of the Company's remaining deferred tax assets will be realized.
As of February 28, 2013, the Company's deferred tax assets, net, were $475.3 million, of which $481.2 million were deferred tax assets included in Lennar Homebuilding's other assets on the Company's condensed consolidated balance sheets and $5.9 million were deferred tax liabilities included in Lennar Financial Services segment's liabilities on the Company's condensed consolidated balance sheets.
At February 28, 2013 and November 30, 2012, the Company had federal tax effected NOL carryforwards totaling $279.7 million and $278.8 million, respectively, that may be carried forward up to 20 years to offset future taxable income and begin to expire in 2025. As of February 28, 2013, the Company needs to generate $1.0 billion of pre-tax earnings in future periods to realize all of its federal NOL carryforwards and federal deductible temporary tax differences. At February 28, 2013 and November, 30, 2012, the Company had state tax effected NOL carryforwards totaling $173.5 million and $173.6 million, respectively, that may be carried forward from 5 to 20 years, depending on the tax jurisdiction, with losses expiring between 2013 and 2032. As of February 28, 2013, state NOL carryforwards totaling $7.9 million may expire over the next twelve months if sufficient taxable income is not generated to utilize the net operating losses. At February 28, 2013 and November, 30, 2012, the Company had a valuation allowance of $59.5 million and $84.6 million, respectively, 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 February 28, 2013 and November 30, 2012, the Company had $8.8 million and $12.3 million of gross unrecognized tax benefits. If the Company were to recognize its gross unrecognized tax benefits as of February 28, 2013, $5.7 million would affect the Company’s effective tax rate. The Company expects the total amount of unrecognized tax benefits to decrease by $1.6 million within twelve months as a result of anticipated settlements with various taxing authorities.

During the three months ended February 28, 2013, the Company’s gross unrecognized tax benefits decreased by $3.5 million primarily as a result of state tax payments resulting from a previously settled IRS examination. The decrease in gross unrecognized tax benefits had no effect on the Company's effective tax rate, which was (6.75%). As a result of the partial reversal of the valuation allowance against the Company's deferred tax assets, the effective tax rate is not reflective of the Company's historical tax rate.

At February 28, 2013, the Company had $18.1 million accrued for interest and penalties, of which $0.4 million was recorded during the three months ended February 28, 2013. During the three months ended February 28, 2013, the accrual for interest and penalties was reduced by $2.8 million primarily as a result of the payment of interest related to state tax payments resulting from a previously settled IRS examination. At November 30, 2012, the Company had $20.5 million accrued for interest and penalties.

The IRS is currently examining the Company's federal income tax return for fiscal year 2011 and certain state taxing authorities are examining various fiscal years. The final outcome of these examinations is not yet determinable. The statute of limitations for the Company's major tax jurisdictions remains open for examination for fiscal year 2005 and subsequent years. The Company participates in the Compliance Assurance Process, "CAP," an IRS examination program. This program operates as a contemporaneous exam throughout the year in order to keep exam cycles current and achieve a higher level of compliance.

(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:

	Three Months Ended	
(In thousands, except per share amounts)	February 28, 2013	February 29, 2012
Numerator:		
Net earnings attributable to Lennar	$57,492	14,968
Less: distributed earnings allocated to nonvested shares	102	115
Less: undistributed earnings allocated to nonvested shares	664	113
Numerator for basic earnings per share	56,726	14,740
Plus: interest on 2.00% convertible senior notes due 2020 and 3.25% convertible senior notes due 2021	2,826	2,911
Plus: undistributed earnings allocated to convertible shares	662	113
Less: undistributed earnings reallocated to convertible shares	588	137
Numerator for diluted earnings per share	$59,626	17,627
Denominator:		
Denominator for basic earnings per share - weighted average common shares outstanding	189,548	185,997
Effect of dilutive securities:		
Shared based payments	573	883
Convertible senior notes	35,896	26,933
Denominator for diluted earnings per share - weighted average common shares outstanding	226,017	213,813
Basic earnings per share	$0.30	0.08

Diluted earnings per share	$0.26	0.08

For the three months ended February 28, 2013, there were no options to purchase shares of Class A stock that were outstanding and anti-dilutive. For three months ended February 29, 2012, options to purchase 0.3 million shares of Class A stock 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)	February 28, 2013	November 30, 2012
Assets:		
Cash and cash equivalents	$65,200	58,566
Restricted cash	12,566	12,972
Receivables, net (1)	171,580	172,230
Loans held-for-sale (2)	334,658	502,318
Loans held-for-investment, net	23,593	23,982
Investments held-to-maturity	62,746	63,924
Goodwill	34,046	34,046
Other (3)	43,776	44,957
	$748,165	912,995
Liabilities:		
Notes and other debts payable	$311,933	457,994
Other (4)	162,616	172,978
	$474,549	630,972

(1) Receivables, net primarily relate to loans sold to investors for which the Company had not yet been paid as of February 28, 2013 and November 30, 2012, respectively.

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

(3) Other assets include mortgage loan commitments carried at fair value of $12.0 million and $12.7 million as of February 28, 2013 and November 30, 2012, respectively.

(4) Other liabilities include $75.7 million and $76.1 million as of February 28, 2013 and November 30, 2012, 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 $2.1 million and $2.6 million as of February 28, 2013 and November 30, 2012, respectively.

At February 28, 2013, the Lennar Financial Services segment had a 364-day warehouse repurchase facility with a maximum aggregate commitment of $100 million and an additional uncommitted amount of $100 million that matures in February 2014, a 364-day warehouse repurchase facility with a maximum aggregate commitment of $200 million that matures in July 2013, a 364-day warehouse repurchase facility with a maximum aggregate commitment of $150 million that matures February 2014 (plus a $100 million accordion feature that is usable from 10 days prior to quarter-end through 20 days after quarter-end) and a 364-day warehouse facility with a maximum aggregate commitment of $60 million, that matures November 2013. As of February 28, 2013, the maximum aggregate commitment and uncommitted amount under these facilities totaled $610 million and $100 million, respectively.

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 were $311.9 million and $458.0 million at February 28, 2013 and November 30, 2012, respectively, and were collateralized by mortgage loans and receivables on loans sold to investors but not yet paid for with outstanding principal balances of $405.7 million and $509.1 million at February 28, 2013 and November 30, 2012, 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.

Substantially all of the loans the Lennar Financial Services segment originates are sold within a short period in the secondary mortgage market on a servicing released, non-recourse basis. After the loans are sold, the Company retains potential liability for possible claims by purchasers that it breached certain limited industry-standard representations and warranties in the loan sale agreement. There has been an increased industry-wide effort by purchasers to defray their losses during the 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 condensed consolidated balance sheets. The activity in the Company's loan origination liabilities was as follows:

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
Loan origination liabilities, beginning of period	$7,250	6,050
Provision for losses during the period	413	93
Adjustments to pre-existing provisions for losses from changes in estimates	96	8
Payments/settlements	(153)	(190)
Loan origination liabilities, end of period	$7,606	5,961

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 as of February 28, 2013 and November 30, 2012 was $7.8 million and $7.3 million, respectively. At February 28, 2013, the recorded investment in the impaired loans with a valuation allowance was $3.4 million, net of an allowance of $4.4 million. At November 30, 2012, the recorded investment in the impaired loans with a valuation allowance was $2.9 million, net of an allowance of $4.4 million. The average recorded investment in impaired loans totaled $3.2 million and $3.6 million for the three months ended February 28, 2013 and February 29, 2012.

(8) Rialto Investments Segment

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

(In thousands)	February 28, 2013	November 30, 2012
Assets:		
Cash and cash equivalents	$64,188	105,310
Defeasance cash to retire notes payable	4,655	223,813
Loans receivable, net	406,207	436,535
Real estate owned - held-for-sale	178,678	134,161
Real estate owned - held-and-used, net	547,273	601,022
Investments in unconsolidated entities	106,609	108,140
Investments held-to-maturity	15,262	15,012
Other	19,361	23,367
	$1,342,233	1,647,360
Liabilities:		
Notes payable	$270,357	574,480
Other	14,809	26,122
	$285,166	600,602

Rialto's operating earnings were as follows:

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
Revenues	$25,622	32,208
Costs and expenses	31,771	33,370
Rialto Investments equity in earnings from unconsolidated entities	6,173	18,458
Rialto Investments other income (expense), net	1,327	(12,240)
Operating earnings (1)	$1,351	5,056

(1) Operating earnings for the three months ended February 28, 2013 and February 29, 2012 include net loss attributable to noncontrolling interests of ($0.3) million and ($4.3) million, respectively.

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

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
Realized gains on REO sales, net	$8,671	42
Unrealized gains on transfer of loans receivable to REO, net	670	1,952
REO expenses	(12,556)	(18,074)
Rental income	4,542	3,840
Rialto Investments other income (expense), net	$1,327	(12,240)

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. The LLCs hold performing and non-performing loans formerly owned by 22 failed financial institutions and when the Rialto segment acquired its interests in the LLCs, the two portfolios consisted of approximately 5,500 distressed residential and commercial real estate loans ("FDIC Portfolios"). The FDIC retained 60% equity interests in the LLCs and provided $626.9 million of financing with 0% interest, which is non-recourse to the Company and the LLCs. As of February 28, 2013 and November 30, 2012, the notes payable balance was $167.2 million and $470.0 million, respectively; however, as of February 28, 2013 and November 30, 2012, $4.7 million and $223.8 million, respectively, of cash collections on loans in excess of expenses were deposited in a defeasance account, established for the repayment of the notes payable, under the agreement with the FDIC. The funds in the defeasance account are being and will be used to retire the notes payable upon their maturity. During the three months ended February 28, 2013, the LLCs retired $302.8 million principal amount of the notes payable under the agreement with the FDIC through the defeasance account. In February 2013, the Rialto segment and the FDIC entered into a forbearance agreement whereby the FDIC temporarily waived its right to reissue a new purchase money note for the remaining $11.2 million balance of the portion of the notes payable that was due on February 25, 2013 until July 25, 2013. This forbearance does not meet the definition of an extension in the financing agreement and thus, no triggering event is deemed to have occurred. The Company agreed to disburse all available funds in the defeasance account on a monthly basis to the FDIC until the remaining $11.2 million balance of the portion of the notes payable that was due on February 25, 2013 was paid in full, but no later than July 25, 2013. In March 2013, the Company paid the remaining balance of the notes payable that was due on February 25, 2013 with cash disbursed from the defeasance account.

The LLCs met the accounting definition of VIEs and since the Company was determined to be the primary beneficiary, the Company consolidated the LLCs. At February 28, 2013, these consolidated LLCs had total combined assets and liabilities of $930.7 million and $188.2 million, respectively. At November 30, 2012, these consolidated LLCs had total combined assets and liabilities of $1,236.4 million and $493.4 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 of which $33.0 million of principal amount was retired in 2012.

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

(In thousands)	February 28, 2013	November 30, 2012
Land	$202,094	216,095
Single family homes	82,999	93,207
Commercial properties	89,512	96,226
Multi-family homes	17,200	12,776
Other	14,402	18,231
Loans receivable	$406,207	436,535

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.

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

(In thousands)	February 28, 2013	November 30, 2012
Outstanding principal balance	$766,840	812,187
Carrying value	$372,105	396,200

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The activity in the accretable yield for the FDIC Portfolios and Bank Portfolios during the three months ended February 28, 2013 and February 29, 2012 were as follows:

(In thousands)	February 28, 2013	February 29, 2012
Accretable yield, beginning of period	$112,899	209,480
Additions	18,949	1,838
Deletions	(19,915)	(10,635)
Accretions	(13,845)	(21,403)
Accretable yield, end of period	$98,088	179,280

Additions primarily represent reclasses from nonaccretable yield to accretable yield on the portfolios. Deletions represent loan impairments 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:

February 28, 2013

		Recorded Investment		
(In thousands)	Unpaid Principal Balance	With Allowance	Without Allowance	Total Recorded Investment
Land	$8,659	2,429	1,321	3,750
Single family homes	17,748	6,730	2,316	9,046
Commercial properties	32,638	692	20,614	21,306
Loans receivable	$59,045	9,851	24,251	34,102

November 30, 2012

		Recorded Investment		
(In thousands)	Unpaid Principal Balance	With Allowance	Without Allowance	Total Recorded Investment
Land	$23,163	4,983	2,844	7,827
Single family homes	18,966	8,311	2,244	10,555
Commercial properties	35,996	1,006	20,947	21,953
Loans receivable	$78,125	14,300	26,035	40,335

The average recorded investment in impaired loans totaled approximately $37 million and $69 million for the three months ended February 28, 2013 and February 29, 2012, 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. As of February 28, 2013, the Company had an allowance on these loans of $16.9 million. During the three months ended February 28, 2013, the Company recorded $6.1 million of provision for loan losses offset by charge-offs of $1.4 million upon resolution of the loans. As of November 30, 2012, the Company had an allowance on these loans of $12.2 million. During the three months ended February 29, 2012, the Company did not record any provision for loan losses or charge-offs on these loans.

Nonaccrual — Loans in which forecasted principal and interest could not be reasonably estimated at the date of acquisition. Although the Company believes the recorded investment balance will ultimately be realized, 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. As of February 28, 2013 and November 30, 2012, the Company had an allowance on these loans of $1.7 million and $3.7 million, respectively. During the three months ended February 28, 2013 and February 29, 2012, the Company recorded $1.0 million and $0.9 million, respectively, of provision for loan losses offset by charge-offs of $3.0 million and $1.6 million, respectively, upon foreclosure of the loans.

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

February 28, 2013

(In thousands)	Accrual	Nonaccrual	Total
Land	$198,344	3,750	202,094
Single family homes	73,953	9,046	82,999
Commercial properties	68,206	21,306	89,512
Multi-family homes	17,200	—	17,200
Other	14,402	—	14,402
Loans receivable	$372,105	34,102	406,207

November 30, 2012

(In thousands)	Accrual	Nonaccrual	Total
Land	$208,268	7,827	216,095
Single family homes	82,652	10,555	93,207
Commercial properties	74,273	21,953	96,226
Multi-family homes	12,776	—	12,776
Other	18,231	—	18,231
Loans receivable	$396,200	40,335	436,535

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 suggest 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.

Upon the acquisition of REO through loan foreclosure, gains and losses are recorded in Rialto Investments other income (expense), net. The amount by which the recorded investment in the loan is less than the REO's fair value (net of estimated cost to sell if held-for-sale), is recorded as an unrealized gain upon foreclosure. The amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held-for-sale) is generally recorded as a provision for loan losses.

At times, the Company may foreclose on a loan from an accrual loan pool in which the removal of the loan does not cause an overall decrease in the expected cash flows of the loan pool, and as such, no provision for loan losses is required to be recorded. However, the amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held-for-sale) is recorded as an unrealized loss upon foreclosure.

The following tables present the activity in REO:

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
REO - held-for-sale, beginning of period	$134,161	143,677
Additions	594	1,134
Improvements	1,016	3,963
Sales	(25,780)	(36,844)
Impairments	(699)	(1,240)
Transfers to/from held-and-used, net (1)	69,386	(9,111)
REO - held-for-sale, end of period	$178,678	101,579

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
REO - held-and-used, net, beginning of period	$601,022	582,111
Additions	16,192	46,241
Improvements	700	—
Sales	—	(981)
Impairments	(96)	(2,597)
Depreciation	(1,159)	(3,315)
Transfers to/from held-for-sale (1)	(69,386)	9,111
REO - held-and-used, net, end of period	$547,273	630,570

(1) During the three months ended February 28, 2013 and February 29, 2012, the Rialto segment transferred certain properties to/from REO held-and-used, net to/from REO held-for-sale as a result of changes in the disposition strategy of the real estate assets.

For the three months ended February 28, 2013, the Company recorded $8.7 million of net gains from sales of REO. For the three months ended February 28, 2013 and February 29, 2012, the Company recorded net gains of $1.5 million and $5.8 million, respectively, from acquisitions of REO through foreclosure. These net gains are recorded in Rialto Investments other income (expense), net.

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. The CMBS 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 months ended February 28, 2013 and February 29, 2012.The carrying value of the investment securities at February 28, 2013 and November 30, 2012, was $15.3 million and $15.0 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 2010, 2011 and 2012, the Rialto segment obtained investors in Fund I who made equity commitments of $700 million (including $75 million committed by the Company). All capital commitments have been called and funded, and Fund I is closed to additional commitments. Fund I was determined to have the attributes of an investment company in accordance with ASC 946, Financial Services – Investment Companies, 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, Fund I's assets and liabilities are recorded at fair value with increases/decreases in fair value recorded in the statement of operations of Fund I, the

Company’s share of which are recorded in the Rialto Investments equity in earnings from unconsolidated entities financial statement line item.

During the three months ended February 28, 2013, the Company received distributions of $7.7 million as a return of capital. During the three months ended February 29, 2012, the Company contributed $7.3 million to Fund I. As of February 28, 2013 and November 30, 2012, the carrying value of the Company’s investment in Fund I was $97.6 million and $98.9 million, respectively. For the three months ended February 28, 2013 and February 29, 2012, the Company’s share of earnings from Fund I was $6.4 million and $7.6 million, respectively.

Additionally, another subsidiary in the Rialto segment has approximately a 5% investment in a service and infrastructure provider to the residential home loan market (the “Servicer Provider”), which provides services to the consolidated LLCs, among others. As of both February 28, 2013 and November 30, 2012, the carrying value of the Company’s investment in the Servicer Provider was $8.4 million.

In December 2012, the Rialto segment completed the first closing of and Real Estate Fund II, LP ("Fund II") with initial equity commitments of approximately $260 million, including $100 million committed by the Company. No cash was funded at the time of the closing. Fund II's objective during its three-year investment period is to invest in distressed real estate assets and other related investments that fit Fund II's investment parameters. In March 2013, $75 million of the $260 million in equity commitments was called, of which, the Company contributed its portion of approximately $29 million.

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)	February 28, 2013	November 30, 2012
Assets:		
Cash and cash equivalents	$82,820	299,172
Loans receivable	388,033	361,286
Real estate owned	187,413	161,964
Investment securities	234,505	182,399
Investments in real estate partnerships	127,931	72,903
Other assets	182,528	199,839
	$1,203,230	1,277,563
Liabilities and equity:		
Accounts payable and other liabilities	$145,115	155,928
Notes payable	80,213	120,431
Partner loans	163,516	163,516
Equity	814,386	837,688
	$1,203,230	1,277,563

Statements of Operations

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
Revenues	$53,343	122,405
Costs and expenses	59,114	51,185
Other income, net (1)	56,001	266,440
Net earnings of unconsolidated entities	$50,230	337,660
Rialto Investments equity in earnings from unconsolidated entities	$6,173	18,458

(1) Other income, net, for the three months ended February 29, 2012 includes the AB PPIP Fund's mark-to-market unrealized gains and unrealized losses, all of which the Company’s portion is a small percentage.

(9) Lennar Homebuilding Cash and Cash Equivalents

Cash and cash equivalents as of February 28, 2013 and November 30, 2012 included $134.1 million and $193.0 million, respectively, of cash held in escrow for approximately three days.

(10) 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.

(11) Lennar Homebuilding Senior Notes and Other Debts Payable

(Dollars in thousands)	February 28, 2013	November 30, 2012
5.95% senior notes due 2013	$62,932	62,932
5.50% senior notes due 2014	249,294	249,294
5.60% senior notes due 2015	500,651	500,769
6.50% senior notes due 2016	249,868	249,851
4.75% senior notes due 2017	400,000	400,000
12.25% senior notes due 2017	394,871	394,457
4.125% senior notes due 2018	274,995	—
6.95% senior notes due 2018	248,017	247,873
2.00% convertible senior notes due 2020	276,500	276,500
2.75% convertible senior notes due 2020	405,331	401,787
3.25% convertible senior notes due 2021	400,000	400,000
4.750% senior notes due 2022	521,628	350,000
Mortgages notes on land and other debt	521,575	471,588
	$4,505,662	4,005,051

At February 28, 2013, the Company had a $150 million Letter of Credit and Reimbursement Agreement ("LC Agreement") with certain financial institutions, which may be increased to $200 million, but for which there are currently no commitments for the additional $50 million. In addition, at February 28, 2013, the Company also had a $50 million Letter of Credit and Reimbursement Agreement with certain financial institutions that had a $50 million accordion feature for which there are currently no commitments, and a $200 million Letter of Credit Facility with a financial institution. Additionally, in May 2012, the Company entered into a 3-year unsecured revolving credit facility (the "Credit Facility") with certain financial institutions that expires in May 2015. As of February 28, 2013, the maximum aggregate commitment under the Credit Facility was $525 million, of which $500 million was committed and $25 million was available through an accordion feature, subject to additional commitments. As of February 28, 2013, the Company had no outstanding borrowings under the Credit Facility. The Company believes it was in compliance with its debt covenants at February 28, 2013.

The Company’s performance letters of credit outstanding were $115.8 million and $107.5 million, respectively, at February 28, 2013 and November 30, 2012. The Company’s financial letters of credit outstanding were $209.0 million and $204.7 million, respectively, at February 28, 2013 and November 30, 2012. Performance letters of credit are generally posted with regulatory bodies to guarantee the Company’s performance of certain development and construction activities, and financial letters of credit are generally posted in lieu of cash deposits on option contracts, for insurance risks, credit enhancements and as other collateral. Additionally, at February 28, 2013, the Company had outstanding performance and surety bonds related to site improvements at various projects (including certain projects in the Company’s joint ventures) of $614.7 million. Although significant development and construction activities have been completed related to these site improvements, these bonds are generally not released until all development and construction activities are completed. As of February 28, 2013, there were approximately $360.6 million, or 59%, 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.

During the three months ended February 28, 2013, the Company issued $275 million aggregate principal amount of 4.125% senior notes due 2018 (the "4.125% Senior Notes") at a price of 99.998% in a private placement and an additional $175 million aggregate principal amount of its 4.750% senior notes due 2022 ("4.750% Senior Notes") at a price of 98.073% in a private placement. Proceeds from the offerings, after payment of expenses, were $272.0 million and $172.2 million, respectively. The Company will use the net proceeds of the sale of the 4.125% Senior Notes and the 4.750% Senior Notes for working capital and general corporate purposes, which may include repayment or repurchase of its other outstanding senior notes. Interest on the 4.125% Senior Notes is due semi-annually beginning September 15, 2013. The 4.125% Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries. Interest on the 4.750% Senior Notes is due semi-annually beginning May 15, 2013. The 4.750% Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries. At February 28, 2013, the carrying amount of the 4.125% Senior Notes was $275.0 million. At February 28, 2013 and November 30, 2012, the carrying amount of the 4.750% Senior Notes was $521.6 million and $350.0 million, respectively.

In November 2011, the Company issued $350 million aggregate principal amount of 3.25% convertible senior notes due 2021 (the “3.25% Convertible Senior Notes”). During the three months ended February 29, 2012, the initial purchasers of the 3.25% Convertible Senior Notes purchased an additional $50 million aggregate principal amount to cover over-allotments. At both February 28, 2013 and November 30, 2012, the carrying and principal amount of 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 Class A common shares 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. Holders of the 3.25% Convertible Senior Notes have the right to require the Company to repurchase them for cash equal to 100% of their principal amount, plus accrued but unpaid interest on November 15, 2016. The Company has the right to redeem the 3.25% Convertible Senior Notes at any time on or after November 20, 2016 for 100% of their principal amount, plus accrued but unpaid interest. The 3.25% Convertible Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries.

The 2.75% convertible senior notes due 2020 (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. Prior to the second quarter of 2012, the shares were not historically included in the calculation of diluted earnings per share primarily because it is the Company’s intent to settle the face value of the 2.75% Convertible Senior Notes in cash and the Company's volume weighted average stock price did not exceed the conversion price. However, the Company’s volume weighted average stock price for the three months ended February 28, 2013 was $39.54, which exceeded the conversion price, thus 8.9 million shares 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 shares 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. Holders of the 2.75% Convertible Senior Notes have the right to require the Company to repurchase them for cash equal to 100% of their principal amount, plus accrued but unpaid interest, on December 15, 2015. The Company has the right to redeem the 2.75% Convertible Senior Notes at any time on or after December 20, 2015 for 100% of their principal amount, plus accrued but unpaid interest. 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 February 28, 2013 and November 30, 2012, the principal amount of the 2.75% Convertible Senior Notes was $446.0 million. At February 28, 2013 and November 30, 2012, the carrying amount of the equity component included in stockholders’ equity was $40.7 million and $44.2 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 $405.3 million and $401.8 million, respectively.

The 2.00% convertible senior notes due 2020 (the “2.00% Convertible Senior Notes”) are convertible into shares of Class A common stock at the initial conversion rate of 36.1827 shares of Class A common stock per $1,000 principal amount of the 2.00% Convertible Senior Notes or 10,004,517 Class A common shares if all the 2.00% Convertible Senior Notes are converted, which is equivalent to an initial conversion price of approximately $27.64 per share of Class A common stock, subject to anti-dilution adjustments. The shares are included in the calculation of diluted earnings per share. At both February 28, 2013 and November 30, 2012, the carrying and principal amount of the 2.00% Convertible Senior Notes was $276.5 million. Holders of the 2.00% Convertible Senior Notes have the right to require the Company to repurchase them for cash equal to 100% of their principal amount, plus accrued but unpaid interest, on each of December 1, 2013 and December 1, 2015. The Company has the right to redeem the 2.00% Convertible Senior Notes at any time on or after December 1, 2013 for

100% of their principal amount, plus accrued but unpaid interest. The 2.00% Convertible Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries. 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.

(12) Product Warranty

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

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
Warranty reserve, beginning of period	$84,188	88,120
Warranties issued during the period	8,759	6,855
Adjustments to pre-existing warranties from changes in estimates	2,949	1,367
Payments	(10,688)	(10,625)
Warranty reserve, end of period	$85,208	85,717

As of February 28, 2013, the Company has identified approximately 1,010 homes delivered in Florida primarily during its 2006 and 2007 fiscal years that are confirmed to have had defective Chinese drywall and resulting damage. This represents a small percentage of homes the Company delivered nationally (1.2%) during those fiscal years. Defective Chinese drywall is an industry-wide issue as other homebuilders have publicly disclosed that they have experienced similar issues with defective Chinese drywall. Based on its efforts to date, the Company has not identified defective Chinese drywall in homes delivered by the Company outside of Florida. The Company has offered to replace defective Chinese drywall when it has been found in homes the Company has built, and has done so in substantially all affected homes. Drywall claims for approximately 40 of the 1,010 homes will be resolved through settlement of the drywall multi-district class action litigation in the United States District Court for the Eastern District of Louisiana.

Through February 28, 2013, the Company has accrued $82.2 million of warranty reserves related to defective Chinese drywall. There were no additional amounts accrued during the three months ended February 28, 2013. As of February 28, 2013 and November 30, 2012, the warranty reserve related to Chinese drywall, net of payments, was $2.5 million and $2.9 million, respectively. The Company has received, and continues to seek, reimbursement from its subcontractors, insurers and others for costs the Company has incurred or expects to incur to investigate and repair defective Chinese drywall and resulting damage.

(13) Share-Based Payment

During the three months ended February 28, 2013, the Company did not grant any stock options or nonvested shares. During the three months ended February 29, 2012, the Company did not grant any stock options and granted an immaterial number of nonvested shares. Compensation expense related to the Company's share-based payment awards was as follows:

	Three Months Ended	
	February 28,	February 29,
(In thousands)	2013	2012
Stock options	$—	885
Nonvested shares	6,486	7,276
Total compensation expense for share-based awards	$6,486	8,161

(14) Financial Instruments

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at February 28, 2013 and November 30, 2012, 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, defeasance cash to retire notes payable, receivables, net and accounts payable, all of which had fair values approximating their carrying amounts due to the short maturities of these instruments.

		February 28, 2013		November 30, 2012	
	Fair Value	Carrying	Fair	Carrying	Fair
(In thousands)	Hierarchy	Amount	Value	Amount	Value
ASSETS					
Rialto Investments:					
Loans receivable, net	Level 3	$406,207	426,366	436,535	450,281
Investments held-to-maturity	Level 3	$15,262	15,159	15,012	14,904
Lennar Financial Services:					
Loans held-for-investment, net	Level 3	$23,593	25,274	23,982	24,949
Investments held-to-maturity	Level 2	$62,746	62,796	63,924	63,877
LIABILITIES					
Lennar Homebuilding:					
Senior notes and other debts payable	Level 2	$4,505,662	5,545,976	4,005,051	5,035,670
Rialto Investments:					
Notes payable	Level 2	$270,357	264,484	574,480	568,702
Lennar Financial Services:					
Notes and other debts payable	Level 2	$311,933	311,933	457,994	457,994

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

Lennar Homebuilding—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 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 payable, the fair value of the zero percent interest notes guaranteed by the FDIC was calculated based on a 2-year treasury yield, and the fair value of other notes payable was calculated based on discounted cash flows using the Company's weighted average borrowing rate.

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 February 28, 2013	Fair Value at November 30, 2012
(In thousands)			
Lennar Financial Services:			
Loans held-for-sale (1)	Level 2	$334,658	502,318
Mortgage loan commitments	Level 2	$12,008	12,713
Forward contracts	Level 2	$(2,128)	(2,570)
Lennar Homebuilding:			
Investments available-for-sale	Level 3	$31,818	19,591

(1) The aggregate fair value of loans held-for-sale of $334.7 million at February 28, 2013 exceeds their aggregate principal balance of $322.3 million by $12.4 million. The aggregate fair value of loans held-for-sale of $502.3 million at November 30, 2012 exceeds their aggregate principal balance of $479.1 million by $23.2 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:

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 February 28, 2013 and November 30, 2012. Fair value of servicing rights is determined based on actual sales of servicing rights on loans with similar characteristics.

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.

Forward contracts— Fair value is based on quoted market prices for similar financial instruments.

Investments available-for-sale— The fair value of these investments are based on third party valuations.

Gains and 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. There were no gains or losses recognized for the Lennar Homebuilding investments available-for-sale during the three months ended February 28, 2013 and February 29, 2012. The changes in fair values that are included in operating earnings are shown, by financial instrument and financial statement line item below:

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
Changes in fair value included in Lennar Financial Services revenues:		
Loans held-for-sale	$(10,780)	(1,307)
Mortgage loan commitments	$(705)	1,442
Forward contracts	$442	735

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

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

	Three Months Ended	
(In thousands)	February 28, 2013	February 29, 2012
Investments available-for-sale, beginning of period	$19,591	42,892
Purchases and other (1)	12,227	14,928
Sales	—	(6,436)
Settlements (2)	—	(33,148)
Investments available-for-sale, end of period	$31,818	18,236

(1) Represents investments in community development district bonds that mature at various dates between 2022 and 2042.

(2) The investments available-for-sale that were settled during the three months ended February 29, 2012 related to investments in community development district bonds, which were in default by the borrower and regarding which the Company foreclosed on the underlying real estate collateral. Therefore, these investments were reclassified from other assets to land and land under development.

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 value 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 February 28, 2013	Total Gains (Losses) (1)
(In thousands)			
Lennar Homebuilding:			
Finished homes and construction in progress (2)	Level 3	$2,941	(1,255)
Rialto Investments:			
REO - held-for-sale (3)	Level 3	$8,447	(271)
REO - held-and-used, net (4)	Level 3	$18,211	941

(1) Represents total losses due to valuation adjustments, total gains from acquisitions of real estate through foreclosure and REO impairments recorded during the three months ended February 28, 2013.

(2)

Finished homes and construction in progress with an aggregate carrying value of $4.2 million were written down to their fair value of $2.9 million, resulting in valuation adjustments of $1.3 million, which were included in Lennar Homebuilding costs and expenses in the Company's statement of operations for the three months ended February 28, 2013.

(3) REO, held-for-sale, assets are initially recorded at fair value less estimated costs to sell at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-for-sale, had a carrying value of $0.2 million and a fair value of $0.6 million. The fair value of REO, held-for-sale, is based upon the appraised value at the time of foreclosure or

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management's best estimate. The gains upon acquisition of REO, held-for-sale, were $0.4 million. As part of management's periodic valuations of its REO, held-for-sale, during the three months ended February 28, 2013, REO, held-for-sale, with an aggregate value of $8.5 million were written down to their fair value of $7.8 million, resulting in impairments of $0.7 million. These gains and impairments are included within Rialto Investments other income (expense), net, in the Company's statement of operations for the three months ended February 28, 2013.

(4) REO, held-and-used, net, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-and-used, net, had a carrying value of $15.2 million and a fair value of $16.2 million. The fair value of REO, held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-and-used, net, were $1.0 million. As part of management's periodic valuations of its REO, held-and-used, net, during the three months ended February 28, 2013, REO, held-and-used, net, with an aggregate value of $2.1 million were written down to their fair value of $2.0 million, resulting in impairments of $0.1 million. These gains and impairments are included within Rialto Investments other income (expense), net, in the Company's statement of operations for the three months ended February 28, 2013.

Non-financial assets	Fair Value Hierarchy	Fair Value Three Months Ended February 29, 2012	Total Gains (Losses) (1)
(In thousands)			
Lennar Homebuilding:			
Finished homes and construction in progress (2)	Level 3	$1,548	(2,025)
Rialto Investments:			
REO - held-for-sale (3)	Level 3	$11,423	(462)
REO - held-and-used, net (4)	Level 3	$54,289	2,414

(1) Represents total losses due to valuation adjustments, total gains from acquisitions of real estate through foreclosure and REO impairments recorded during the three months ended February 29, 2012.

(2) Finished homes and construction in progress with an aggregate carrying value of $3.5 million were written down to their fair value of $1.5 million, resulting in valuation adjustments of $2.0 million, which were included in Lennar Homebuilding costs and expenses in the Company's statement of operations for the three months ended February 29, 2012.

(3) REO, held-for-sale, assets are initially recorded at fair value less estimated costs to sell at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-for-sale, had a carrying value of $0.3 million and a fair value of $1.1 million. The fair value of REO, held-for-sale, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-for-sale, were $0.8 million. As part of management's periodic valuations of its REO, held-for-sale, during the